



Even a casual review of the International Insurance Foundation's recent activities suggests remarkable progress toward global financial stability. Educational seminars for insurance supervisors are ever more frequent. Governments and

international financial institutions are increasingly sensitive to the complex risks inherent in the insurance business. And there is a growing consensus regarding the importance of education in bringing the benefits of efficient insurance markets to all parts of the world.

Quarterly Report

Spring 2001

16th Conference of European Insurance Supervisory Services

The Hungarian Financial Services Authority hosted the 16th Conference of European Insurance Supervisory Services May 20–22 in Budapest. Sponsored by the IIF, IAIS, and

OECD, this conference brought together 75 insurance regulators and educators, representing 36 countries. **Dr. Károly Szász**, President of the Hungarian Financial Supervisory Authority, opened the conference by stressing the importance of regional cooperation such as this conference represented. IAIS Secretary General, **Knut Hohlfeld**, IIF Program Coordinator **Sally Steel**, and OECD Principal Administrator **Takahiro Yasui** also welcomed the participants.

Jarl Symreng, Head of Sweden's Insurance Division, chaired the discussion of consolidated financial services supervision. As the number of financial conglomerates crossing into all areas of the financial services sector increases, governments are reorganizing regulatory systems to monitor these international conglomerates. Representatives from countries with varying experiences discussed the benefits and drawbacks of consolidated versus functional supervision of the financial services sector. Many governments are now considering consolidation and have implemented programs to ease the transition. These include Germany, Austria and most recently, Slovenia. Countries with consolidated supervisory systems already include Hungary, Latvia, Sweden, and the UK. Among the countries represented at the conference, the Netherlands and Bulgaria maintain functional regulatory systems.

The second theme of the conference, moderated by IIF Academic Advisor **Dr. Michael Barth**, Associate Professor of Insurance at Georgia Southern University, examined early warning systems used for insurance supervision. Representatives from Finland, France, USA, Hungary, Poland, the UK, and the Czech Republic each offered a different method for establishing an early warning system. Swiss Re's **Stephan Schreckenber** explained how an international reinsurer ensures solvency limits while building new business.

Judit Gyöngy from the Hungarian Financial Supervisory Authority presented a case study involving the supervision of an insurance company providing a specialized insurance product. This case stressed the importance of corporate governance as well as the development of sound reinsurance programs.

The 17th European Insurance Supervisory Services conference will be held in Slovenia in 2003.



IIC Latin America Roundtable

The International Insurance Council hosted its annual Latin America Roundtable March 7-9 in Miami, Florida. Sponsored by American Re, Liberty International, and New York Life International, this year's Roundtable gathered 100 industry and supervisors to discuss developments in the Latin American Region. FIDES Secretary General William Fadul and American Re's David Sommer opened the Roundtable with overviews of Latin American markets. International Insurance Council President **Kevin Cronin** led an industry-supervisor panel that included **Monica Caceres** (Chile), **Antonio Caetano** (Brazil), **Manuel Aguilera Verduzco** (Mexico), **Lorena Masias** (Peru), **Angel Daniel Exposito** (Argentina), **Tom Gallagher** (Florida), **Joe Hamilton** (Liberty International), and **Hoacio Sanchez-Granel** (Boston Compania Argentina) in spotlighting the trends developing in Latin America. During a session which American Re VP **Tad Walker** moderated, SUSEP Director **Antonio Caetano** explained the privatization process of Brazil's national reinsurance company, and Swiss Re's **Andres Lorenzana** and Willis SVP **Anthony Phillips** added an industry perspective on the liberalization of reinsurance markets in Latin America. Liberty International VP **Thomas Walker** moderated a session in which ISO's **Eileen Cornell** and **Robert Bryant**, President and CEO of the National Insurance Crime Bureau, demonstrated the importance of inter-industry cooperation in reducing insurance fraud in general and auto fraud and theft in particular.

