INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Remarks of Felix Hufeld
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Thank you, Kevin, for that kind introduction and good morning ladies and gentlemen. Thank you also to the NAIC for the invitation and opportunity to speak to you this morning in my role as Chair of the IAIS Executive Committee. I am glad that I can be with you today to discuss some of the important initiatives we are pursuing at the IAIS, initiatives that tie in quite appropriately with the theme of this Forum.

As I said, I am here today in my role as Chair of the IAIS Executive Committee. It is in this role and on behalf of the IAIS that I wish to first thank the NAIC and its members for their countless contributions to the IAIS and its mission – our joint mission really – of effective and globally consistent supervision. I have been able to witness first-hand over the last couple of years the professionalism, dedication and passion with which the NAIC and its members participate in the IAIS, and for this I am most grateful.

In addition to its current contributions, the NAIC and its members also deserve many thanks for their significant role in creating the IAIS. Yes, you did it! It's your own fault! As some of you may know, it was almost 21 years ago to the day that the inaugural meeting of the IAIS was held just down the road in Baltimore, Maryland. The road to that meeting, however, began many years earlier.

It was in the early 1980s that "alien" supervisors began to attend the NAIC Summer Meetings. Before long, the NAIC was holding regular International Conferences of Insurance Regulatory Officials and by 1990 a Working Group was formed to explore the idea of creating an international association akin to the Basel Committee and IOSCO. In 1992, again at a NAIC meeting, it was formally agreed to create the IAIS.

In the time leading up to this decision, a memorandum had been prepared around the questions of whether and why to create our Association that was shared with the world's insurance supervisors. In this memorandum, it was suggested to establish "a formal, but embryotic" Association as such would provide "the basis for evolutionary growth and development." In support of this suggestion, three reasons were set forth, reasons which are just as important and relevant today as they were then.

First, it was recognised that insurance industries and markets are of fundamental economic and social importance, nationally and internationally. This is of course still true as insurance provides stability and security on many different levels. It provides economic stability following catastrophic events and personal security against unexpected losses and, in so doing, allows opportunities for economic investment and financial growth. Its products provide individuals with a means to plan for the future and its firms contribute to the global markets as one of the larger long-term institutional investors in the world. Insurance is inextricably linked to nearly everything we do and everywhere we go.

The business of insurance is also fundamentally important on both a national and international scale. Now, there is a popular American saying – quite appropriate to use in this city – that all politics is local, and the same can of course be said about insurance. But, like politics, insurance is not only local. I will come back to this point later, but for now let me just stress that it was this recognition that insurance supervision is economically and socially significant on both a national and international level that led to the inescapable conclusion that it was necessary to create a body such as the IAIS.

In the memorandum, it was also recognised that most domestic insurance markets were increasingly being integrated into the global market. I think you will all agree that, simply speaking, the insurance marketplace in which we all operate is more global today than it was 21 years ago and that it will continue to grow more global.

Finally, the memorandum highlighted the concern that development of insurance markets at domestic and international levels be guided by a constant concern for policyholder protection and for orderly and efficient operations. This constant concern is of course still the driving force behind all our actions for as insurance supervisors the core of our mission is to maintain safe and stable insurance markets for the benefit and protection of our primary constituent – the policyholder. This constant concern for policyholder protection is also fittingly the first of the IAIS' two main stated missions, the second one being contributing to global financial stability.

So, you might ask, what does this all mean? Well, I think that this little look back in time shows a few things. It demonstrates that the old saying "the more things change the more they stay the same" has definite application to insurance supervision. It shows that while markets and business models may have changed over the years a supervisor's primary concern of policyholder protection has not, nor should it, change. And it shows that the NAIC's foresight almost 25 years ago to help create an IAIS capable of "evolutionary growth and development" was certainly the right decision.

