



Latin America occupied a major place on the agenda of the International Insurance Foundation this spring. The main event was the IAIS Educational Seminar in Lima, Peru. Following the seminar, the International Association of

Insurance Supervisors held a significant round of committee meetings. While in Peru, IIF Research Director Ian Webb used the opportunity to explore the implications of new capital requirements with both the supervisory authority and the insurance industry. In these dialogs, Ian drew on the insights gained from his recent study of Argentina, which he summarized in a presentation to insurance executives in Buenos Aires on March 23. These discussions reveal many encouraging signs for the growth of the insurance markets in South America. The newest addition to the ranks of IIF Founding Members, Latin American Re, focuses exclusively on the Latin American market. Despite the Latin emphasis this spring, however, planning continued for some important events elsewhere in the world later this year.

Quarterly Report

Spring 2000

Latin American Regional Seminar

The Superintendencia de Banca y Seguros del Peru hosted the Latin American Regional Seminar for Insurance Supervisors in Lima, Peru, March 27-29. The 80 participants represented insurance regulators, supervisors, and other insurance professionals from around the world. The seminar provided an ideal opportunity for Latin American insurance regulators to consider suitable approaches to the insurance reforms in their own countries. The topics discussed included insurance accounting, audit procedures, analysis and monitoring of insurance companies, policyholder protection, and reinsurance.

Lorena Masías Quiroga, Superintendente Adjunta de Seguros, opened the seminar with a call for greater regulatory cooperation among Latin American economies as well as developed countries and international organizations. Other opening speakers included Manuel Aguilera Verduzco, President of both ASSAL and the Mexican Insurance and Surety Commission; Yasui Takahiro, OECD Principal Administrator; Robert Gibbons, Executive Director and President of the International Insurance Foundation; and André Swanepoel, IAIS Chair of the Emerging Markets Committee and Deputy Executive Officer of Financial Service Board, South Africa.

During the insurance accounting session, France's Florence Lustman and the NAIC's Rob Esson described the current insurance accounting systems in France and the U.S., showing how regulatory accounting principles differ from generally accepted accounting principles. Peter Clark of the International Accounting Standards Committee presented the IASC Paper on Insurance. Jane Lamb, from Canada's Office of the Superintendent of Financial Institutions, presided over this exchange of views on the feasibility of internationally accepted accounting principles for insurance enterprises.

Jean-Louis Bellando, Secretary General of the French Insurance Supervisory Commission, chaired a session in which Florence Lustman and Hungary's László Asztalos described on-site inspections in France and Hungary. Luis Cortavarría of PriceWaterhouseCoopers Peru showed that the work of independent auditors can assist insurance supervisors. Juan Carlos Crisanto described the efforts of the Peruvian superintendency to promote effective internal control systems among companies under its supervision.





During the session on analysis and monitoring, Texas Commissioner José Montemayor and Damaso Sanz Montero of Spain's General Bureau of Insurance explained the procedures their jurisdictions use to detect financially weak insurance companies. Craig Thorburn of the Australian Prudential Regulatory Authority, who also chaired the session, described the mandate of the IAIS Solvency Committee and the principles of solvency

assessment it has affirmed. IIF Research Director Ian Webb capped the session by comparing asset-based and liability-based approaches to solvency monitoring and identifying the underlying market conditions needed for each to be effective.

The policyholder protection session dealt with market conduct regulation, policyholder protection funds, consumer complaints handling, and ombudsmen, with presentations by Andre Swanepoel, Yasui Takahiro, Germany's Ricarda Maier, and Peru's Diego Garcia Sayán. The floor discussion debated the pros and cons of policyholder protection funds. The session chair, Iowa Commissioner Terri Vaughan, explained the NAIC experience with disclosure requirements for life insurance investment return illustrations.

The final session examined the special economic importance of reinsurance, as well as ways to exchange information between insurance and reinsurance companies. Mexico's Manuel Aguilera Verduzco explained the assessment of catastrophe risks and reinsurance needs in the calculation of Mexican solvency margin requirements. St. Paul Re Vice President Steve Redlich [pictured at right] summarized recent reinsurance market trends and stressed the common objectives of regulators and reinsurers.



