

International Insurance Foundation (IIF) Annual Meeting Symposium  
Rules That Work For Everyone: The Emerging Global Regulatory Framework  
Keynote Address “International Standard Setting for Insurance Regulation”  
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## INTRODUCTION

### *IIF's Contributions*

Good Morning. First, I would like to thank Bob Gibbons, Executive Director of the International Insurance Foundation, for extending me this invitation to be with you today. You cannot discuss the progress of research and education in the development of global insurance standards, without highlighting the fine work of the IIF. I first met Bob many years ago at a training seminar sponsored by the OECD, in Warsaw. Since that time I can't recall an instance where I was attending an international educational program that Bob wasn't also in attendance spreading the IIF mission.

The IIF has certainly served as a catalyst in linking policymakers, regulators, international organizations and private organizations together to promote economic development in emerging insurance markets. With its unique relationship with these various entities, the IIF has leveraged itself as a key player in contributing to critical studies. Its most recent study, completed for USAID, assesses how strengthening insurance markets contributes to economic growth. The report clearly demonstrates the link between insurance, financial sector performance and growth, and in doing so, helped define the insurance - economic growth relationship. In addition, I would like to acknowledge the IIF's continuing involvement in the International Association of Insurance Supervisors, and specifically, its participation on the IAIS' Implementation Committee.

In 2003, the IAIS and the World Bank established a joint project to develop a comprehensive learning curriculum for insurance supervisors, targeting principally emerging market economies. The IIF has played an essential role both as author and reviewer for the development of core curriculum modules. Materials in each module include technical information as well as training tools. Anyone who has had any involvement in this project knows how much time and effort was needed to make the modules comprehensive. As the core curriculum project is unveiled next month at the IAIS Annual Conference in Beijing, I hope the IIF stays engaged in this enormous initiative and will help to make sure the modules actively reflect the needs of insurance supervisors. I would like to thank and commend the IIF and encourage continuation of its impressive work.

I want to take this opportunity to highlight the NAIC's growing global reach, and underscore some of the challenges of defining standards that work for everyone in today's world. To be an effective regulator, one must keep pace with the increasingly rapid integration of global economies and financial markets. And to sustain economic growth and promote open markets, supervisors must now, more than ever, require a sound, strong and efficient regulatory framework.

To meet the challenges of a global financial services sector, it is critical that we raise the level of international cooperation among regulators, as well as the industries we regulate. As we all know, a supervisor's first responsibility is to protect the interests of insurance consumers. To adequately meet the growing needs of customers in today's world, regulators must understand how international markets work, how they affect local markets and how they are supervised. As a result, international collaboration is even more important for the regulation and supervision of global financial markets.

Since 1999, the NAIC has sought to develop bilateral relationships with countries around the world. The first was the establishment of a twice a year regulatory dialogue with the European Commission and its member country supervisors, to better understand our respective regulatory

systems. The US-EU Dialogue has developed into a recognized forum of structured exchange between regulators and supervisors on both sides of the Atlantic. It has significantly increased the knowledge of our respective supervisory and regulatory systems for both the Europeans and the Americans. Over time, the dialogue has enabled detailed discussions of very complex issues and fostered closer cooperation between the US and the EU in international organizations such as the IAIS.

Next week, the NAIC will meet with insurance supervisors and regulators from Europe for the second NAIC-EU Insurance Regulatory Dialogue of 2006. In addition to NAIC Members and staff, participants will include members from the European Commission Internal Markets Directorate General, and the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS). Continuing on discussions held in past Dialogues, the group will be discussing a variety of supervisory topics, including progress in the EU's Solvency II project. The NAIC is committed to working closely with the EU, and has even created a working group called the NAIC International Solvency Initiatives (E) Working Group, as a forum to produce NAIC comments on EU and IAIS solvency projects. As CEIOPS continues its preparation of advice to the Commission in the development of the Solvency II framework, European supervisors are wrestling with many significant issues – some of which have direct parallels to challenges being addressed by U.S. regulators.

Some of the issues that all authorities are currently grappling with include how to modernize the oversight of insurer solvency, how to address differing levels of expertise among member jurisdictions in the creation of complex new rules on capital adequacy requirements. Internal company governance, outsourcing, home/host issues, are also being actively considered. While the NAIC moves forward with considerations to look at alternatives to the current reinsurance regulatory framework, always a hot issue, EU regulators and supervisors have participated actively in the work of the NAIC, to ensure a complete and accurate flow of information on European regulatory practices and market conditions.

The Insurance Regulatory Dialogue in London will also provide an opportunity for representatives of the world's largest insurance markets to discuss the challenges confronting the International Association of Insurance Supervisors (IAIS). As the organization evolves, pressures are coming to bear on the resources available to develop and implement international regulatory standards, while meeting the growing demand for education and training. This summer, at the European Commission hearing, I called on Europe to join the U.S. in taking a leadership role in the development of international standards. It is critical to consider how to best position an organization with 180 jurisdictions to effectively be the sole insurance standard setter on par with the Basel Committee and IOSCO.

Perhaps the IAIS could be more valuable to all supervisors if there was a new role for a committee of major markets at the IAIS, whose goal would be to continue the development of meaningful supervisory standards. With that said, the current IAIS goal of seeking implementation of the Insurance Core Principles could be accomplished through partnering with existing education providers. Regardless of the ultimate decision on organizational structure, it is imperative that we recognize and address the diversity of the IAIS membership.

