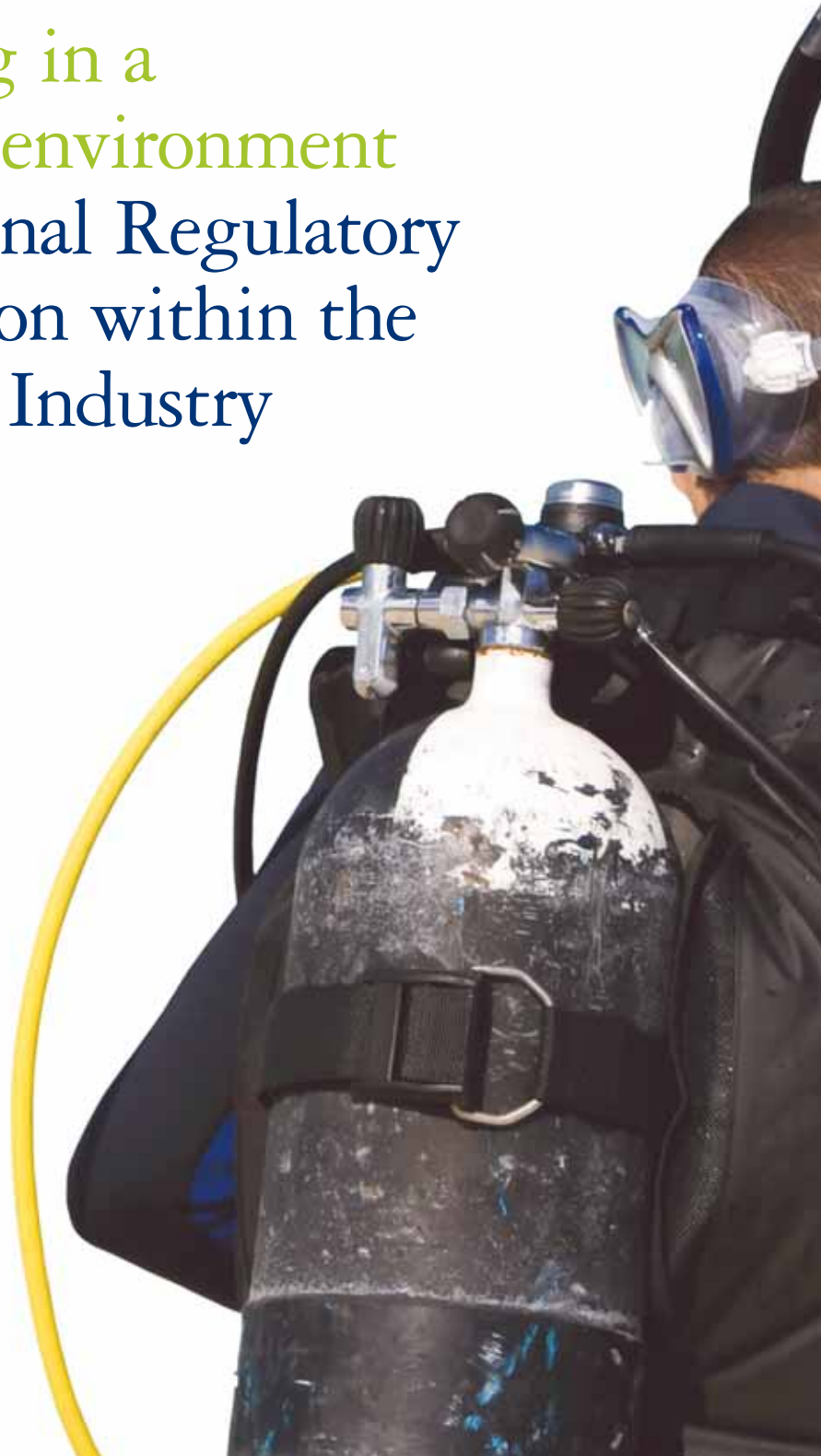


Sustaining in a
changing environment
International Regulatory
Cooperation within the
Insurance Industry