Session chair Helmut Müller, President of the German Insurance Supervisory Authority, explained the combination of direct and indirect control of reinsurance companies in Germany, and Nigel Davies of the UK Financial Services Authority explained the varied and extensive supervisory tools used to monitor the high volume, volatile, open reinsurance market of the UK.

Peru's Superintendent of Banking and Insurance, Martin Naranjo Landerer, concluded the seminar with observations on the convergence of financial markets in the Americas and the value of such seminars. IAIS Chairman Hanley Clark then awarded certificates to the participants who attended all sessions.

IAIS Committee Meetings

Several IAIS Committees met in Lima, including the Solvency Subcommittee, the Insurance Fraud Subcommittee, the Working Group on Electronic Commerce, the Exchange of Information Subcommittee, the Disclosure Task Force, the Technical Committee, and the Executive Committee. The Core Principles Methodology Task Force met to discuss the draft Core Principles Methodology, the final draft of which will be submitted to the Executive Committee in June. The Emerging Markets Committee discussed future training programs, case studies, and textbooks for insurance supervisors. During its meeting IIF Executive Director and President Robert Gibbons demonstrated a computerized version of the licensing textbook and emphasized the potential advantages of web-based training for insurance supervisors.

The Education Subcommittee of the Emerging Markets Committee will meet again in Basle, Switzerland, on June 23 to consider the further development of textbooks based on the IAIS Standards.

Essay:
Choices, Rules, and Emerging Markets

by Robert Gibbons

Rob Chestnut might be the most valuable employee at eBay.com. The associate general counsel, a former federal prosecutor, is the chief enforcer of eBay's rules for its online auctions. In the first three months of this year, eBay held 53.6 million auctions. More than a billion dollars of goods changed hands, making eBay the world's largest personal online trading community.

Although it might seem that on the Internet anything goes, rules are important at eBay. Is eBay concerned that government rules might interfere with its business? Hardly. While politicians argue about taxes on Internet sales, eBay is building a virtual marketplace of impressive dimensions. Launched only in 1995, eBay now has more than 7.7 million registered users. They use eBay to buy and sell items in more than 4,320 categories, including automobiles, collectibles, antiques, sports memorabilia, computers, toys, dolls, figures, coins, stamps, books, magazines, music, pottery, glass, photography, electronics, jewelry, gemstones, and more.

The attention to rules at eBay comes not from government requirements but from self-interest. The growth of eBay's business depends on rules. It is an emerging market, a place where buyers and sellers have options previously unimagined. But these new choices are viable only because of the rules. Sellers would not waste time listing their wares without the knowledge that registered users are authentic, identifiable prospective buyers. And buyers certainly would not choose to risk much money bidding on items of questionable authenticity.

Thus without hesitation eBay cancels auctions and suspends users when the rules are broken. Recently, for example, eBay canceled the auction of a painting for \$135,000 when it determined that the seller had included misleading information in the listing, as well as entering shill bids to force up the price. Attempted online auctions of cigarettes, wine, stuffed migratory birds, body parts, securities, gravestones, and other illegal sales have

been squelched. So have frauds and hoaxes. To gain more customers, eBay needs a good reputation, so Rob Chestnut does not tolerate misconduct online.

EBay also cooperates "very aggressively with law enforcement to help investigate, identify, prosecute, and convict people who commit fraud."¹ Consumers can even file complaints with the Federal Trade Commission directly from eBay's website. As e-commerce has mushroomed, the FTC has intensified its scrutiny. The Director of the FTC Bureau of Consumer Protection says bluntly, "My goal is to keep the Internet free of fraud."² By enforcing rules that both buyers and sellers can rely on, the government is helping a new market emerge.

The pioneers of the new economy understand the relationship of choices, rules, and emerging markets. They focus on winning enough customers to capture economies of scale from new ways of doing business. Rules inspire confidence. As *InfoWorld* technology pundit Sean M. Duggan has written,

Traditionally, technology companies and government regulators have all the warm rapport of a Serengeti lion and a gazelle. But it's time for them to sit down and talk....Regulation is a fact of life. Reasonable regulation is your friend. Reasonable regulation can make for a healthy market. Trust is a stimulus for economic growth. If we want to prevent the information economy from becoming the disinformation economy, companies starting exchanges need to talk to regulators...and come up with common rules and guidelines....People's trust and belief that the competition in a market is above

¹Meg Whitman (Ebay CEO), quoted in *The New York Times*, January 16, 1999.

