



# Newsletter

## December 2012

### International Association of Insurance Supervisors

#### Macprudential Surveillance and “Ask Yoshi”

In this month’s feature article, we present a discussion of the IAIS’ current and upcoming activities in the area of macroprudential surveillance. As an area of great importance and growing interest, the IAIS has justly increased its work in this area. The article explains some of the reasons behind this focus and ends with an invitation worth repeating – please contact us if you would like more information about the macroprudential tools now or soon available to you or for more information on how to get involved.

Starting next month we also hope to introduce a new feature to the Newsletter – “Ask Yoshi.” Do you want to know what the IAIS is doing in the area of financial inclusion? Are you interested in hosting a regional seminar and want to know how one might apply? Do you want to know how the MMoU can benefit your jurisdiction? We welcome any and all questions that might be of interest to Members and Observers as a group and will answer all we can each month. If you are interested, please send your question to [andrew.stolfi@bis.org](mailto:andrew.stolfi@bis.org). We will include your name when we respond to your question in the Newsletter unless you ask that it be reported anonymously.

We hope this month’s article, and the new monthly, on-line format of the Newsletter, continues to be a source of timely information on IAIS and other insurance-related activities and, as always, we welcome your comments and suggestions at any time at [iais@bis.org](mailto:iais@bis.org).

Sincerely,

Yoshihiro Kawai  
Secretary General  
International Association of Insurance Supervisors

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#### Did You Know?

The IAIS received Royal praise from Princess Máxima of the Netherlands for the adoption of its Application Paper on *Regulation and Supervision Supporting Inclusive Insurance Markets*. The Princess expressed her gratitude during a keynote speech at the 8th International Microinsurance Conference on 6 November 2012 in Dar es Salaam, Tanzania. Please look for yourself on [Youtube](#). The Princess is the UN Secretary General’s Special Advocate on Inclusive Finance for Development.

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**About the IAIS:** The IAIS is a global standard setting body whose objectives are to promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to contribute to global financial stability. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. More than 120 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers. For more information, please visit [www.iaisweb.org](http://www.iaisweb.org).

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## Macroprudential Surveillance in the Insurance Sector

### *A Challenge Brought to the Fore by the Financial Crisis*

With the onset of the current financial crisis and the recognition of the huge negative externalities it imposed on the economy, macroprudential policy and surveillance (MPS) have become household words, although it remains ambiguous what MPS entails in general and how it should apply to insurance in particular. That said, the topic is in high season. In late 2012, a Google search on “macroprudential” produced 592,000 entries. This amounts to an exponential growth rate when contrasted to the 123,000 reported in a 2010 BIS study, which in turn compared to a mere 7,000 entries for the period 2000-07.

The prime objective of MPS is to limit or mitigate systemic risks. Specifically, it aims to contribute to financial stability and minimise the incidence and impact of disruptions in the provision of key financial products and services that can have adverse consequences for the real economy (and broader implications for economic growth). Macroprudential surveillance takes a market-wide perspective (“portfolio risk”) rather than being concerned with the viability of individual institutions as propagated by microprudential supervision.

This shift in perspective is perhaps best explained with a reference to air traffic controlling. While it is important that traffic controllers know the position and velocity of an individual plane, that information is worthless if it is not aggregated in the context of all planes moving in a certain air space. Likewise, the financial crisis drove home the point that systemic risk can be understood only in the context of a firm’s interlinkages and overall contribution to system-wide failure.

Thus, macroprudential analysis must complete two interrelated tasks. It must understand how systemic risk builds up over time both with respect to individual firms contributing to systemic risk and with respect to the build-up of system-wide risk. It must also show how systemically important firms can propagate and amplify shocks to other financial market participants and how systemic financial crises can ultimately impact the real economy.

This is a tall order. Although the Financial Stability Board in a recent progress report identified “a consensus that having a system-wide analytical perspective is [now] a fundamental attribute of a well-specified macroprudential framework,” the perhaps more mundane question how the macroprudential framework should be translated into implementable tools and actionable policies continues to be more difficult to answer. The answer is particularly difficult with respect to insurance.

