

## IIS Seminar: Regulators, Insurers Seek Common Ground on Reform

Insurers and regulators around the world can agree that harmonized standards are a good thing in theory, but caution will be needed as regulators step up their reform efforts following the financial crisis of 2008.

"The insurance industry is putting a great deal of effort into explaining that it's not a systemic risk like banks," said Julie Dickson, superintendent of Canada's Office of Financial Institutions.

While Dickson acknowledged that insurers were largely unaffected by the financial crisis, they must not be complacent about future risks. American International Group Inc.'s disastrous dealings with noninsurance products are a case in point, she said in a keynote address at the International Insurance Society's annual seminar in Toronto.

Dickson said she is concerned about the lack of global standards on insurance supervision, regulation and accounting standards -- all of which are now getting plenty of attention from regulators, standard-setters and the industry itself.

Dirk Kempthorne, president and chief executive of the American Council of Life Insurers, told BestWire the efforts of regulators worldwide to reform their insurance rules and harmonize them with each other need to be approached with caution and with the active participation of insurance groups.

"They must allow for an appropriate response from the industry," he said. "There must be an additional thought and an appropriate response from the industry before something becomes permanent. I think that in the wake of the financial crisis this is an opportunity for reform but not revolution."

Kempthorne noted the ACLI's counterparts worldwide worked effectively in voicing the industry's concerns with recent moves by the governments of Brazil and Argentina to restrict international participation in their reinsurance markets. "With Brazil, we communicated that [with] their upcoming hosting of the World Cup and Olympics, international insurance participation is crucial. They just don't have the local capacity," he said.

Stephen Catlin, CEO of Catlin Group Ltd., said he believes harmonized supervision would be a positive thing for the industry, but he is also concerned that a rush to reform will lead to unforeseen problems.

According to Frank Swedlove, president of the Canadian Life and Health Insurance Association, the Canadian insurance industry's relationship with its regulators is strong.

"It is natural after a financial crisis for regulators to look at new and different approaches to regulation, and we support that," he told BestWire. "However, we also share the concerns of the other insurance companies around the world that over-regulation and excessive capital requirements would have a negative impact on the availability and affordability of products for consumers."

Dickson said she is worried about the lack of standards for judging capital adequacy, and sees the European Union's pending adoption of Solvency II as a promising step. "That represents a significant improvement and we're pleased with it, but not all countries are buying in," she said.

Another concern of Dickson's is regulatory arbitrage, through which one entity of an insurance group will transfer some risks to a related entity domiciled in a less strict domicile regarding capital adequacy. "We don't condone this, and it would be better if the convergence of regulations would help with this," she said.

Dickson also wants to see harmonization among accounting standards and for supervision of group insurers.

She said she is sympathetic with the argument of the industry that insurers don't represent a systemic risk the way international banks do, but pointed out that AIG was felled by noninsurance business and the sheer size of its insurance presence posed a threat.

"All major international insurers offer nontraditional financial products," which can pose unforeseen risks, she said.

Listen to the entire interview with Stephen Catlin at <http://www.ambest.com/media/media.asp?RC=189005> (Published: BestWire - 06/21/2011).

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