

Report on the summer session and annual seminar of the International Association of Insurance Supervisors (IAIS) held in Budapest*

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The International Association of Insurance Supervisors (hereinafter: IAIS) held the summer session of its committees and its 9th annual Global Seminar in Budapest on 13-17 June, 2016, hosted by the Magyar Nemzeti Bank. Close to 300 people attended the events of the week, including high-ranking supervisory officials, representatives of large insurance groups and international professional organisations.

Established in 1994, the IAIS is an organisation of insurance regulators and supervisors from more than 200 jurisdictions in almost 140 countries. Its membership covers 97 per cent of the premium income of the world. Its seat is in Basel. Hungary is one of the founding members. The main objective of the IAIS is to promote the effective and globally consistent supervision of the insurance sector, in order to maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability.

In order to achieve its objectives, among others, it develops principles, standards and guidelines for the supervision of insurance markets, and promotes the implementation and practical application of principles and standards. For the purpose of the latter, it elaborates methodologies to assess the observance of principles and standards, and promotes evaluation processes; encourages cooperation between insurance and other supervisors, facilitates mutual assistance, education and training, as well as the exchange of supervisory information in the field of insurance supervision; points out the common interests of the supervisors of insurance and other financial areas, and identifies potential risks affecting insurance supervision.

The operation of the organisation is led by the *Executive Committee (ExCo)*, whose membership comprises the representatives of individual geographical regions according to certain quotas. Europe has altogether 6 places in the ExCo: Western Europe and Eastern and Central Europe have 5 and 1, respectively. The Hungarian supervisory authority represented the region in the ExCo on two occasions, for several cycles.¹ The ExCo leads the committee system of the organisation. The

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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¹ In respect of the ExCo membership and the chair and vice-chair functions of the committees, a cycle means 2 years.

standard-setting and implementation-promoting work is performed by the *Financial Stability and Technical Committee (FSTC)* and by the *Implementation Committee (IC)*, respectively, as well as by the working groups and task forces organised under them. The MNB actively participates in the work of the IC and the FSTC and has been a member in both since their establishment.

As a general practice, the IAIS usually has three sessions of committee meetings in a year, while lately it held four. In the history of the association, the insurance supervisors of the world had two meetings in Budapest: the spring session in 2004 and the autumn session and the annual conference in 2008 were hosted by the supervisory authority at that time.

The summer session of 2016, held in the Corinthia Hotel Budapest, was hosted by the Magyar Nemzeti Bank. During the series of events lasting a whole week, the committees held their meetings from 13 to 15 June, and on 16-17 June, the “Global Seminar” and in parallel with the second day of the seminar, the Field Testing Volunteers Workshop took place. Close to 300 people attended the week’s events: along with supervisory officials (including Zhou Yanli, the vice president of the Chinese insurance supervision, Gabriel Bernardino, the chairman of EIOPA, and several members of the Board of Supervisors of EIOPA, etc.) and experts, the representatives of large insurance groups (AIG, Allianz AG, Aviva PLC, Metlife, Prudential PLC, Swiss RE, etc.) as well as international professional organisations and associations (e.g. The Geneva Association, Toronto Centre, World Federation of Insurance Intermediaries etc.) attended.

During the three days of the session of the committee meetings, the four main committees – in time sequence, the Implementation Committee (IC), the Financial Stability and Technical Committee (FSTC), the Executive Committee (ExCo) and the Budget Committee – as well as the Signatories Working Group, Joint G-SII Methodology and NTNI Task Force and Audit and Risk Committee met. Thanks to the active participation of the members, several detailed professional discussions took place at the committees’ meetings and a number of important decisions were made. As a new milestone in the standard-setting work, the FSTC accepted the improved draft of the first version of the insurance capital standard (ICS 1.0) at its meeting in Budapest, and as an important step in the development process which has lasted several years, the IAIS issued it for a second public consultation on 19 July. The ICS 1.0 concentrates on a standard method, but considers other methods of the ICS capital requirement calculation as well, which will be dealt with by version 2.0. The consultation material contains 230 questions, and any comments on such may be submitted until 19 October.

The FSTC approved the Application Paper on Approaches to Supervising the Conduct of Intermediaries as well, and with the approval of the ExCo, this was also issued

for public consultation soon after the meeting. In this document, the IAIS covers the key role played by insurance intermediation, the related consumer protection expectations, describes the types of intermediaries, the various approaches to the supervision of intermediaries, and the supervisory requirements that promote the good conduct of business.