In 2010, a survey conducted by the IAIS Reinsurance Transparency Group (RTG) found that the primary macroprudential focus has been on the role of banking. Much less work has been done on insurance-specific issues, and the RTG identified a critical knowledge gap with respect to insurance-specific macroprudential surveillance of a global nature.

In recognising the need to anchor MPS more firmly in the world of insurance supervision, the IAIS has made it one of the newly revised Insurance Core Principles (ICP) ratified in October 2011. Specifically, the new principle of ICP 24 (Macroprudential Surveillance and Insurance Supervision) states:

“The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities. [...] The supervisor has an established process to assess the potential systemic importance of insurers, including policies they underwrite and instruments they issue in traditional and non-traditional lines of business.”

In furtherance of these objectives, the Macroprudential Policy and Surveillance Working Group (MPSWG) has been tasked with the design of an MPS framework. The brief includes the identification, measurement and monitoring of vulnerabilities and risks in the insurance sector and broader financial



system with the goal of mitigating systemic risk that might negatively affect not only the risk profile of insurers, but also the financial system and the real economy.

The MPSWG reports to the IAIS Financial Stability Committee. In a short time it has developed an internal reporting system to capture financial market developments as well as broader economic and societal trends relevant for insurance supervisors. In October 2012, these internal reports were complemented with the publication of the first Global Insurance Market Report (GIMAR) (available [here](#)). The GIMAR sets forth and broadens early macroprudential surveillance work that was focused on the reinsurance sector and culminated in the periodic publications of the Global Reinsurance Market Reports. In early 2013, the Working Group is scheduled to release a first “Progress Report on Macroprudential Policy and Surveillance in Insurance” that will flesh out the salient issues in creating an early warning system to detect the build-up of systemic financial market risk that has the potential to disrupt also the insurance sector.

We look forward to continuing the Association’s efforts in the area of macroprudential policy and surveillance and adding to the tools available to our Members. Please contact the Secretariat if you would like any more information or would like to get involved in these activities.



## Career Opportunities with the IAIS

*Seeking Applicants for Senior Economist and Member of the Secretariat,  
Application Deadline of 31 December*

The IAIS is seeking applicants for the following positions:

**Senior Economist.** The Senior Economist is responsible for monitoring and analysing developments in the financial sectors and in insurance supervision from a global financial stability perspective. The Senior Economist also coordinates financial stability, systemic risk and macro-prudential surveillance issues within the IAIS in order to achieve consistent output, and contributes to the assessment of systemic relevance of insurers and the insurance industry and the development and enhancement of the policy framework for systemically important financial institutions.

1. **Member of the Secretariat.** The role of the Member of the Secretariat is to support the Secretary General and Deputy Secretaries General in their work and to carry out such duties as might be assigned or delegated by them. The duties of the Member of the Secretariat may include the following:
  - Provide support for and advice to IAIS working parties.
  - Carry out analysis of insurance supervision in particular with regard to quantitative analysis in collaboration with IAIS members and observers.
  - Provide support for the supervision of emerging markets.
  - Provide support for general organisational matters (e.g. communications, project management, IT, conference organisation, and budget).
  - Liaise with, and review papers prepared by, other national and international bodies which are involved in issues relevant to the supervision of insurance operations.
  - Prepare notes and documents on behalf of the IAIS.

More information on the specific job responsibilities and required qualifications can be found in each job posting, which is available on the IAIS website or by clicking [here](#).

Attractive employment conditions will be offered for both positions and the salary will be paid free of Swiss income tax.

The closing date for submission of a completed application is **Monday, 31 December 2012**.

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## Recently held seminars

*Cape Town, South Africa, 5-7 November 2012*

The FSB of South Africa and the Financial Stability Institute (FSI) hosted a regional seminar targeting mid-level supervisors from Sub-Saharan Africa. Main topics covered included:

- Risk quantification and aggregation, internal models and the role of stress and scenario testing
- Calibrating regulatory capital requirements to risks, using a standardised approach
- Enterprise Risk Management (ERM)
- Insurers' Own Risk and Solvency Assessment (ORSA)

*San José, Costa Rica, 19-23 November 2012*

The Superintendencia General de Seguros de Costa Rica, in cooperation with the Asociación de Supervisores de Seguros de América Latina (ASSAL) and the IAIS, organised a regional seminar in San Jose. Approximately 50 participants from Latin America, Spain and Portugal attended.