Contents

Foreword	1
Introduction	2
Current action and initiatives	4
Industry insight	6
Global regulatory coordination: The current challenges	7
Moving forward	8
Deloitte member firm insurance sector contacts	9

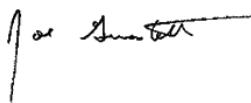
Foreword

With current economic challenges continuing to reshape the global financial services industry, many institutions are viewing this time as an opportunity to reinvent the way they do business. These institutions are examining what structural changes their business will require in future, what long-standing business processes need updating to meet the new market realities, and what legacy systems are in need of an overhaul. They are also examining strategic direction, deciding what markets they want to compete in, and challenging the question of which financial institution category they should fall under.

These decisions are being made at a time of great uncertainty about the future regulation for the financial services industry. In light of the current environment there have been calls for improved regulation, increased oversight and restructuring of regulatory authorities around the world. Such changes are likely to have a significant impact on the structure and strategy that institutions will select to pursue in this new environment. This is particularly true in the insurance industry, where regulatory and capital guidelines can vary across borders and within individual countries. These issues continue to frame top-of-mind discussions taking place at the International Association of Insurance Supervisors (IAIS), an international group of more than 100 insurance supervisors from across the globe. This report examines this discussion and outlines the current debate for greater international cooperation between insurance regulatory authorities around the world.

As the financial landscape continues to change, Deloitte's Global Financial Services Industry network is committed to providing continued thought leadership, surveys and studies on the issues most important to global financial institutions. Deloitte's aim is to help guide clients through these challenging times and provide them with insights useful in not only *surviving* the credit crisis, but essential for clients to continue 'Thriving in a changing environment'.

Regards



Joe Guastella
Global Insurance Leader
Deloitte Consulting LLP

Deloitte's aim is to help guide clients through these challenging times and provide them with insights useful in not only surviving the credit crisis, but essential for clients to continue 'Thriving in a changing environment'.

Introduction

“The world is too interconnected for nations to go it alone in their economic, financial and regulatory policies.”

Ben Bernanke

Chairman of the United States Federal Reserve¹

As the global financial crisis continues to foster an environment of change and challenge for the financial markets, international governments are placing increased focus on regulation in an effort to prevent repeating past mistakes and to foster new uniformity and transparency standards across jurisdictional boundaries.

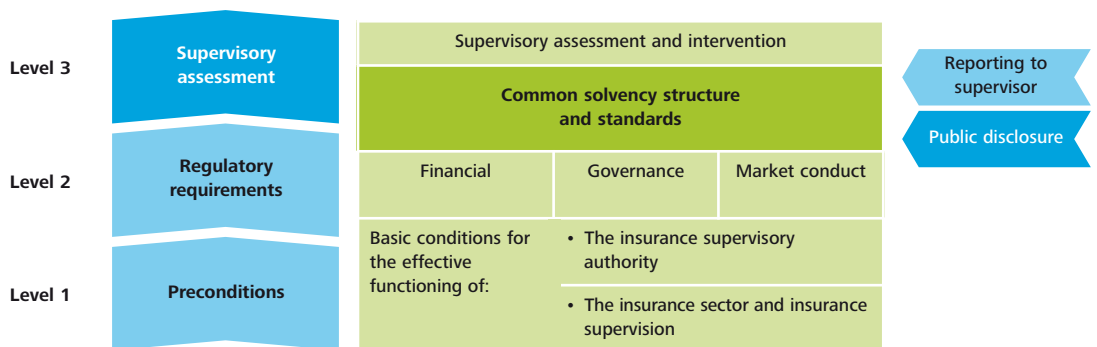
And while moves toward this level of regulatory cooperation for the entirety of the financial system are beginning to percolate in the U.S., throughout the European Union and elsewhere, a group of international regulators is in the midst of developing guidance papers and standards aimed at addressing insurance regulators and markets worldwide.

Since its formation in 1994, the International Association of Insurance Supervisors (IAIS) has worked at bringing the world’s insurance regulatory authorities together. Now, more than ever, the relevancy of the Basel, Switzerland based organization is reaching new heights as the group races against the clock to maximize its framework in meeting the challenges presented by recent current events.

