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IAIS update: 2017 annual conference

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IAIS forges path ahead on important issues

KUALA LUMPUR, MALAYSIA—At the confluence of the Klang and Gombak rivers in Malaysia lies that Southeast Asian country's modern capital, Kuala Lumpur. There, the Bank Negara Malaysia, the central bank of Malaysia, recently hosted the 24th Annual Conference and General Meeting of the International Association of Insurance Supervisors (IAIS).

Kuala Lumpur is actually named after that meeting place of the two rivers. The city's name translates to "muddy confluence." That might have seemed particularly apropos to the record number of attendees at this IAIS meeting, given what some saw as the lack of clarity surrounding the IAIS's premier project, the Insurance Capital Standards (ICS), and partly due to the turbulence surrounding the US and European relationship. Each side has held strong views on the ICS.

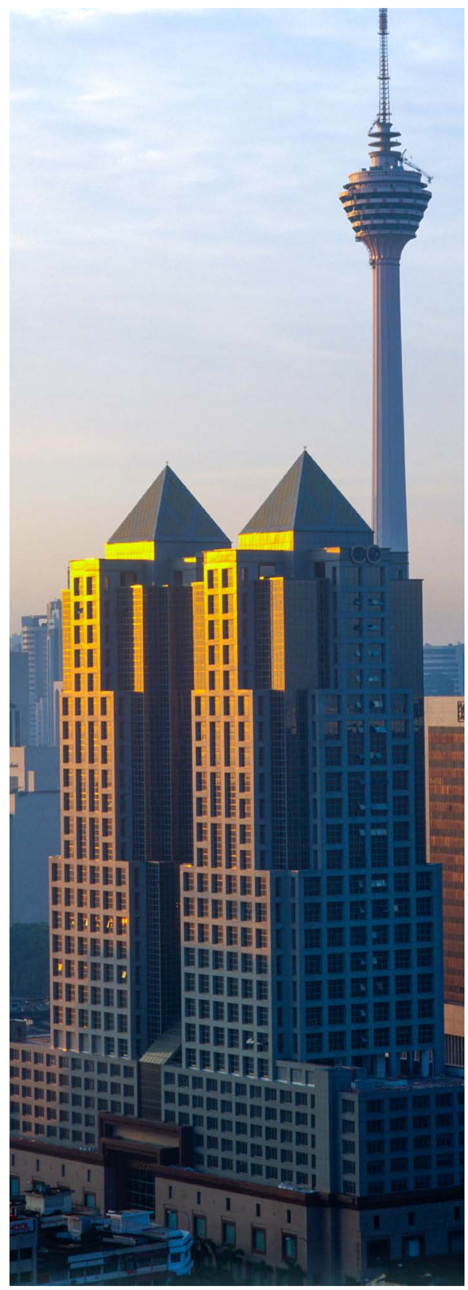
That was particularly evident in the stakeholders meeting on the ICS that preceded the formal opening of the IAIS event, when a number of speakers, including some US stakeholders, called for a delay in or even a halt to the process of ICS creation. A day later, the IAIS Executive Committee (ExCo) announced a soft launch rather than a hard launch of ICS version 2.0.

The IAIS has gained increasing relevance in the years since the 2008 fiscal crisis. The official standard setter of insurance regulation worldwide, the IAIS has been tasked by the G-20's Financial Stability Board (FSB) with monitoring and mitigating systemic risk in the insurance sector, including recommending the designation of certain insurers as Global Systemically Important Insurers (G-SIIs).

Additionally, the Insurance Core Principles (ICPs) created by the IAIS set the standards for regulating insurers worldwide and are used by the International Monetary Fund (IMF) in its Financial Sector Assessment Program (FSAP). The IMF describes the FSAP as "a comprehensive and in-depth assessment of a country's financial sector. The FSAP analyzes the resilience of a country's financial sector, the quality of its regulatory and supervisory framework, and its capacity to manage and resolve financial crises."[1]

In other areas, the IAIS continued previously announced work, including the adoption of some revised ICPs and work on an activity-based approach to the management of systemic risk that may complement or ultimately replace the current entity-based approach to systemic risk management. But if there was continuity, there was also transition. This was the last conference presided over by longtime IAIS Secretary-General Yoshi Kawai. Kawai, who had served the IAIS for almost 20 years, stepped down at the end of the conference to be replaced by new Secretary-General Jonathan Dixon of South Africa.