The significance of the IAIS work also makes deficiencies in procedural transparency even more evident, and again we are seeking European support for our efforts to have the IAIS adopt a standard on administrative procedures. Through the plethora of meetings, conferences and seminars, the IAIS functions as an excellent environment where supervisors and industry participants from around the globe can come together to exchange ideas, concepts, problems and solutions.

The issue of developing a standard on regulatory transparency and administrative due process is critical and will be on the agenda again for consideration during the IAIS meeting in Beijing in October. As the largest insurance market in the world, it is imperative that the U.S. remains a key advocate for such a process. Those of you who have attended NAIC meetings have witnessed our open, deliberative process, where we are able to preserve our authority as insurance

supervisors to make the final determination of what regulatory approach is best. Consultation among IAIS members and industry participants must be an integral part of the process. It is not sufficient to draft a standard or principle and then issue it to the financial world, without disclosing information early in the development process and at subsequent significant milestones. Former Chair of the Financial Stability Forum, Roger Ferguson, noted at last year's NAIC symposium that "Transparency and public disclosure are essential for the efficient functioning of the markets." The drive for transparency and accountability has been encouraged through the work of not only the FSF, but the IMF as well. The active interest and involvement of all interested parties will inevitably ensure consistent jurisdictional procedures, which will in turn act as a catalyst for the opening of vibrant and efficient markets.

Transparency is one of the themes often highlighted during the NAIC's international outreach activities. With 135 years of experience in insurance regulation it is not uncommon for other countries, especially from the emerging markets, to reach out to the NAIC and its members for technical assistance, as they seek to design and build an effective regulatory framework. As a result, we continue to advance our relations with foreign markets by emphasizing the exchange of regulatory technology and knowledge. I am confident that our efforts to share technical expertise with emerging market countries is helping to set up a base-line of regulation that can assist with the opening of markets, creating demand for foreign capital, and allowing insurance entities to be established. To meet the growing requests for assistance, the NAIC in 2005 created a formal internship program for non-U.S. regulators. The program is designed for professional staff members, who meet specific qualifications. The interns participate in a 4-day training session at the NAIC headquarters in Kansas City and then are posted to a state insurance department. The program seeks to promote the transfer of applied regulatory knowledge to practical applications in the interns' home countries. Last fall, we hosted interns from China, Korea, Brazil, India and Vietnam and this October we have accepted applicants from China, Korea, Russia, Brazil and the

British Virgin Islands. The development of the international internship program has drawn even more attention to the NAIC's valuable resources.

In the spirit of regulatory cooperation worldwide, we have entered into Memoranda of Understanding with China, Vietnam, Brazil, Russia, Iraq, and Hong Kong and are working towards similar engagements with Egypt and ASSAL (Association of Latin American Insurance Supervisors). In the case of China and Brazil, the MOU extends to the establishment of a Joint Working Group with each jurisdiction to address issues of mutual interest.

In addition to our work at the IAIS, NAIC members are increasingly involved in other international organizations. The Joint Forum, Financial Stability Forum, the OECD, and International Accounting Standards Board are just a few that come to mind.

The Joint Forum was established in 1996 under the aegis of the IAIS, Basel Committee, and IOSCO to address issues common to the insurance, banking, and securities sectors, focusing initially on the regulation of financial conglomerates. The NAIC has been well represented in the activities of the Joint Forum through the work of key individuals from the Florida, New York and Iowa insurance departments.

As chair of the IAIS Executive Committee for the past 18 months, I have had the pleasure of representing the IAIS at the Financial Stability Forum. The FSF was convened in April 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. The Forum brings together on a regular basis international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF seeks to coordinate the efforts of these various bodies in order to promote international financial stability, improve the functioning of markets, and reduce systemic risk. Over the past three years, the FSF has taken particular interest in the insurance sector, especially in the areas of reinsurance, finite reinsurance, disclosure, credit risk transfer and the implications on the sector from a possible pandemic.

Most recently, the FSF members convened in Paris, France to discuss risks and vulnerabilities in the financial sector and the IAIS response to the G30 paper on reinsurance supervision. The possible impact on financial services markets of a pandemic, such as an avian flu, was also discussed. As the representative of the insurance regulatory community, I am in a unique position to educate the FSF members about the insurance sector, in particular, from the U.S. perspective.

At the OECD, the NAIC participates in the activities of the Insurance and Private Pensions Committee. We do so as a technical resource to the U.S. Department of Commerce, together with industry representatives. Most recently the NAIC provided technical expertise during the committee's discussions on the management of losses from terrorist events and mega-catastrophes, medical malpractice insurance and reinsurance issues.

As financial markets expand globally, the demand for international consistency in accounting and auditing standards has also increased. The International Accounting Standards Board (IASB) is committed to developing a single set of high quality, and enforceable global accounting standards that require transparent and comparable information in financial statements. The NAIC has been monitoring and providing input to the IASB since its early stages. Some have even suggested that the regulators had a "seat at the table" before the insurance industry had become engaged.

I hope I was able to provide you with a better understanding of the NAIC's international activities and how we as an organization view key issues in the global regulatory community. Identifying essential relationships and recognizing the importance of international cooperation is fundamental to the growth of financial markets worldwide. As we learn how to more effectively communicate among other supervisors, with industry, international organizations, we can help, in many cases lead, the global spread of sensible regulatory practices in financial services.

Again I want to thank the International Insurance Foundation for the invitation to participate in the Annual Meeting Symposium, and for your contributions over the years to these important goals.