



SOCIETY OF ACTUARIES

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# International Section News

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# 6<sup>th</sup> Annual Conference of the International Association of Insurance Supervisors

by Hans Wagner

**W**here do insurance regulators from countries like Lithuania and Lesotho, Malaysia and Malta, or the United States and the United Kingdom, gather to compare notes? At the International Association of Insurance Supervisors (IAIS). The IAIS, along with the Basel Committee on Banking Supervision (Basel Committee) and the International Organization of Securities Commission (IOSCO), form a key link in improving government supervision of the financial services industry worldwide.

The IAIS held its 6th Annual Conference on December 7–10 in San Francisco, hosted by the NAIC, with about roughly 300 insurance supervisors and other professionals in attendance. The IAIS includes representation from the supervisory authorities of more than 90 jurisdictions worldwide. In addition to its annual meeting, the IAIS holds other working meetings throughout the year.

The agenda included panels on seven topics, a general business meeting, and a plenary session. The panels covered the following topics:

- Catastrophic occurrences
- International insurance accounting
- Privatization
- Needs and concerns of supervisors and the insurance industry in emerging markets
- Insurance taxation
- Insurance fraud
- Pressures for changes in supervisory structures

The panels presented a wide variety of perspectives from around the world. These brief summaries might give a small sense of the spectrum of the presentations.

## Panel on Catastrophic Occurrences

The discussion was in two sections, one “Technical” and one “Regulatory.” Four speakers addressed each: Werner Schad (Swiss Re), Takaaki Tamai Tokyo Marine), Mario Ordaz National University of Mexico), Manuel Aguilera Verduzco Commission Nacional de Seguros y Finanzas (Mexico)), Anselm Smolka Munich Re), Miguel Jimenez de Cordoba Consorcio de Compensación de Seguros, Spain), Paul Kovacs Insurance Bureau of Canada/Institute for Catastrophic Loss Reduction), Kevin McCarty Insurance Commission of Florida). It was noted that the insured catastrophe losses have been greatly increasing, for a variety of factors: 1) greater insurance penetration, 2) greater building in vulnerable areas, and 3) perhaps greater frequency and magnitude of disasters including potential impacts from global warming and climate change.

The various types and locations of disasters have had their potential total and insured losses estimated. It was interesting to note, for example, that a major Japanese earthquake potentially creates a three times larger total loss than a major California quake, but that California might suffer twice the insured loss. Disasters discussed included earthquake, flood (including tsunami and storm), fire, and storm (typhoon/hurricane, ice, wind, hail). Ice and hailstorms may have historically been relatively ignored, as evidenced by recent losses in Quebec and Sydney.

Different countries have developed a variety of models for quantifying “levelized” risk charges and maximum possible exposures to catastrophes. Mexico has a very sophisticated earthquake model factoring in lots of local geologic data, as well as building data.

## India's Insurance Industry

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an examining body, and first group of Fellows of the ASI qualified a couple of years ago. The legislation will require that the Appointed Actuaries will have to be Fellows of the Actuarial Society of India. In the years to come, the ASI will need to expand on the guidance that the Appointed Actuaries will need in their work. For this purpose, the ASI will no doubt welcome any help they can get from other actuarial bodies.

## Conclusion

The insurance market will have exciting times in the years to come in India. The IRDA intend to use the liberalization process as an opportunity to bring the insurance industry in India into modern times. In this process, they want to place the greatest reliance on the actuarial profession. Hence, actuaries will have a very important role to play in helping the IRDA achieve their objective. Due to the paucity of the number of actuaries in India at the present time, any help that can be provided by the actuaries and actuarial bodies outside of India will be welcome.

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Canadian regulators completed a study of their disaster exposure several years ago and concluded that while their industry could withstand severe storms, it did not have sufficient capacity for a major urban earthquake. Steps were taken to successfully expand the capacity of the Canadian market. Spain requires direct writers to provide catastrophe cover and has a government-organized corporation to provide a catastrophe fund. In the U.S., different states have taken different approaches to providing catastrophe cover. It was noted that economically immature markets such as Central America and Bangladesh have no effective insurance cover, but no solutions were proposed.

A peripheral, but key, issue that was raised was tax treatment of catastrophe

quake size and location, which meets investor needs but may not adequately track insurer exposures.

### Panel on International Insurance Accounting

Florence Lustman (Commission de Contrôle des Assurances, France) acted as moderator and introduced the panel by mentioning the ongoing work on International Accounting Standards. Charles Vincensini's (Mazars et Guerard) talk focused on the needs of different audiences interested in financial statements and on the current shortcomings in proposed fair value methods. Hans Wagner AXA National Mutual) disclosed that his presentation reflected his own views, not AXA's, and then discussed how MoS, U.S. GAAP, and local

The panel also tied back to the catastrophe panel of the prior day and stressed that insurance liabilities need to be concerned about the tail of the distribution of results. The conservatism desired by regulators may be difficult to reconcile with the "economic reality" desired by the financial markets.

### Panel on Insurance Fraud

Dale Bandol (California Insurance Fraud Division), Zakaria Ismail (Insurance Regulation Department, Bank Negara Malaysia), David Leighton (Association of British Insurers), and Dan Johnston (International Association of Insurance Fraud Agencies) pointed out the common problems with insurance fraud around the world. Most presentations stressed general or medical, rather than life or disability, insurance. Sweden has estimated fraud counts for 10% of all claims costs, while U.S. auto insurance fraud is estimated at over \$15 billion annually. New York and California each have an annual auto fraud cost of more than \$1.7 billion. In California, it is estimated that \$250/year/insured is needed to cover insurance fraud, and that \$1 spent on fraud prevention/detection saves \$3 to \$10 of fraudulent payments. The UK has estimated that fraudulent claims are almost 4% of all non-life claims and almost 7% of personal accident.