On the second day of the Roundtable, New York Life International Executive Vice President **Cynthia Valko** led a review of the opportunities and challenges in retirement savings plans. **Ines Torres**, General Manager of Siembra Sefuors de Vida, Argentina, described the retirement plans available in Argentina and discussed some of the regulatory challenges faced by the industry. An overview of current Latin American pension plans by **Juan Yermo**, Secretary of the Working Group on Private Pensions at the OECD, showed that there are far more choices in plan selection during the distribution phase than during the accumulation phase. IIF Research Director **Ian Webb** and Program Coordinator **Sally Steel** explored the future of the annuities market in the region, identifying ways in which the public and private sectors could work together to develop annuities markets. To cap the event **Peter Bondy**, from Bondy y Asociadoes, moderated a health insurance session in which **Luis Ceriani**, Superintendencia de Servicios de Salud, Argentina, explained the social security reforms currently being introduced in his country, **William Fadul**, Secretary General of FIDES, described the improvements currently taking place in Colombia, and CIGNA's **Howard Kahn** reviewed regional trends.

Honduras Workshop on Disaster Risk Management

The International Finance Corporation of the World Bank Group sponsored a workshop in Tegucigalpa, Honduras, on March 12-13 to develop a comprehensive disaster risk management strategy in Central America. The event drew top government officials and insurance industry representatives from Honduras and neighboring countries. IIF Research Director **Ian Webb** delivered a presentation on International Standards, Transparency, and the Insurance markets in Central America. As a result of his discussion with representatives of Central American insurance industry associations (CAHDA), the IIF is now working with this group to study solvency requirements of Central American countries, with a view toward possible harmonization of regulations in the region.

IAIS Committee Meetings

The IAIS held its committee meetings in Basle April 16–21. During the Education Committee meeting a test version of the IIF's learning software presentation of the IAIS licensing textbook was distributed. After appropriate review and revisions, the final version of the software may be distributed at the Annual Conference in Bonn. The Education Committee also reviewed recent regulatory training seminars and confirmed this year's seminar schedule. The next meeting will be on June 5 in Buenos Aires, where the main agenda item will be the draft of the textbook for the IAIS On-site Inspection Standard.

When Thailand sneezed in July 1997, the entire world caught a cold. The devaluation of the Thai currency triggered reactions in so many interconnected financial markets that the world has not been the same since. Thailand may be recovering, but the health of the international financial system is no longer taken for granted. Its doctors have greatly intensified their preventive measures.

At their meeting in Washington in October 1998, the Finance Ministers and Central Bank Governors of the G7 countries commissioned Hans Tietmeyer, then President of the Deutsche Bundesbank, to consult appropriate bodies and recommend new structures for enhancing cooperation among the various national and international supervisory bodies and international financial institutions to promote stability in the international financial system.

The Tietmeyer Report led to the formation of the **Financial Stability Forum**, which promotes international financial stability through information exchange and international cooperation in financial supervision and surveillance. The Forum coordinates the efforts of national authorities responsible for financial stability, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of

central bank experts.

The Financial Stability Forum's central message is that the development and implementation of internationally accepted economic, financial, and statistical standards promotes sound domestic financial systems and better economic performance. Successful implementation of international standards helps to strengthen domestic financial systems by encouraging sound regulation and supervision, greater transparency, and more efficient and robust institutions, markets, and infrastructure. It also helps to promote international financial stability by facilitating better-informed lending and investment decisions, improving market integrity, and reducing the risks of financial distress and contagion.

Standards define the widely accepted good principles, practices, or guidelines in a given area. The Forum's **Compendium of Standards** provides a common reference for the various internationally accepted economic and financial standards relevant to sound, stable, and well-functioning financial systems. The

Forum has designated 12 key standards for sound financial systems, as articulated by the relevant standard-setting bodies. They are broadly accepted as representing minimum requirements for good practice.

Key Standards for Sound Financial Systems

Macroeconomic Policy and Data Transparency

- Code of Good Practices on Transparency in Monetary and Financial Policies (IMF)
- Code of Good Practices in Fiscal Transparency (IMF)
- Special Data Dissemination Standard/General Data Dissemination System (IMF)

Institutional and Market Infrastructure

- Principles and Guidelines for Effective Insolvency and Creditor Rights Systems (World Bank)
- Principles of Corporate Governance (OECD)
- International Accounting Standards (IASB)
- International Standards on Auditing (IFAC)
- Core Principles for Systemically Important Payment Systems (CPSS)
- The Forty Recommendations of the Financial Action Task Force (FATF)

Financial Regulation and Supervision

- Core Principles for Effective Banking Supervision (BCBS)
- Objectives and Principles of Securities Regulation (IOSCO)
- Insurance Core Principles (IAIS)

These key standards reflect the world's dependence on effective prudential supervision of banking, securities, and insurance. Their inclusion in the key standards gives the core principles articulated by the respective international bodies of supervisors the force of strong mandates from the finance ministers and the international financial institutions. Countries that want to be part of the global economy have little choice about observing these standards, but they often need substantial assistance to make it possible.