²Jodie Bernstein, quoted in "U.S. Fraud Case Ends in Lifetime Internet-Commerce Ban," *The New York Times*, September 9, 1998.

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

board spurs economic growth.³

Whether new markets emerge because of technology or geography, the same concepts apply. Emerging markets consist of potential buyers, people able and, but not necessarily willing, to buy. Given a choice, people are not likely to buy unknown products from unreliable providers. Just as eBay must convince potential users that its online auctions are safe, insurers must convince potential customers that their products are safe.

Big emerging markets can be found among the 5 billion people living in countries with less than ten percent of the world's insurance. As their economies liberalize and their incomes rise, they are potential customers for products that provide economic security. But if their experience suggests that such products are a ripoff, they will seek economic security in more traditional ways.

In emerging markets the key to success is consumer acceptance, not competitive advantage. The main threats to eBay's growing business are not Yahoo and Amazon, but rather the Internet scam artists who scare consumers away from any online transactions. Yahoo and Amazon actually help eBay by introducing more people to the advantages of e-commerce.

Similarly, responsible and efficient financial service providers have magnificent business opportunities in the three quarters of the globe unaccustomed to enhancing economic security with pieces of paper. Until recently many of the world's consumers did not have this choice, but trade barriers and state monopolies are collapsing everywhere. The main threat to the potential bonanza of financial service business comes not from other responsible firms that want to compete for this business, but from swindles, scams, and pyramids that drive all the business away.

Thus governments can promote economic growth by establishing rules that allow people to

choose more efficient solutions in confidence that insurers will keep their promises. In a healthy market buyers and sellers find mutually advantageous arrangements on their own. The government can make sure there is a market by providing an environment in which the rules are known and enforced. Good regulation generates good business because buyers and sellers then have dependable real choices.

The trick is devising rules that enhance choices rather than restrict them. Rules that nurture markets must be made carefully, not quickly or arbitrarily. Input from those who will abide by the rules as well as those who will enforce them makes better rules. As the new global economy continues to hurdle traditional boundaries, rules also need to fit changing circumstances. Global standards will be more readily accepted by all the players.

Many international bodies are now at work developing those global standards. The International Association of Insurance Supervisors is framing core principles for insurance supervision and technical standards for key aspects of insurance regulation. Similar work in banking, securities, and other sectors of the economy continues. By establishing rules, these bodies are helping to build a global trading community.

If they succeed, the new global economy promises widespread prosperity and security. With commonly understood rules, more people will trust the system and be willing to transact business, facilitating more economies of scale. As people find more efficient ways of exchanging goods and services (including risks) across new frontiers, benefits will abound for all members of the community. The more people who play by the rules, the better for everyone. As Rob Chestnut says, "We all need rules to live by, and the Internet's no different."⁴ Nor, he might have added, is any other place on the globe.



³"Where's the equivalent of the SEC in the world of b-to-b exchanges?" *InfoWorld*, April 17, 2000, page 107.

⁴Quoted by David Streitfeld, "Ebay Changes How the Wild West Is Run," *Washington Post*, November 28, 1999, pages A1, A12.

Coming Events:

IIF to co-sponsor African insurance seminar with Maine Bureau of Insurance

In cooperation with the Maine Bureau of Insurance, the Foundation will convene an educational program for the insurance supervisors of the Southern African Development Community (SADC) in August. SADC comprises fourteen countries of southern Africa committed to harmonizing and coordinating their economic policies to promote sustained development in the region. Each member country chairs a SADC working group for a specific sector of the economy.

The Committee for Insurance, Securities, and Non-banking Financial Authorities (CISNA), chaired by South Africa, gathers the fourteen insurance supervisors as a forum for mutual assistance. The Maine conference is designed to support CISNA's efforts to harmonize insurance supervision in southern Africa. Since many countries in the region have limited experience with competitive insurance markets, the seminar will give the SADC supervisors a chance to exchange views, ask questions, and sit by the desks of their peers in Maine. They will also visit insurance company offices and hear from corporate risk managers. Viewing an established insurance market from the varied perspectives of regulators, insurers, and consumers should give them new insight into the responsibilities of insurance supervisors.