With beginnings that can be traced to the early 1990s, when insurance regulators began noticing globalization taking hold of the insurance sector, the IAIS has grown into an organization that represents insurance supervisors of some 190 jurisdictions.²

IAIS develops common solvency structure and standards

The common solvency structure and standards and the role of disclosure within the IAIS Framework for Insurance Supervision.



¹ Special Report: *Consensus is growing on wisdom of having world finance "sheriff" Skeptics see self-interest among countries as hurdle Davos;* Carter Dougherty, The New York Times Media Group; January 27, 2009

With the current global economy as a backdrop, IAIS members have stepped up efforts to publish guidance on the valuation of assets and technical provisions which are to become part of a broad solvency assessment set of standards within the IAIS Framework for Insurance Supervision.

Source: IAIS

² IAIS, *About the IAIS* (www.iaisweb.org)

Though the IAIS has no legal teeth to demand compliance, and rather acts as a non-profit, educational organization, it proclaims itself to be “the international standard-setting body for prudential supervision of the insurance industry.”³

The standards it sets and the white papers it produces are taken seriously by regulatory authorities across the globe. The IAIS works closely with other high-level global standard setting groups, such as the G20,⁴ the Joint Forum, the Basel Committee on Banking Supervision, the International Insurance Society and the World Bank, among others.

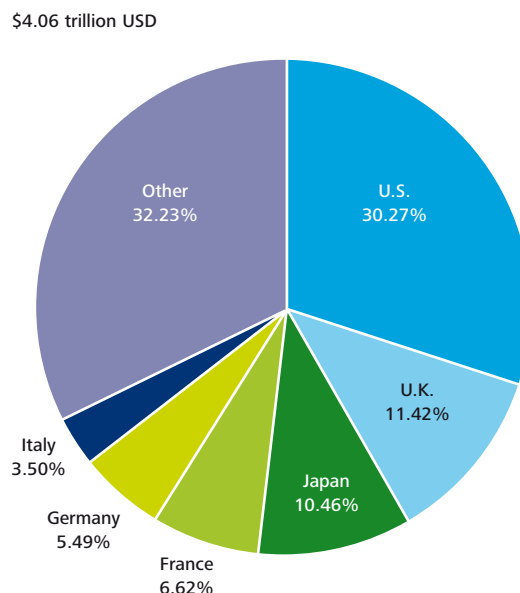
With the U.S. domiciled insurance companies becoming increasingly global in nature, the National Association of Insurance Commissioners has worked with the IAIS from the start, helping to frame initiatives and develop best practices. Presently, three U.S. insurance commissioners are voting members of the IAIS Executive Committee, including, Virginia Insurance Commissioner Al Gross; immediate past NAIC President and Kansas Insurance Commissioner Sandy Praeger and Virginia Insurance Commissioner Jane Cline. Mr. Gross is also chairman of the IAIS Technical Committee, which establishes global insurance regulatory and supervisory standards with its subcommittees. The NAIC also occupies a seat on a newly-formed task force which aims to explore future goals, including developing a supervisory framework for global insurance groups.

In addition to attracting nearly 200 member regulators, insurance companies have also taken note of the IAIS. Currently, the organization hosts more than 120 Observers, who represent insurance companies, insurance brokers, accounting firms and insurance industry trade groups and professional associations. Observers have no voting privileges but contribute much to the process by submitting comment, studies and other points of view that help to frame the language of draft standards and issue papers and IAIS publications.⁵

Indeed, with recent action taken on issues ranging from capital requirements and internal models, to mutual regulatory recognition and group-wide supervision, the IAIS is drawing the attention and active participation of proactive insurance companies worldwide. Meanwhile, leading insurers are keeping a close watch, knowing that by being at the table while policy is being developed, their chances of a fair and equitable treatment is increased.