Now, a lot has happened in the last 25 years. Since its establishment, the IAIS has grown and matured substantially. Without losing our initial focus on supervisory cooperation and information exchange, we are now developing standards on group supervision, helping to identify systemically important insurers and assessing our Members against our standards, to name but a few activities. IAIS today is *the* recognized global voice of insurance regulation within the financial and regulatory world and community.

Over this same time, the insurance market in which we operate has been described by many as becoming more "global" or more "globalised." The numbers show some startling trends. According to figures from SwissRe, in 2006 nearly 75% of the global insurance market was held by two regions – North America and Europe. By 2013 those same two regions held around 65% of the world market share.

Unsurprisingly, the regions that gained the most ground over this period are Latin America and Asia. The result of these trends is also not surprising. As growth within established markets remained weak large insurers have increasingly looked to emerging markets to fuel growth. This can of course occur through the establishment or growth of existing operations or through acquisition, but in either case often results in the increased globalisation and consolidation of the industry, as well as increased risk transfer between regions.

So the numbers show that, at least by certain metrics, the insurance marketplace is becoming more global. I mentioned earlier, however, that, like politics, insurance is local. So, which is it? The answer, I believe, is both.

The business of insurance is increasingly becoming global but it still is, and will always remain, local as well. It is, if you will, “multi-local” due to the variations between business types, firms and a myriad of other factors. For example, a mutual company writing only personal lines insurance is likely to know one reality – a local one – as compared to a large reinsurer with an entirely different reality – a global one. And these are multinational companies comprising of thousands of subsidiaries which may act very local but – at the same time – are embedded in complex international structures with all implications going along with it.

The question that follows is what does this mean and how do we react as supervisors to these trends and realities. The answer, thankfully, is quite simple and fits squarely within the mission of the IAIS. As the insurance sector grows more global our supervisory focus must follow this trend and continue to expand globally as well. We must keep up by tailoring our supervisory methods to deal with these large, complex and international firms, while not forgetting that there will always exist firms at the other end of the spectrum.

So the question ‘legal entity vs. group – what counts?’ is more like shadow boxing which is just another way of saying it’s an irrelevant question. Both perspectives are equally important. As a rule of thumb: The more we apply a going concern perspective based on regular supervision, the more the group perspective counts. The more we move towards crisis or gone concern or consumer protection matters the more the legal entity perspective comes into play.

These trends and realities have not been lost at the IAIS. We have for some time increased our focus on continuing to improve group supervision. In fact, as the global insurance marketplace continues to grow more complex and interconnected, we feel it is critical that cooperation and coordination among supervisors continue to improve, such as through the use of supervisory colleges and supported by the IAIS Multilateral Memorandum of Understanding, or MMoU. I am glad to note that membership in the MMoU, including 11 U.S. states from California to Virginia, has surpassed 50 jurisdictions, who collectively represent almost 65% of worldwide premium volume.

I am also glad to recognise the actions that have been taken in the US to enhance group-wide supervision, such as recent revisions to the *Insurance Holding Company Model Act and Regulation (Full title: Insurance Holding Company System Regulatory Act and Model Regulation)*, expansions to the Holding Company Annual Registration Statement (Full title: Insurance Holding Company System Annual Registration Statement), the new Form F Enterprise Risk Report and adoption of an ORSA Guidance Manual, to name just a few.

With this expanded focus, the increasing participation by state regulators in international supervisory colleges, and your on-going discussions about the powers of a lead supervisor all contribute to bringing supervisors around the world closer together in addressing the challenges of regulating global insurance activities.

There are, in fact, many aspects of the US regulatory system that could be, and are, used as an example of how a regulatory system should operate. Your national data collection and analysis and your focus on policyholder protection are second to none; in fact, you have some powers that are greater than many of your global counterparts, such as the ability to review and, if necessary, disapprove certain dividends before they are paid.