The Maine Bureau for Insurance will host the group August 15 -18 at its office in Gardiner, Maine. Commissioner **Alessandro Iuppa** and his staff will lead sessions on the organization of regulatory activities, licensing requirements, financial examinations, consumer complaints, market conduct, and reinsurance. From August 19 to 23 the group will visit insurance companies in the Portland area. Also included are a luncheon with **Governor Angus S. King** and a tour of a major Maine industrial site.

FUNENSEG Seminar Scheduled for September

The Foundation's first educational program, in 1996, was an executive development seminar in conjunction with FUNENSEG, the national insurance school of Brazil. The Brazilian insurance executives who attended found the program so valuable that it has been repeated every year since. This year's seminar will take place September 10-21. Several IIF Founding Members will contribute to the program with presentations on aspects of the U.S. insurance and reinsurance markets with relevance to Brazil. The first week's sessions will be held at The College of Insurance in New York. During the second week, the participants will travel to American Re-Insurance Company in Princeton, New Jersey, and the American Institute for Property-Casualty Underwriters in Malvern, Pennsylvania. For more information, contact IIF Program Coordinator Sally Steel.

India Trip in the Offing

The Insurance Regulatory and Development Authority is drafting regulations for the conduct of the insurance business in India, many of which are now available on its website www.irdaindia.org. After a period of public comment and review by the Insurance Advisory Commission, the final regulations will be issued at the end of June. These regulations will allow new companies to seek licenses, some of which may be issued before the end of the year, eventually leading to significant growth of the Indian insurance market.

Well-trained insurance supervisory staff and insurance personnel will be essential for that growth. To this end, IIF Chairman Donald Greene will lead a delegation to India early next year to explore with members of the Insurance Regulatory and Development Authority, insurance educators, and insurance executives ways to strengthen the professionalism of India's liberalized insurance sector. This trip will reciprocate IRDA Chairman Rangachary's U.S. visit in 1996, hosted by the International Insurance Foundation. The trip will also coincide with the annual insurance conference of the Insurance Institute of India, which gathers a distinguished array of Indian and foreign insurance specialists.



New Founding Member

The International Insurance Foundation welcomes **Latin American Reinsurance Company, Ltd.** as a founding member. Latin American Re was established in 1997 as a Bermuda-based reinsurance company devoted to the growing needs of reinsurance markets in Latin America. Emphasizing short-tail, multi-peril property reinsurance and casualty, marine, and aviation reinsurance, Latin American Re also offers non-traditional multi-line reinsurance products. It serves both the broker market and the direct market through its regional offices in Argentina, Brazil, Colombia, and Mexico. Senior Vice President and Chief Underwriting Officer, **Keith L. Shroyer**, has been nominated to the IIF Board of Directors.

Recent Publications

The Foundation's name appeared in print several times this spring. *Business Insurance* published two articles by Rodd Zolkos: "Foundation renews commitment to promote industry," February 7, 2000, page 14E, and "Foundation keeping its eye on emerging markets," February 21, 2000, page 24B.

The insurance journal of Argentina, *Mercado Asegurador*, printed an in depth interview with Ian Webb, "Seguros para Todos y al Mejor Precio," April 2000, pages 38-41.

A monograph recently published by the CPCU Society, *Financial Services Modernization: The Impact of the Gramm-Leach-Bliley Act*, includes a paper by Robert Gibbons and Ian Webb, "The Global Financial Services Market: Can It Be Regulated Effectively?" [Copies are available from the CPCU Society, 720 Providence Road, Malvern, PA 19355-0709, or 1-800-932-2728, or www.cpcusociety.org.]

Calendar

June	21-23	IAIS Committee Meetings, <i>Basle, Switzerland</i>
July	8-13	IAIS Eastern European Regional Seminar, <i>Cracow, Poland</i>
	17-19	Offshore Group of Insurance Supervisors Training Seminar, <i>Belize</i>
August	14-24	Conference for SADC Insurance Supervisors, <i>Gardiner/Portland, Maine</i>
September	4-8	IAIS/OECD Latin American Seminar, <i>Oaxaca, Mexico</i>
	11-23	FUNENSEG Seminar, <i>New York & Princeton</i>
October	9-12	IAIS Annual Conference, <i>Capetown, South Africa</i>
November	9-10	Annual IIF Board Meeting, <i>Washington</i>
		IAIS African Regional Seminar, <i>Pretoria, South Africa</i>

For the latest information, check the Foundation's website: www.iifdc.org.