Main topics covered included:

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- Capital requirement systems
  - Best practices in establishing technical provisions
  - Corporate governance and internal controls
  - Standards on actuarial practices applied to insurance products
  - The future of insurance group supervision
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### **Microinsurance specialists meet in Tanzania**

From 6 to 8 November 2012, the 8th International Microinsurance Conference took place in Dar es Salaam, Tanzania. This event was hosted by the Munich Re Foundation and the Microinsurance Network. Over 500 participants and experts from around the world exchanged experiences and discussed the challenges of microinsurance. The participants included representatives of insurance and reinsurance companies, international organisations, NGOs and development-aid agencies as well as academics, policymakers, and supervisory regulators.

The conference started with a policy seminar for supervisors in which distribution and consumer protection and market conduct challenges were discussed.

More information and presentation materials are available on the [website](#) of the Munich Re Foundation.



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## Accounting and Auditing Issues Subcommittee

*The Accounting and Auditing Issues Subcommittee (AAISC) met 15-16 November in Basel*

At its meeting, the AAISC received an update on the insurance contracts project from the International Accounting Standards Board. The AAISC also continued its discussions on a valuation strategy for ComFrame in the absence of an international insurance accounting standard. Draft resolutions to comments received on ComFrame elements dealing with valuation and reporting and disclosure were reviewed. The group also discussed a proposal for standard setting material related to supervisors' expectations of external audit.

Finally, the AAISC expressed its thanks to Richard Thorpe, who has resigned as Chair of the AAISC as of the end of December.

Secretariat Support: [aina.liepins@bis.org](mailto:aina.liepins@bis.org)

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## ComFrame Dialogue

*A ComFrame dialogue will be held on 15 January 2013 in New Orleans*

A ComFrame dialogue with Observers will be held on 15 January 2013, from 09.00 - 11.00, preceding the Technical Committee meeting.

This ComFrame Dialogue will follow up on the issue of confidentiality of information. Observers are requested to provide concrete examples of where enhanced text on confidentiality is needed in ComFrame in addition to what is already in the ICPs and why this issue is different in ComFrame compared to the ICPs.

This ComFrame Dialogue will also include a discussion on valuation in ComFrame. The IAIS is scheduled to begin a Field Testing Phase for ComFrame in 2014, the objective of which is to assess the impact of all elements of the draft ComFrame. For the quantitative aspects of this exercise, it is necessary to have comparable valuation within IAIGs and across IAIGs.

Secretariat Support: [peter.windsor@bis.org](mailto:peter.windsor@bis.org)

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## Education Subcommittee

*The Education Subcommittee (ESC) held a Conference Call on 23 October*

On its call, ESC Members discussed a proposed FSI Connect module development plan and a related letter to the FSI. Members commented that they welcome and appreciate the opportunity to provide input to the FSI Connect module development plan.

The Education Subcommittee also continued efforts on implementing the Education Strategy. Revision of a survey questionnaire is taking place as the ESC received comments from Observers. Conversation with the World Bank representatives on the proposed Supervisory Guide also began, and the approved *Guidance to Teaching Notes* was shared with standard-setting working parties, which are now beginning to develop teaching notes.

Secretariat Support: [yasa.fujioka@bis.org](mailto:yasa.fujioka@bis.org)

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## Executive Committee

*9 and 12 October Draft Meeting Minutes now Available*

The draft minutes of the meetings of the Executive Committee on 9 and 12 October are available on the IAIS website under [Committees / Executive Committee / Minutes](#).

The next meeting of the Executive Committee will be on 16 January 2013 in New Orleans.