In this vein, I think it is important to recognise that a diversity in approaches to supervision is not only to be expected but completely acceptable, within certain limits. For example, after long debate on the issue of direct versus indirect supervisory powers over holding companies, the IAIS decided that direct powers are necessary for proper supervision of IAIGs and G-SIIs; however, the flexibility allowed in the ICPs, where either approach is allowed as long as the outcome is similar, would continue to be accepted. This decision appropriately recognises and allows diversity in general supervisory approaches while tailoring a more specific approach required for a subset of insurers – IAIGs.

Of course, one of our main initiatives over the last several years has been the development of a ComFrame, which is a set of international supervisory requirements focusing on the effective group-wide supervision of IAIGs.

Included within ComFrame is one of the most significant initiatives the IAIS is pursuing, or perhaps has ever pursued – the first-ever global, risk-based insurance capital standard, or ICS.

Together with a set of qualitative measures under ComFrame, the ICS is a consolidated group-wide standard with a globally comparable risk-based measure of capital adequacy. The ICS, once adopted, will apply to all IAIGs, which include the G-SIIs. The ICS will provide an additional metric for supervisory college members to analyse when reviewing the financial strength of IAIGs.

Our goal is to develop a first version, call it release 1.0, of the ICS by end-2016 for the purpose of field testing and confidential reporting, which will occur through end-2018 when the next version of the ICS, perhaps ICS release 2.0, is adopted within ComFrame by our Members, who will begin implementation in 2019.

In order to avoid regulatory arbitrage, our ultimate goal is to develop, by a date not yet-determined, a single ICS that will include a common methodology by which it will achieve comparable, meaning substantially the same, outcomes across jurisdictions. Our ongoing work is intended to lead to improved convergence over time on the key elements of the ICS, which include valuation, capital resources and capital requirements.

We recognise that there are significant challenges that must be overcome before we can reach our ultimate goal, but I want to stress that we are only in the first part of a long process towards this goal. I should also point out that, believe it or not, there has been much praise and recognition of the need for a global approach to solvency and in particular also to capital from the insurance industry. This should come as no surprise given the increased global nature of our industry and the need for home and host supervisors of large, internationally active insurers to have a common basis on which to evaluate and supervise these firms.

There has of course also been some trepidation, with assertions that our current patchwork of regional and local capital standards is not "broken" and therefore not in need of being "fixed." It is true after all, as many point out, that insurers weathered the financial crisis well and that a long list of failures of large, international insurers does not exist. I am also personally a fan of the general concept that "if it's not broken, don't fix it." However, this argument in regard to the ICS fails to recognise two key points.

The first is context. A key lesson learned from the financial crisis is that to be effective supervision needs to be forward looking. In the context of financial regulation of internationally active insurers, it is our responsibility to practice proactive, not reactive, supervision in order to prevent the problems that are likely to occur. We simply cannot wait for a crisis before we – both supervisors and industry – take action. "Let's just wait and see" is certainly not an appropriate strategy to achieve policyholder protection, sound insurance markets and a stable financial system.

The second point is the principle of proportionality which – by definition – works both ways: less for smaller, more local risks, more for larger, more complex risks. One of the key drivers of the post-crisis reforms is the promotion and protection of global financial stability. For some time now, the IAIS has stated that it considers a sound capital and supervisory framework for the insurance sector more broadly to be essential for supporting financial stability and protecting policyholders, and this is one of the key reasons we committed to develop the ICS as part of ComFrame, which as you know is directed at IAIGs. By focusing these efforts on the largest, most interconnected and globally active groups we are seeking a proportionate response to potential global problems.

I believe this is the right approach, for as business operations grow and get more and more interlinked globally, a pure jurisdiction-by-jurisdiction approach to the supervision of large, internationally active groups is no longer sufficient. In other words: it is not enough to simply focus on the country-level in dealing with highly complex international insurance groups and highly interconnected insurance markets.

We also often hear cries that “bank-centric” approaches must not be applied to the insurance industry. I agree completely. It is no secret that banks and insurers are different in numerous, fundamental ways from their business models and balance sheet structures to the different ways they approach capital, investments and consumers. As someone whose day job is at a consolidated supervisor with authority over banks, insurers and securities and financial markets I understand this quite well.