In comments posted after the conference, Dixon said, "This has been an exceptional week of accomplishments, from key agreements on group capital standards ... to approval of revisions of Insurance Core Principles."[2]



Some stakeholders call for delay, revision to ICS

What if you asked for opinions and got no feedback? For a brief moment, it seemed like that might be the case at the stakeholder meeting on ICS v 1.0 for extended field testing at the IAIS meeting. But the IAIS presenting panel—including Peter Windsor, Danita Pattemore, Paolo Cadoni, and its newest member Sanders Shaffer of the Boston Federal Reserve Bank, the new vice chair of the Solvency Working Group—ended up getting a clear idea of where stakeholders stood on the issue.

Many stakeholders argued for a pause in the ICS implementation process, urging the IAIS to listen to and incorporate feedback in order to come up with a process that would be widely and easily implemented. Among the ideas with wide support were a delay or a soft launch for ICS version 2.0, the inclusion of internal models, and some deference to local differences. Concerns were expressed about the possible anticompetitive effects on Internationally Active Insurance Groups (IAIGs), and the lack of an accepted definition of comparability.

The IAIS has said that it is developing the ICS to "create a common language for supervisory discussions of group solvency to enhance global convergence among group capital standards."

The Geneva Association (GA) and the Institute for International Finance (IIF) made a joint presentation in which they reiterated support for a well-designed ICS that would be the basis for a comprehensive framework for supervision of global groups. The groups spoke in favor of an ICS that interacted with local regimes. The speakers called for the IAIS to listen and make changes to the current ICS design as appropriate.

"An ICS that meets stakeholder concerns is not achievable in the current timeframe," they said, adding that while progress had been made on a range of technical issues, it was not enough to indicate that local and regional regimes are converging.

The GA and IIF representatives noted that it was critical that members have a willingness to implement the ICS, that time be taken to reflect on the lessons learned, and that the IAIS listen to member feedback. They warned that if this did not occur, it could delay the implementation of the ICS.

Other key points made by the GA and IIF: Valuation approaches should reflect the business model of the insurer, and the discounting rate and short-term volatility remain concerns. The speakers said there was a need to strengthen the interplay of the ICS with the qualitative aspects of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). "Capital is not the answer to everything," one speaker said, urging more consideration of qualitative measures.

There is a need to promote comparability of outcomes across jurisdictions, the speakers told the IAIS panel, adding that it was essential to allow for proper asset-liability matching (ALM), and they supported the Own Assets with Guardrails (OAG) approach. They expressed concerns over what qualified as capital, and were unconvinced that there was really a need for margin over current estimates (MOCE) as proposed in ICS version 1.0.

Additionally, the speakers noted that there were many unanswered questions:

- How will implementation work?
- What are the implications of the US Treasury report?
- How will ICS interplay with the US solvency framework under development?
- IFRS 17—accounting convergence (IASB and FASB)—what will its impact be?
- What is the cost–benefit analysis?
- Does there need to be a further refinement of the qualitative requirements of ComFrame—e.g., input from supervisors and refinement of existing tools such as ORSA and colleges, and would that meet current needs and supervising IAIGs?

Similar concerns were expressed by other stakeholders. The representative of the Global Federation of Insurance Association said his organization understood that bringing forward new regulations such as the ICS would always present a big challenge and it could see the benefits of the ICS. According to the GFIA representative, one concern might be that the IAIS was overly focused on the timeline rather than developing something that fit the intended purpose.

The GFIA representative said the ICS must protect policyholders and therefore the IAIS should consider local differences. In its

Muhammad bin Ibrahim, FCB, governor of Bank Negara Malaysia, giving the keynote address at the 24th Annual IAIS Conference. Photo courtesy of Bank Negara Malaysia.

current form, the ICS may be too global in its focus, the representative said. He called on the IAIS to welcome the use of internal models—or partial internal models and other variations on the standard method—and consider an aggregation approach as a method. A capital framework should have an appropriately calibrated standard method, he said.