The world’s insurance markets

International comparison of insurance markets, 2007
(Market share of premium volume in USD)



During a panel discussion at the recent IAIS conference, Tatsuo Yamasaki, Deputy Commissioner for International Affairs, Financial Services Agency, Japan, spoke of the challenges and benefits his country is realizing as the insurance market there continues to grow. Citing a report by Swiss Re, he noted that Japan places as the world’s third largest insurance market.

Estimation of total premium volume in Japan includes cooperative insurers in addition to private general insurers.

Source: The IAIS, as submitted at the 15th Annual IAIS Conference

3 IAIS Press Release: *IAIS supports G-20 Declaration*, April 8, 2009

4 Group of 20 global finance leaders

5 IAIS, *How to Join* (www.iaisweb.org)

Current action and initiatives

Today, with international leaders calling for increasing regulatory rapport among the world's financial services regulators, the timeliness of current IAIS initiatives is pivotal.

Coinciding with the G20 London summit in April 2009, the IAIS submitted to the global finance leaders a report of its most recent actions, which, in part, are listed here:⁶

- Enhancing group and cross sectoral supervision, with focus on internationally active insurance groups;
- Identifying regulatory gaps and areas in need of greater supervision by working with the Basel Committee on Banking Supervision and the Joint Forum's International Organization of Securities Commissions; and
- Incorporating lessons learned from the financial crisis into IAIS standards, with particular attention to solvency and investment, risk management and corporate governance.

These initiatives coincide with actions taken in late 2008, at the 15th Annual IAIS Conference meeting in Hungary, where the association adopted 10 supervisory papers, including six on solvency assessment, two on group-wide supervision, a guidance paper on mutual recognition of reinsurance supervision, and a guidance paper on the regulation and supervision of captive insurers.

In addition, striving toward the goal of increasing its efficiency and effectiveness in the current economic environment, the IAIS is also targeting regulatory coordination through the development of its Multilateral Memorandum of Understanding and its renewed commitment to work even harder at improving information exchange and cooperation among its members. Also in the works is a guidance paper on the use of supervisory colleges in group-wide supervision and a proposed Issues Paper on group-wide solvency assessment.

"The IAIS' standard setting activities will continue to evolve and take into account the lessons being learned from the current financial market crisis, thereby reinforcing insurance supervisory systems worldwide, strengthening markets and promoting policyholder protection," the IAIS declared at the close of its meeting in Budapest.⁷

Global insurance industry groups call for enhanced regulatory cooperation

At the IAIS 2008 Annual Meeting in Budapest, 15 insurance associations representing a vast majority of the global insurance market – including North America, Europe, Asia, Australia and South Africa – issued a joint statement suggesting a list of key principles international insurance supervisors should maintain as they move forward in fostering global regulatory cooperation. The areas listed for continued regulatory focus include:

- International insurance companies should be regulated with enhanced cooperation amongst supervisors and group-wide supervision.
- Supervisory authorities should strengthen their ability to cooperate in identifying emerging problems and in using their existing powers in an efficient and appropriate way to safeguard policyholders and beneficiaries.
- The insurance industry encourages the continuing trend toward risk-sensitive regulation.
- The level of prudential requirements should reflect the level of risk and diversification.
- The insurance industry believes that regulation should encourage competition.

The statement was endorsed by the: American Council of Life Insurers; Association of Bermuda Insurers & Reinsurers; Association of British Insurers; American Insurance Association; Association of Savings & Investment of South Africa; European Insurance and Reinsurance Federation; Canadian Life & Health Insurance Association; Dublin International Insurance & Management Association; General Insurance Association of Japan; Insurance Council of Australia; Korea Life Insurance Association; Property Casualty Insurers Association of America; Reinsurance Association of America; South African Insurance Association and the Association of Dutch Insurers.

6 IAIS Press Release: *IAIS supports G20 Declaration*, April 8, 2009

7 IAIS Press Release: *Insurance supervisors enhance coordination efforts and develop supervisory standards amid financial crisis* (www.IAIS2008.org)



This supra-national approach to regulation is not lost on organizations and standard-setters outside of the IAIS.

