

Global Standards of Insurance Supervision

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Overview

- **Why supervise insurance?**
- **Why have global standards?**
- **What are the global standards?**



Why supervise insurance?

- To encourage performance of an inter-temporal contract
- To maintain a functioning market with responsible participants
- To constrain leverage
- To promote consumer confidence

Without supervision, few would buy insurance



Main supervisory tasks

- Licensing
- Solvency monitoring
- Market conduct
- Financial system concerns



Growing issue for developing countries

- Market liberalization intensifies the supervisory burden
- More choices also means more risks
- Consumer confidence especially fragile
- Supervisory resources are scarce; it is critical that they are used efficiently



Regulatory regime and excessive risk taking

Excessive risk-taking

- can be encouraged or discouraged, depending on the specific regulatory regime
- goal should be to align interests of all stakeholders to promote market discipline



Insurer must survive to perform contract

- Supervisor wants insurers to survive
- Insurers also want to survive
- Therefore, objective should be the same
- Efficient use of supervisory resources focuses on exceptions



Goal of Regulatory Policy

“To provide an incentive structure that is consistent with maximizing the value of owners’ equity by having the insurer adopt a low-risk profile.”

If regulators can get the incentives right,
90% of their problems will be solved!

- *David Babbel*



Risk Based Supervision

- Focus on risk
- Emphasis on likely problems
- Utilizes strong points
 - Corporate governance
 - Market discipline
- Allocates resources according to risks



Why have global standards?

- More comprehensive
- Easier to understand and implement
 - for example, regional training possible
- Facilitate compliance
- Financial stability



What are the global standards?

- Recent development [response to Asian Financial Crisis of 1997]
- New paradigm for global financial system
- Financial Stability Forum has powerful mandate
- Irreversible momentum



Standard-setting bodies

- Basle Committee of Bank Supervisors
- International Organization of Securities Commissions
- International Association of Insurance Supervisors
- International Accounting Standards Board
- Et al.



International Association of Insurance Supervisors

- Founded in 1994
- Headquarters in Basle, Switzerland
- Over 100 members
- Facilitates cooperation among national insurance supervisors
- Sets standards for insurance supervision



IAIS Core Principles

- Adopted in 1997, revised in 2000
- Major revision adopted in October 2003
- 28 Core Principles, supported by essential criteria
- Basis for Financial Sector Assessment Program evaluation of insurance supervision



Financial Sector Assessment Program

- Joint IMF / World Bank Program
- Started in 1999
- Voluntary participation
- Independent evaluation of financial sector supervision
- Reports can be published
- Strong signal to financial markets



Feedback loop

- Global standards
- Assessment of observance
- Recommendations for improvements
- Training and follow up



Conclusions

- Supervision needed for insurance market to work
- Supervisory capacity limited in developing countries
- Global standards exist, and help
- Financial Sector Assessments are reshaping financial system
- Assistance should be coordinated with global standards