The GFIA representative said it was unclear how the ICS would be implemented, and noted that comparability had not been adequately defined. Diversification and risk mitigation (reinsurance, profit sharing, hedging, etc.) should be considered within the ICS and appropriately acknowledged by the capital standard—as supported by ICS principles one and six. This is not banking; capital doesn't guarantee stability, the representative said.

The GFIA representative said, however, that the IAIS should not lose momentum on the creation of ICS because no participant wanted global regulatory fragmentation. A representative of the General Insurance Association of Japan told the panel that IAIGs could be at a disadvantage in local markets versus domestic legal entities under the currently constructed ICS. He said ICS could be relevant to non-IAIGs and there should be a discussion of ICS as a minimum standard for all insurers. Economic value-based measures are extremely sensitive to interest rate levels and thus very volatile, he said, calling for a soft launch for ICS version 2.0. A discussion on the merits of a soft versus hard launch showed a significant majority in favor of a soft launch.

The representative of the Life Insurance Association of Japan also called for a soft launch and expressed concern that the application of the ICS may have unintended impacts on the solvency of insurers. He called for more consideration of GAAP Plus and market adjusted value (MAV) and supported OAG with regard to the discount rate for insurance liabilities, saying it was appropriate to hold equities because liabilities are so long in duration.

This representative was yet another who asked if the ICS adequately reflected the local risk characteristics of each jurisdiction and insurer. Similarly, he said that the standard method may ultimately be limited in reflecting underlying business models and therefore options for internal models should be considered. He too urged reconsideration of the timeline.

A representative of some US stakeholders suggested that the ICS process should be paused or even ended while the IAIS adjusted to evolving global financial issues. Panelists suggested changes in the global financial system would be ongoing, not allowing for a period of calm. Thus work needed to continue.

The CFO of a major Asian insurance group said he was very concerned about the potential for additional requirements under the ICS, and that it might create an unlevel playing field for IAIGs. He said it was difficult to see how the ICS would have validity in a crisis situation, given the difficulty of capital fungibility in that event.

The CFO said ICS development should be focused on an outcomes-based approach that gave deference to local regimes, and the criteria for equivalency should be developed and inadequate regimes made to comply with the standard formula approach.

As to the use of external ratings versus internal credit models, the CFO noted that credit ratings are often not available in many developing economies and thus relying on a credit rating would not be optimal. He suggested internal credit rating models should be allowed.

The representative of Insurance Europe said the lack of strong support from jurisdictions around the world raised questions about the timing of the ICS. "We think the timetable remains extremely ambitious," he said, and would not allow for proper framework design. "Getting it done is not more important than getting it right," he added. He noted that the European Insurance and Occupational Pensions Authority (EIOPA) Solvency II review would be completed by 2020, and suggested the development of the ICS should wait for the outcome of this so the ICS would not make the same mistakes as Solvency II.

Takeaways

- Especially for US companies not currently affected, discussion of the ICS as a minimum standard for all insurers should be an incentive for increased focus on the process.
- There seems to be a widespread belief in the need for deference to local regimes.
- IAIGs may want to examine unintended consequences and possible anticompetitive impacts.