At a late November 2008 gathering at the White House, the G20 first unveiled a declaration that clearly calls for regulatory cooperation, including the creation of supervisory colleges and increased regulatory efforts to manage cross-border transactions.⁸ Specifically, the group declared:

- Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms. Major global banks should meet regularly with their supervisory college for comprehensive discussions of the firm's activities and assessment of the risks it faces.
- Regulators should take all necessary steps to strengthen cross-border crisis management arrangements, including cooperation and communication with each other and with appropriate authorities, and developing comprehensive contact lists and conducting simulation exercises, as appropriate.

A Conning Research report goes one step further, noting that the regulatory cooperation seen during times of economic challenge must become business as usual in an increasingly globalized society.⁹

"The credit crisis was a global event, and the central banks and regulators of the major economic countries consulted with each other to address the problem," the Conning report states. "With the globalization of the world's financial markets, there does not seem to be any alternative to the move toward global consistency."

⁸ *G20 declaration on financial crisis*: CNNMoney.com; November 15, 2008

⁹ *Upcoming Life Industry Regulatory and Accounting Changes; Implementing through ERM*: Conning Research & Consulting, Inc. 2008

Industry insight

On the topic of increased regulatory cooperation and transparency, insurance industry representatives, as with many global regulators, have also weighed in on IAIS' activities. Recognizing the broad need for globalized regulatory authority, a collection of more than 20 major global insurance company representatives who are IAIS Observers appeared before the organization's Executive Committee at the Annual Meeting in Budapest to pledge unanimous support of the organization and to stress that a common approach to the regulation of insurance companies is necessary at this time. Among those represented were the world's largest insurance trade associations who collectively represent companies that make up for the bulk of insured premiums globally.

"These are difficult market conditions, but the insurance industry stands ready to work with the supervisory authorities around these principles as we believe that the maintenance and strengthening of them is the best basis for protecting policyholders on an ongoing basis," one IAIS Observer told the *Financial Times* following the meeting.¹⁰

According to a recent issue of its *International Regulatory Update*,¹¹ Lloyd's said it supports the IAIS and its work in developing both international regulatory cooperation and global standards for insurance regulators. It also suggests that the regulatory framework of the European Union might be used as a model "in developing regulatory cooperation, based on common standards and supervisory collaboration."

Lloyd's also said in its report that it believes:

- International regulators should be supported and encouraged to develop approaches that enable them to rely on the supervision carried out by the 'home supervisor' of an insurer's place of domicile, avoiding onerous, duplicative processes that do not enhance consumer protection.
- Countries benefit from enabling strong, well regulated reinsurers like Lloyd's to establish in their markets, but also by ensuring such reinsurers are able to operate on a cross-border basis.

In addition to industry, ratings agencies have also been vocal about their desire for more uniformity on the global regulatory front.

In an early 2009 special report, A.M. Best, with offices in New Jersey, London and Hong Kong, laments that while it personally takes a global approach in reviewing insurance groups that span jurisdictional boundaries, such is not the way with international regulation.

"The considerable differences among solvency standards around the world pose difficulties in any attempt to harmonize regulatory practices and introduce global, consistent and efficient regulatory solvency standards," Best stated in its report.¹²

“Countries benefit from enabling strong, well regulated reinsurers like Lloyd's to establish in their markets, but also by ensuring such reinsurers are able to operate on a cross-border basis.”

Lloyd's of London



¹⁰ *Regulators need to identify market problems swiftly*; Sharon Flaherty, *Financial Times*; October 17, 2008

¹¹ *Lloyd's International Regulatory Update: Lloyd's International Trading Advice*; Autumn/Winter 2008

¹² *Financial Turmoil Poses Real-Life Stress Test for Solvency II Directive*; A.M. Best Research, 2009 Special Report; January 26, 2009

Global regulatory coordination: The current challenges

While, by and large, many international regulators have no argument with the concept of greater regulatory cooperation, cross border regulation has its challenges. Regardless of how meritorious the standards under development by the IAIS may be, there is no mechanism to compel any one jurisdiction to comply. As such, the effort of creating uniformity across countries is difficult. The nature of the smaller, domestic company versus firms that are cross-sectoral and multi-jurisdictional create additional issues and obstacles.