Secretariat Support: [peter.vandenbroeke@bis.org](mailto:peter.vandenbroeke@bis.org)

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## Financial Inclusion Subcommittee

*IAIS – Microinsurance Network Joint Working Group starting work on market conduct issues in inclusive insurance*

The IAIS – Microinsurance Network Joint Working Group (JWG) met on 5 November 2012 in Dar es Salaam, Tanzania. An important subject for discussion was the proposal to develop an Issues Paper on *Market Conduct, Distribution and Consumer*



*Protection in Inclusive Insurance Markets.* This subject is part of the FISc workplan and was envisaged to be undertaken together with the MIN in the JWG.

The JWG agreed to undertake the development of this paper. For this purpose, a drafting group will be set up which is expected to commence its activities shortly.

Secretariat Support:  
[peter.vandenbroeke@bis.org](mailto:peter.vandenbroeke@bis.org)

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## Financial Stability Committee

*Public Consultation on G-SII policy measures to close 16 December; Committee met on 12-14 November in Basel and held conference call on 22 November*

The public consultation on the draft policy measures for global systemically important insurers (G-SIIs) closes 16 December. Please visit the IAIS website, or click [here](#), for more information or to submit comments, which must be done using the on-line consultation tool.

At its November meeting, the FSC further discussed the proposed G-SII policy measures and received reports from the FSC Specialists Group on a G-SII data analysis meeting and planning for upcoming supervisory judgment meetings in December and January. The FSC also discussed recent FSB papers published in conjunction with the G20 meetings. The conference call approved the provision of a progress report to the FSB on FSC activities.

Secretariat Support: [john.maroney@bis.org](mailto:john.maroney@bis.org)

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## Financial Crime Working Group

*Supervisory Questionnaire on Anti-bribery and Corruption Being Developed*

The Financial Crime Working Group is developing a questionnaire to Members on insurance supervisors' activity regarding anti-bribery and corruption. The questionnaire will be issued early in 2013, and the feedback obtained will be useful to the group as it commences work on an Issues Paper on this subject.

Secretariat Support: [peter.cooke@bis.org](mailto:peter.cooke@bis.org)

## Governance and Compliance Subcommittee

*The Governance and Compliance Subcommittee (GCS) met on 12 and 13 November in Hyderabad, India*

The GCS discussed the comments to Module 2 Element 1 of the ComFrame draft and agreed on resolutions of comments to be forwarded to the Technical Committee.

The GCS agreed to develop an "Issues paper on approaches to group corporate governance; impact on control functions." The issues paper would cover the various models of governance (centralised, decentralised, and hybrid models) and the implication for the risk management function and other control functions.

The GCS agreed to start developing training material/teaching notes on ICP 4 Licensing and ICP 5 Suitability.

In a joint session with the SOSc, the GCS discussed and commented on a draft questionnaire for the self-assessment and peer review of risk governance (i.e. ICPs 4, 5, 7 and 8).

The next GCS meeting is scheduled for 30 and 31 January 2013 in Basel.

Secretariat Support: [nina.moss@bis.org](mailto:nina.moss@bis.org)



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## Insurance Groups and Cross-Sectoral Issues Subcommittee

*The Insurance Groups and Cross-Sectoral Issues Subcommittee met on 19-20 November in Basel*

Of primary focus was the resolution of comments arising from the recent consultation on ComFrame. The IGSC also continued discussions on its workstreams concerning the



supervision of cross-border activities using branches as well as the resolution of insurers.

The next meeting is scheduled for late January 2013 and will include joint sessions with other Technical Committee working parties.

Secretariat Support:  
[lance.leatherbarrow@bis.org](mailto:lance.leatherbarrow@bis.org)

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### **Market Conduct Subcommittee**

*The Market Conduct Subcommittee (MCS) met on 14-15 November in Hyderabad*

At its meeting, the MCS made further progress on a draft Issues Paper on policyholder protection schemes and discussed an outline for an Application Paper on approaches to conduct of business supervision. Both of these will be taken further forward at the subcommittee's next meeting in late January 2013.

Subcommittee members also exchanged updates on developments related to consumer protection in their jurisdiction, as well as on external developments in this area. The subcommittee also received an interesting presentation from the Indian Insurance Regulatory and Development Authority (IRDA) on supervisory developments, focussing on recent initiatives in monitoring grievance management and dispute resolution.