Let me assure you that as I and my colleagues from BaFin and many other jurisdictions including – of course – the US work with our IAIS colleagues to develop the ICS we are seeking to create an insurance-specific standard. I have a strong feeling that the US representatives at the IAIS are seeking the same and that, in fact, every IAIS Member who is devoting significant resources and staff towards this goal has in mind an insurance-specific, not a bank-specific, standard. And that was indeed the objective of the IAIS when it decided to develop the ICS for the insurance sector.

Our aim, however, is not simply to advance a lowest common denominator. Nor is it to merely put in place on a global scale any standards currently employed by a single jurisdiction or region. Rather, our goal is to design standards that are necessary to address the issues we face as supervisors of local, international and global businesses.

That the ICS has a clear value cannot be denied, not even in front of the Senate Banking Committee last month. There, so I heard, it was entirely accepted that the ICS indeed has a value for the US as well, especially if it is “tailored” to the US regulatory system and if it supplements and wraps around existing legal entity standards. This is great and completely understandable. The only problem is: my friends back home in Europe think exactly the same. Here we are again. But on a more serious note, let me remind everyone that the ICS is not intended as a legal entity requirement but rather a minimum standard for IAIGs to be implemented taking into account the specific market circumstances in a particular jurisdiction.

More fundamentally, I think we all need to accept that implementation will certainly require some change in all supervisory regimes, including in the EU where we are going through the steps to fully implement Solvency II after almost 15 years of development. But, just like US RBC or the Swiss Solvency Test or any other domestic capital framework, Solvency II is not a static structure and therefore, like other existing standards, will certainly need to be amended to reflect the ICS. I am most grateful to Gabriel Bernardino, Chairman EIOPA, who also made this statement only a few days ago on occasion of a FSM conference. So, if he as the most senior insurance regulator in the EU can make such a statement, you can do it as well.

I ask everyone to continue to work with the IAIS so we can together create the best standards designed by the insurance sector for the insurance sector. And I stress the ‘we’: the more united we are the more likely it is that *insurance* regulators set the standards.

Before I conclude, I want to briefly discuss a topic of great interest to many of you – the recent reforms that have taken place at the IAIS and specifically the new IAIS Policy for Consultation of Stakeholders. I will start by stressing something I hope you have heard many times already and that is worth repeating, that is that the IAIS has benefitted greatly over the years from the contributions of interested observers and that we are committed to continuing to inform and seek input from all interested stakeholders in as structured, effective and efficient a manner as possible. The reform of IAIS was key and of paramount importance for two very simple but very basic reasons: 1) a regulatory body can’t be financed by the constituency it regulates, 2) the interaction with stakeholders needs to be intense, transparent and a real dialogue but *not* symbiotic.

To demonstrate this commitment, we issued new policies and procedures this January that outline the many new ways in which we will constructively engage with stakeholders. Many of you have already participated in one of the several day-long capital-related stakeholder dialogues we have held around the world, or perhaps the governance or groups-related dialogues recently held here in D.C. We will also be holding public background calls upon the launch of several public consultations later this year, and will hold similar conference calls to discuss the comments we receive.

Individually and collectively, the commitments set forth in our new policy are designed to make the IAIS more transparent and more inclusive to our entire stakeholder community, while ensuring that our policymaking is adequately informed.

I hope you continue to take advantage of the opportunities to learn about and contribute to the IAIS’ development of supervisory and supporting material and to IAIS’ work in general, and I hope to see many of you next month in Macau for our two-day Global Seminar and stakeholder meetings. I can full-heartedly assure you: the IAIS needs the NAIC and you personally. I count on your continued and dedicated support.

Ladies and gentlemen, thank you for your attention and for your interest in and commitment to the IAIS, and I would be glad (time permitting) to take some questions.