In the U.S., for example, creating uniformity across the state-based regulatory system has long been an issue, though much headway in this area has been made over the years through efforts of the NAIC. Taking that concept one step further by throwing global regulatory uniformity into the mix, the NAIC has little power to create binding agreements with other countries and so affords U.S. firms little leverage at the IAIS table.

Further, the concept of a one-size-fits-all insurance regulatory authority is made more difficult by the nature of complex multinational businesses, including large insurance groups that have ties to the banking sector. "The boundaries between the two sectors are increasingly blurring," said one IAIS official during the 2008 Annual Meeting. Conversely, some fear that smaller insurance companies might get lost in the mix if global standards come to the forefront.

Moving forward, international insurance regulators who are members of the IAIS believe that one good outcome of the current environment is that it has served to bring to light the need to move away from antiquated regulatory silos and toward increased coordination and cooperation between international regulatory authorities.

The U.S. Government Accountability Office (GAO) notes as much in its January 2009 report on modernization of financial regulation. As the U.S. Congress considers future regulatory models which might include a federal overlay to the existing state-based system of insurance regulation, lawmakers will likely consider the GAO report. While the study does not come out strongly for or against the federalization of insurance regulation, it does note throughout that the move toward global convergence of accounting and auditing standards and the increasingly global aspects of financial markets has created difficulties under the current regulatory regime.

Not only is it relevant to establish a single set of accounting and financial reporting standards, given the rapid integration of the world's capital markets, the GAO asserts, increasing globalization also calls for regulatory cooperation between countries.

"To effectively oversee large financial services firms that have operations in many countries, regulators from various countries must coordinate regulation and supervision of financial services across national borders and must communicate regularly," the report states. "Although financial regulators have effectively coordinated in a number of ways to accommodate some changes, the current fragmented regulatory structure has complicated some of these efforts."¹³

On this front in the U.S., the NAIC last year adopted its Solvency Modernization Initiative Work Plan which includes a charge to analyze financial supervisory modernization initiatives of other countries for the purposes of identifying best practices that might serve to enhance the current NAIC solvency system, such as with the European Union's proposed Solvency II system. The NAIC is also seeking to coordinate efforts with other global insurance supervisors in forming permanent supervisory colleges for sharing information and perspectives regarding solvency positions of large global insurance groups. In addition, the NAIC has forged regulatory cooperation memorandums of understanding with a growing list that includes Brazil, China, Egypt, Hong Kong, Iraq, Korea, Russia, Thailand, Vietnam, and the Association of Latin American Insurance Supervisors.

One of the more ambitious global initiatives to come out of the NAIC recently has been its agreement to alter U.S. regulatory treatment of reinsurance collateral. After many years of debate, the organization in 2008 voted to adopt its Reinsurance Regulatory Modernization Framework Proposal, which modernizes U.S. state-based regulation of reinsurance. Among other changes, the framework does away with the blanket requirement that non-admitted reinsurers post 100 percent collateral for their U.S. liabilities. The measure is now being framed to send to the U.S. Congress for consideration of enabling legislation which would allow the provision to be adopted uniformly across all U.S. jurisdictions, rather than by a state-by-state basis.



¹³ U.S. Government Accountability Office: *A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, January 2009 (www.gao.gov)

Moving forward

If the current market turmoil has served to highlight any need in the global financial system, international insurance regulators and insurance company representatives have stated very strongly that it is to increase regulatory cooperation across borders and to create uniformity and transparency across jurisdictional boundaries. Siloed regulation no longer works, many say.

With nearly 200 member regulators and more than 120 international Observers on board, the IAIS offers a platform upon which new regulatory frameworks, standards and thought leadership might develop and take root. In the near-term, the organization is on track to continue working with global financial standard-setting bodies as it tackles issues ranging from group supervision to the creation of supervisory colleges. Smart insurers are beginning to follow the lead of their peers who have rolled up their respective and collective sleeves to be at the table at the IAIS, offering comment and helping to frame initiatives as the organization rises to the call of a changing world and a challenging marketplace.