Secretariat Support: [peter.cooke@bis.org](mailto:peter.cooke@bis.org)

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### **Macroprudential Policy and Surveillance Working Group**

*The Macroprudential Policy and Surveillance Working Group (MPSWG) met on 26-27 November in Washington, D.C.*

The meeting focused on a reading of the near penultimate draft of the first "Progress Report on Macroprudential Policy and Surveillance in Insurance" (see also lead article in this newsletter). The report will undergo final edits in the first weeks of December and then be submitted to the FSC for approval and publication.

Members also engaged in a first discussion of the 2013 edition of the Global Insurance Market Report (GIMAR). They decided to make the report more analytical and forward-looking (i.e. identifying the potential of financial stress and systemic risk) and to better leverage the findings of the internally distributed Key Insurance Trends and Risks (KIRT) report. Members also discussed the workplan for 2013.

Secretariat Support: [daniel.hofmann@bis.org](mailto:daniel.hofmann@bis.org)

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### **Solvency and Actuarial Issues Subcommittee**

*The Solvency and Actuarial Issues Subcommittee (SSC) met on 12-14 November in Washington, D.C.*

Most of the meeting was devoted to consideration of comments received on relevant areas of ComFrame for the Subcommittee. The SSC carefully considered over 100 pages of solvency-focused comments, together with a broader area of more general comment, and developed draft resolutions, except in those areas of the ComFrame document where it was already apparent that the July draft was out of date due to on-going work by the Subcommittee.

Secretariat Support: [dave.finnis@bis.org](mailto:dave.finnis@bis.org)

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### **Standards Observance Subcommittee**

*The Standards Observance Subcommittee (SOSC) met on 12-13 November in Hyderabad*

On the first day of its meeting, high-level findings of the Expert Team on the current Self-Assessment and Peer Review (SAPR) on ICPs 1, 2, and 23, were discussed together with the outline of the draft aggregate report. The aggregate report is expected to be finalised before the March Committee meetings.

Timelines and planning for the next SAPRs on *Risk Governance* and on *Financial Inclusion* were also discussed during the meeting. The Financial Inclusion SAPR is expected to be resourced and managed by the Access to



Insurance Initiative, with the SOSC providing oversight.

On the second day of meetings, the first draft of the Handbook on the SAPR process was reviewed. This was followed by a joint meeting with the Governance and Compliance Subcommittee (GCS), where the Acting Chair of SOSC emphasized the critical importance of GCS participation and involvement in the *Risk Governance* SAPR. Many of the Expert Team members were from the GCS and the draft *Risk Governance* questionnaire was reviewed in its entirety and comments compiled.

Following the Hyderabad meeting, the compiled comments were reviewed further by the Expert Team in Basel. The final draft will be circulated to the Parent Committees in early December for a fatal flaw review. Subsequent to the initial testing phase on the IT Tool, the web-enabled questionnaire is expected to be launched in late January 2013.

Secretariat Support: [mala.nag@bis.org](mailto:mala.nag@bis.org)

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## **Technical Committee**

*Next Technical Committee meeting on 15 January*

The next meeting of the Technical Committee will be held in New Orleans on 15 January 2013. Technical Committee members will also be invited to a joint afternoon session with the FSC on 14 January.

Secretariat Support: [nina.moss@bis.org](mailto:nina.moss@bis.org)

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## **Technical Committee Working Party Chairs**

*Teleconference 26 November*

The WPC held a teleconference on 26 November mainly to discuss coordination issues among Technical Committee working parties in the further drafting of ComFrame.

Secretariat Support: [nina.moss@bis.org](mailto:nina.moss@bis.org)

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## **Your views on new FSI Connect tutorials for 2014**

- Global systemically important insurers
- Own Risk and Solvency Assessment (ORSA)
- Pricing of life insurance products – a supervisory perspective
- On-site inspection of insurance companies
- Fundamentals of actuarial mathematics

These are some of the new topics that are currently under consideration for the 2014 work plan. If you have any other suggestions, e-mail the FSI Connect team at [fsiconnect@bis.org](mailto:fsiconnect@bis.org)

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