These standards provide benchmarks for the **Financial Sector Assessment Program**, a joint IMF and World Bank effort introduced in May 1999 to increase the effectiveness of efforts to promote the soundness of financial systems. Assessments seek to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed; to ascertain the sector's developmental and technical assistance needs; and to help prioritize policy responses. Following an initial one-year, 12 country pilot program, the IMF and the World Bank agreed to expand the pace of the program to around 24 countries per year.

While participation in the program is voluntary, there are strong incentives for countries to demonstrate their observance of international standards. Observance of standards can determine eligibility for IMF loans, for example. But more important than such official incentives are the market incentives. Capital will naturally flow to countries where investors perceive less risk, and observance of international standards signals a favorable investment climate. Some countries have chosen to make the complete FSAP report public, and they appear on the IMF website.

The FSAPs also contribute to Reports on Observance of Standards and Codes (ROSCs). These reports summarize the extent to which countries observe certain internationally recognized standards, focusing primarily on the areas of direct operational concern to the IMF. The World Bank has begun to prepare ROSCs in the areas of corporate governance and accounting and auditing, and it is developing a template to begin assessments of insolvency and creditor rights.

This emphasis on international standards helps to identify ailments that threaten financial stability. These benchmarks make it possible to measure the health of the global financial system on a country-by-country basis. Together with self-assessments and peer reviews, financial sector assessments by external experts are periodic check-ups that might reveal early signs of crisis prone systems.

A diagnosis that cites ills without prescribing remedies, however, offers little hope to the patient. The most important by-product of the FSAP is the identification of training needs. By highlighting the deficiencies according to accepted international norms, countries learn where to focus their priorities for improvement.

For the International Insurance Foundation, the FSAPs become inputs into planning our educational programs for insurance supervisors, facilitating a systematic process of continuous improvement. Specifically identified needs determine the content of each program, not the availability of a particular expert or source of funding. The IAIS Core Principles of Insurance Supervision represent the constant goal. Whether it deals with licensing, financial reporting, on-site inspections, or evaluation of assets, liabilities, or reinsurance, each program is designed to help supervisors implement some aspect of the Core Principles.

The need for such programs is enormous. Effective prudential supervision involves consistent application of financial analysis and related skills that are in short supply throughout the world. As the Chairman of the Financial Stability Forum recently noted, "Widespread international support is needed to provide expertise and funding for the provision of technical assistance and training to assist countries in implementing international standards."¹ The world has learned, however, that the massive educational effort directed toward preventing future financial crises is better medicine than the efforts required to cure the crisis once it has occurred.

¹Statement by Andrew Crockett, International Monetary and Financial Committee Meeting, Washington, DC, April 29, 2001.

FSI Risk Management Seminar

The Bank for International Settlements and the Basel Committee on Banking Supervision jointly created the Financial Stability Institute (FSI) to assist supervisors in improving and strengthening their financial systems. To provide supervisors with the latest information on market products, practices, and techniques to help them adapt to rapid innovation in risk management, finance, and regulation, the FSI organizes workshops and seminars in which they share experiences and develop solutions to their multiple challenges.

On April 22 and 23 the FSI and the IAIS sponsored a financial institution risk management seminar. The program allowed insurance regulators to learn more about and evaluate the tools used by insurer management and rating agencies to measure risk and make capital allocation decisions. Craig Thorburn, General Manager of Diversified Institutions at the Australian Prudential Regulation Authority and chair of the IAIS Solvency committee, presented the IAIS's perspectives on developing risk standards. Thought-provoking presentations by **David Anthony** of Standard & Poor's, Swiss Re's **Peter Sohre**, **Prakash Shimpi** of Swiss Re New Markets, A.M, Best's **Stuart Shipperlee**, **Tim Freestone** of Seabury Insurance Capital, AXA's **Lorna Ness**, Swiss Re's **Mark Starr**, and **Bernd Müller** of Allianz provided an excellent overview of risk management tools in current use.