In the course of the *Global Seminar*, which was held for the ninth time, in addition to the members of the IAIS, the representatives of large insurance companies and insurance associations received comprehensive information on the standard-setting work of the IAIS. They also had the chance to exchange views on some of the current issues in the sector. On behalf of the host, the seminar was opened by Koppány Nagy, director of the Directorate Insurance, Pension Funds and Intermediaries Supervision of the MNB. The presenters and the participants of panel discussions included supervisory officials, as well as the representatives of some large international insurance companies and professional supporting (Access to Insurance = A2ii) and academic associations (The Geneva Association). The seminar was video recorded and will soon be accessible on the website of the IAIS. More than half of the participants came from the stakeholder sector.

In the programme of the seminar, one of the panels that attracted most interest presented *the present status of the development of global capital standards and the insurance capital standard (ICS)*. In 2013, the IAIS drew attention to the fact that – for the promotion of financial stability and protection of policyholders – it is essential to set up a stable capital and supervisory framework for the insurance sector. In this light, the development of a risk-based global insurance capital standard (ICS) was initiated, and its first version is expected to be approved in mid-2017. The planned deadline of the second version is the end of 2019. ICS is part of the ComFrame,² which also includes the BCR (Basic Capital Requirement) and HLA (Higher Loss Absorbency) requirements accepted in 2014 and 2015, respectively, and approved by the Financial Stability Board. Testing of the elements of the capital standard is a key part of the work described in this panel, and it is carried out with the voluntary participation of large insurance groups – the Field Testing Volunteers Workshop organised in parallel with the second day of the seminar was related to that.

In the panel *G-SIIs: Assessment and Designation Process*, supervisory officials from Germany, Singapore and the US presented and discussed with the managers of the

² In the course of the insurance supervision standard-setting activities, the IAIS developed several generations of the *Insurance Core Principles (ICPs)*. The presently valid ICPs identify the global requirements with respect to insurance supervisors. Following the identification of the requirements of the supervision of individual institutions, the IAIS standard-setting activity has reached a higher level. The standard-setting activity is definitely of group approach: it concentrates on the framework of the supervision of internationally active insurance groups (Common Framework for the Supervision of Internationally Active Insurance Groups = ComFrame (for IAIGs)), and within that, it pays special attention to the supervision of the Global Systemically Important Insurers (G-SIIs).

AXA group and Metlife the process of assessing and designating global systematically important insurers, the role played by IAIS in this process, the results of the latest review of the assessment methodology, and other critical issues such as non-traditional and non-insurance activities. The discussion covered the quantification of risk management tools and other factors that can reduce systemic risk, and can contribute to systemic risk, respectively.

Within the frame of the already traditional *ExCo Dialogue*, stakeholders expressed their opinions on the IAIS priorities in three main subjects: financial stability and recovery/resolution, standard-setting and implementation, IAIS operation and the involvement of stakeholders. Stakeholders agreed with the work carried out by the IAIS in these areas and appreciated that they had a chance to exchange views with ExCo in the course of ExCo dialogues held several times a year back-to-back the committee meetings. At the same time, they mentioned that they would wish to express their opinion already at an early stage of standard-setting, not only in the public consultations.

The participants of the panel *Assessment of Insurance Core Principles (ICPs) as the First Step* found that assessment was a critical step in the improvement of supervisory practices, through the successful implementation of insurance principles. They drew attention to the key findings and lessons learnt from the thematic peer reviews carried out so far by the IAIS, and pointed out the importance of assessment in defining the steps to be taken for implementing and understanding the principles.

The discussion held in the *Cyber Risk and Cyber Insurance* panel presented the market of cyber insurance, highlighted the nature and diversity of related risks, and explained that the Financial Crime Task Force was working on a summarising fact-finding material on this subject.

In the panel dealing with the *issues in conduct of business supervision*, supervisory officials from the US, Canada, Africa and Europe exchanged views on how market conduct supervisors reacted to the new types of risks.

Within the frame of the *Distinguished Fellows Roundtable*, experts who had done considerable work for the IAIS in the past and already left the supervisory area, and were recognised as Distinguished Fellows, exchanged views on the activities of the IAIS. The participants of the discussion included Monica Mächler, the former vice-chair of the board of directors of the Swiss Financial Market Supervisory Authority, who had launched the ComFrame project. The members of the panel look at the standard development work, they contributed to actively earlier, from a certain distance already, and thus both their appreciation and their critical comments were objective enough and therefore extremely useful for further work.

In parallel with the second day of the seminar, the *workshop* to test the *insurance capital standard* (ICS) to be applied for the internationally active insurance groups was organised. The workshop was strictly exclusive, as only the insurance groups that volunteered for the testing were allowed to attend.

Both the representatives of the IAIS, and the participants greatly appreciated the Hungarian hospitality and organisation, and everything offered by the MNB as a host. The deputy secretary general said that Hungary set high standards for the organisers of the next session, and the secretary general expressed his appreciation in his thank-you letter sent after the event. In addition to its primary objective, the event also contributed to building a positive picture of Hungary.