IAIS releases guidance papers, modified standards:

During its 15th Annual Meeting in Budapest, IAIS leaders adopted six guidance papers aimed at assisting global regulators in assessing the solvency of insurance companies. The group also modified three existing standards and issued two other papers. In announcing the release of the documents, immediate past IAIS Executive Committee Chairman Michel Flamee noted that current market conditions prove that now is the time for insurance supervisors globally to continue moving forward in the development of standards to strengthen markets for policyholders.

A summary here:

Standards

- Standard No. 2.1.1 on the structure of regulatory capital requirements.
- Standard No. 2.2.6 on ERM for capital adequacy and solvency purposes.
- Standard No. 2.2.7 on the use of Internal Models for regulatory capital purposes.

Guidance papers

- Guidance paper No. 2.1.1 on the structure of regulatory capital requirements.
- Guidance paper No. 2.2.5 on ERM for capital adequacy and solvency purposes.
- Guidance paper No. 2.2.6 on the use of Internal Models for regulatory capital purposes.
- Guidance paper No. 3.5 on the mutual recognition of reinsurance supervision.
- Guidance paper No. 3.6 on regulation and supervision of captive insurers.
- Guidance paper No. 3.7 on the role and responsibilities of a group-wide supervisor.

Other papers

- Principles No. 3.4 on Group-Wide Supervision.
- Summary of IAIS positions on the valuation of technical provisions, October 2007.

Source: IAIS

Deloitte member firm insurance sector contacts

Global insurance network

Joe Guastella
Global Insurance Leader
U.S.
+1 212 618 4287
jguastella@deloitte.com

Asia Pacific

Hitoshi Akimoto
Japan
+81 3 4218 4858
hakimoto@deloitte.com

Terry Mezger
China
+852 2238 7264
tmezger@deloitte.com.hk

EMEA

Mark Fitzpatrick
U.K.
+44 20 7303 5167
mfitzpatrick@deloitte.co.uk

Fabien Sauvage
France
+33 1 55 61 41 63
fsauvage@deloitte.fr

Peter Wright
Central Europe
+420 246 042 888
pewright@deloitte.com

Latin America

Gustavo Bohórquez
Mexico
+52 55 50806201
gbohorquez@deloittemex.com

Carlos Srulevich
Argentina
+54 11 43202734
csrulevich@deloitte.com

North America

Rebecca Amoroso
U.S.
+1 973 602 5385
ramoroso@deloitte.com

John Johnston
Bermuda
+441 292 1500
jojohnston@deloitte.com

Todd Roberts
Canada
+1 416 601 5709
toroberts@deloitte.ca

Global Actuarial and Insurance Solutions

Mike McLaughlin
U.S.
+1 312 486 4466
mikemclaughlin@deloitte.com

Regulatory

Howard Mills
U.S.
+1 212 436 6752
howmills@deloitte.com

Senior Editor

Eleanor Barrett
U.S.
+1 212 436 2954
elbarrett@deloitte.com



Disclaimer

The information contained herein is provided by Deloitte Touche Tohmatsu and is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s).

Accordingly, the information is not intended to constitute accounting, tax, legal, investment, consulting or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

The information contained herein is provided as is, and Deloitte Touche Tohmatsu makes no express or implied representations or warranties regarding the information contained herein. Without limiting the foregoing, Deloitte Touche Tohmatsu does not warrant that the information contained herein will be error-free or will meet any particular criteria of performance or quality. Deloitte Touche Tohmatsu expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, noninfringement, compatibility, security, and accuracy.

Your use of the information contained herein is at your own risk and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Touche Tohmatsu will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of the information contained herein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organisation of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 140 countries. With access to the deep intellectual capital of approximately 135,000 people worldwide, Deloitte delivers services in four professional areas – audit, tax, consulting and financial advisory services – and serves more than 80 percent of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names.

©2009 Deloitte Touche Tohmatsu. All rights reserved

Item #9070

Designed and produced by The Creative Studio at Deloitte, London. 30250