Toronto Centre Workshop

Since it was founded in 1998, the Toronto International Leadership Centre for Financial Sector Supervision has played a unique role in preparing financial sector supervisors to strengthen supervisory regimes and deal with troubled financial institutions. The Toronto Centre focuses exclusively on helping supervisors build and hone leadership skills by sharing the real-world experience of current and former supervisory agency executives and other senior government officials in the banking, insurance and securities fields. Its sponsors include the government of Canada, the World Bank, the International Monetary Fund, the Bank for International Settlements, and York University.

The Toronto Centre's one-week interactive sessions are designed to build leadership skills, using case studies presented by current and former supervisory agency executives who were actually involved in the cases. Its approach integrates the theory and practice of leadership in an effort to develop in supervisors the confidence and capacity to implement change in their jurisdictions. Case presenters and session participants create a rich pool of real-world knowledge by sharing their professional experiences, discussing the challenges they face, and motivating one another to find new leadership strategies for dealing with those challenges. Supervisors from over 104 countries have participated in Toronto Centre sessions.

Building on the success of its programs for banking supervisors, the Toronto Centre Insurance Program conducted its first session in September 2000. The International Insurance Foundation arranged travel assistance for Amelita Andres of the Insurance Commission of The Philippines, and IIF Research Director Ian Webb also participated in the session.

For the second Insurance Supervision Session, held from April 30 to May 4, the IIF helped sponsor the attendance of **Hari Om Sonig**, Board member of the Insurance Regulatory and Development Authority in India, and **Ernani Zignaigo**, insurance regulatory staff member of the Superintendencia de Banca y Seguros (SBS) in Peru.

The workshop instructs attendees on how to develop action plans for addressing critical issues affecting insurance markets in their jurisdictions. At the workshop Mr. Sonig outlined a plan to develop capacity at the IRDA to maintain training and operate an effective financial examination unit. Mr. Zignaigo's plan declared an intention to bring Peru's investment, solvency, and asset-liability matching regulations into line with international standards.



H.O. Sonig, Ian Webb, and Ernani Zignaigo

IIF Joins Institute for Global Insurance Education

Recognizing the pressing need to educate insurance workers in every part of the world, the *Institute for Global Insurance Education* (IGIE) has accepted the International Insurance Foundation into its ranks. IGIE is an association of independent educational organizations united by a common goal, to deliver professional education to insurance industry professionals. Its objectives include assisting interested nations in the development of their own domestic insurance programs, evaluating national programs, and assisting in elevating educational standards for the insurance industry.

Emerging economies require a workforce with knowledge and skills in risk management and insurance applications. Standards are needed to assure consumers, employers, and other stakeholders that insurance workers who hold themselves out as professionals are competent in their roles as insurance professionals. Building on the mutual respect and understanding between established insurance institutes, IGIE helps the various insurance educational institutions around the world by offering assistance and guidance in needs assessment, course development, and examination protocol.

IGIE members share their individual and combined insurance educational expertise as a service to the insurance industry worldwide. In addition to the International Insurance Foundation, current IGIE Members include the Australian and New Zealand Institute, Bangladesh Insurance Academy, Bahrain Institute of Banking and Finance, Chartered Insurance Institute, Centro de Desenvolvimento de Seguros e Previdencia - CDSP, CPCU Society, Insurance Institute of America, Insurance Institute of Canada, Insurance Institute of Colombia, Insurance Institute of India, Insurance Institute of South Africa, Insurance Institute of Switzerland, Insurance Institute of the Republic of China, Fundação Escola Nacional de Seguros - Brazil, and the Saudi Arabia Institute of Banking. The next meeting will be held on July 8, 2001, in Vienna, Austria.

Calendar

June	5-8	IAIS Latin American Executive Regional Seminar, Buenos Aires, Argentina
June	27-29	Central and Eastern Europe Regional Seminar, Gdansk, Poland
July	8	Institute for Global Insurance Education Annual Meeting, Vienna
July	15-18	Asia Pacific Risk and Insurance Association Annual Conference, Bangalore, India
July	24-26	IAIS African Regional Seminar, Pretoria, South Africa
September	18-20	IAIS Annual Conference, Bonn, Germany
October	7-18	IIF - FUNENSEG Seminar, Washington & Princeton
October	14-20	Toronto Leadership Seminar, Toronto, Canada
November	5-9	IAIS/ASSAL Latin American Executive Regional Seminar, Lima, Peru
November	15-16	Annual IIF Board Meeting, Washington
