

Implementing International Standards in Emerging Markets: The Case of Peru

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Peru's Self-Assessment

- Peru completed its own IAIS core principle self-assessment in 2001
- In preparation for an insurance sector FSAP, it is undergoing a second self-assessment of the expanded core principles
- Peru's self-assessment has been an honest, tough evaluation of where it is and needs to go with respect to core principle compliance
- The lack of sufficient resources and legislated powers for supervisory staff are seen as principal impediments



IIF TA Project Findings

- The IIF is conducting an evaluation of Peru's Supervisory strengths and weaknesses in 2004 with regard to on and offsite examinations and reserving.
- Objective of TA project is to assist Peru in the implementation of new supervisory and regulatory practices to fully comply with IAIS core principles
- Objective is also specifically to address need for new on and off-site examination manuals, more effective capital requirements, and reserving regulations



Preliminary Observations

- Integrity of data reported to supervisor is not adequately tested
- Peru has underdeveloped practices for supervision of reserving
- There are not adequate powers to verify existence and disposition of insurer assets
- Weaknesses of on-site examinations:
 - insufficient random testing of accounts
 - insufficient back and forward testing of integrity of a specific operational event through the flow of transactions (checking that a policy sold shows up correctly in premium, reserve, investment, claims accounts)
 - element of surprise not adequately used



International standards of supervision can be a roadmap

- They point to the essential concepts
- They provide tools that can be used
- But they do not ensure supervisor has effectively met the challenges of supervising the market
 - For example, on-site inspection core principle does not refer to any of the key elements that are required within the Peruvian supervisory system



Effective implementation requires attention to detail

- Effective implementation of the standards requires more than "apparent" compliance
- Best achieved through careful analysis of the risks arising from the laws, practices, and market conditions each country.
- Moreover, international capital standards (i.e. any proposed harmonized capital requirements) and best practices (i.e. early warning ratios, RBC) are fruitless if integrity of reported financial data is not achieved first