Typically, traditional law enforcement agencies put very little emphasis on insurance fraud, which they perceive as "victimless" crime. A dedicated enforcement agency is needed to combat fraud effectively.

### Panel on Pressures for Changes in Supervisory Structures

Tom Karp (Australian Prudential Regulatory Authority), Martin Roberts (Insurance Directorate, Financial Supervisory Authority, UK), Helmut Müller (Bundesaufsichtsamt für Versicherungswesen, Germany); and Jean-Louis Bellando (Commission de

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reserves. In jurisdictions like the U.S. that do not provide tax deductions, the natural tendency is to minimize catastrophe reserves. It is generally agreed that encouraging adequate reserving is necessary.

Several speakers addressed securitization, and how the broader capital markets might absorb some financial catastrophe risk. While some people worried about how the market might react following the first losses on cat bonds, others pointed out that it took some time for asset-backed securities to achieve broad acceptance. A key issue is whether the bond provides payment adjustments on a basis that is sufficiently public for the investor to trust it, but also close enough to the insurers' exposure to provide sufficient protection. Bonds issued in Japan have been linked to the governmental agency's official calculation of earth-

quency bases were effected by the Asian financial crisis. Fair values are very difficult to obtain even for many financial assets in Asia and in the context of market volatility, it is an important question whether it is better to keep realized losses separate from unrealized losses. Ruediger Will (Gerling-Konzern) then gave his company's position that U.S. GAAP-style deferral accounting is preferable to fair value accounts, after sketching some of the differences between "balance sheet," "deferral," and "fair value" approaches. All speakers stressed the advantages of having one accounting basis, rather than needing to prepare multiple accounts.

Several questions were raised about the feasibility of getting different audiences (regulators, stock exchange regulators, accounting boards, multiple countries) to agree on a single standard.

Contrôle des Assurances, France) effectively demonstrated the chasm between those people who see insurance as one branch of financial services, and those who perceive insurance as a separate industry.

Unfortunately, with Dr Müller speaking French, it also appeared that Anglophones made up the entire former group, and Francophones made up all of the latter. Probably you could find a Quebecois and an American to demonstrate that language does not drive philosophy in this matter.

While financial services providers worldwide appear to be merging and blending, there is not a worldwide consensus on the best way to supervise the activities of the merged groups. Institutions offering the same products should face the same regulatory hurdles, but there may be distinct social/economic roles for the different types of institutions that governments wish to preserve. Several pros and cons distinctly for emerging markets were also pointed out.

### Other Sessions

The general business meeting approved three new statements:

1. "Principles Applicable to the Supervision of International Insurers and Insurance Groups and Their Cross-Border Establishments"
2. "Principles for the Conduct of Insurance Business"
3. "Supervisory Standard on Asset

### Management by Insurance Companies"

Also approved was a new "Observer" membership status for individuals and organizations who are not insurance supervisors but are interested in the IAIS and its work.

The plenary session presented how the IAIS interacts with the Basel Committee and IOSCO, as well as a study comparing insurance regulatory and supervisory systems around the globe, and discussions on how the IAIS should evolve in the future.

### Summary

From this correspondent's point of view, it was remarkable how many issues are shared around the world. For example, the fraud panel's speakers from Malaysia, the U.S., and the UK showed that while the details of scams vary, the volumes are significant everywhere. Similarly, dedicated law enforcement personnel are almost always needed. Catastrophes are another universal phenomenon that can strike anywhere, and the sophisticated models created by authorities in Mexico and Canada were impressive.

While there are large areas of common concern and practice, many areas where history has led to current practices and perspectives vary widely. The panels on Supervisory Structures and Accounting both revealed rifts between two camps. On the one hand, a group tends to view insurance as one branch of financial services and supports "fair value" accounting standards. On the other, a group tends to

view insurance as requiring a unique supervisory structure and is in favor of maintaining some version of "book value" accounting standards. Certainly there are some people with their tent in one camp and picnic table in the other, but the division generally seemed to hold. Based on this conference, the UK, Australia, and Canada seem populated mostly by "financial services/fair value" types, while continental Europe is mostly in the "unique insurance/book value" camp. The U.S. has people strongly of each view. I did not come away optimistic that we will soon see a single international accounting standard, acceptable to both investors/creditors and industry supervisors.

In addition to the business sessions, there were ample opportunities to meet informally with insurance professional from a huge variety of backgrounds. There were even a couple of occasions to compare dance steps.

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### ***Journal of Actuarial Practice Call for Papers***

Actuaries are invited to submit papers for possible publication in the *Journal of Actuarial Practice*, an international refereed journal. Papers may be on any subject related to actuarial science or insurance. Papers do not have to contain original ideas. Preference will be given to those papers intended to educate actuaries on the methodologies, techniques, or ideas used (or can be used) in current actuarial practice. The journal also accepts technical papers, commentaries and book reviews. All papers are reviewed and must have some relevance to actuarial practice.

Please send an abstract of the paper by July 1, 2000, and five (5) copies of the completed paper by October 1, 2000, to: Colin M. Ramsay, Editor  
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