IAIS ICS

1. The IAIS ICS objective: The ultimate goal of the IAIS is a single ICS with a common methodology that:
    a. Achieves a group-wide minimum capital standard for IAIGs. This will be a measure of capital adequacy for IAIGs under a group view, not a legal entity view.
    b. Contains a number of fundamental components including:
        i. a basis of valuation;
        ii. qualifying capital resources; and
        iii. a capital requirement.
    c. Provides coverage across all material risks within a group, but not explicitly group risk and liquidity risk.
2. The ICS will replace the basic capital requirements (BCR) and will be a more risk-sensitive measure.
3. ICS version 1.0 was approved in mid-2017 with two valuation approaches.
4. ICS version 1.0 represents a standard method for the ICS capital standard.
5. ICS version 2.0 to be agreed on in mid-2019 will provide an improved level of comparability and may still have two valuation approaches. In addition, it may allow for the standard method and other methods.
6. The ICS ultimate goal—the final fully implemented version of the ICS—has no fixed timeline.
7. Field testing participation has been steadily increasing with:
    a. thirty-four volunteers in the first field test held in 2015;
    b. forty-one volunteers in the second field test held in 2016; and
    c. fifty volunteers in the third field test held in 2017.
8. IAIS expects more volunteers (potential IAIGs and other interested parties) to join next year (2018).
9. Extended field testing has also meant extended data requests (e.g., different valuation approaches and supporting information related to stress tests).
10. The IAIS repeated the development timeline of ICS, including the full ComFrame consultation to be held in 2018. The 2019 IAIS annual meeting will see the adoption of ComFrame, which includes ICS.

Regulators agree to new path to ICS version 2.0

After the Sturm und Drang of the ICS stakeholder meeting the day before, the usually uneventful opening and official welcome to the IAIS Annual Conference and General Meeting was infused with an extra dose of excitement after outgoing IAIS Secretary-General Yoshi Kawai announced there would shortly be a special announcement from a panel.

In perhaps a preview of the pending announcement, Kawai stressed harmony as a central theme, noting the EU's official motto of "United in diversity."

IAIS ExCo Chair Victoria Saporta continued with that theme, telling a record audience for an IAIS meeting, "You realize how integral these gatherings are to the work that we do … in trying to foster dialogue, to foster understanding."

After being joined on stage by Gabriel Bernardino, chair of the European Insurance and Occupational Pensions Authority (EIOPA), Hiroshi Ota, deputy commissioner for International Affairs at the Japan Financial Services Agency (FSA) and vice chair of the ExCo, and Wisconsin Insurance Commissioner Ted Nickel, NAIC president, Saporta announced news that seemed to acknowledge some of the concerns expressed at the ICS stakeholder meeting. Saporta told the assemblage that earlier that day, ExCo had reached an agreement on the path forward for ICS version 2.0. The agreement apparently allows for a soft launch of ICS version 2.0, and offered the possibility of eventual acceptance of internal models and the US-preferred aggregation approach to capital requirements.

Current field testing through 2019 will continue as planned, but there will be significant changes that now include extending the runway to five years. Following 2019 field testing, there will be a five-year monitoring period during which filings will be used for confidential reporting to group-wide supervisors and for discussion in supervisory colleges. However, ICS version 2.0 will not be used as a prescribed capital requirement (PCR) and thus not as a basis for supervisory action during this phase. According to the IAIS, this will be followed by a second phase of implementation of the ICS as a group-wide PCR. No timeline was given for that implementation phase.

The approximately 50 IAIGs subject to ICS will be mandated to provide a reference ICS based on MAV. An ICS based on GAAP Plus or an internal model-based capital requirement calculation also may be used at the discretion of the group-wide supervisor. GAAP Plus is favored by Japan and some other IAIS members.

In addition, the US-preferred aggregation valuation method will be studied in comparison to the MAV method. The Federal Reserve Bank (Fed), Federal Insurance Office (FIO), and the NAIC have been working on developing the aggregation method for group capital calculation.

While the aggregation method is not technically a part of ICS version 2.0, the goal of the IAIS is to assess whether it provides comparable outcomes to the ICS. The IAIS said that if that were to be the case, the aggregation method would be considered "an outcome equivalent approach for implementation of ICS as a PCR."[3]

In a press release issued shortly after the announcement, Saporta said, "By reaching this agreement, the IAIS will achieve its aim of creating a common language for supervisory discussions of group solvency. We have reflected the priorities of our Members and made significant progress toward our ultimate goal."[4]

Nickel said: "This is a remarkable accomplishment, achieved through a lot of give and take. It has been said that it is always darkest before the dawn and with this path forward on Version 2.0, we have our dawn. We look forward to continuing to be part of the important work ahead."
Ota said: "Despite coming from different economies and societies, with this agreement we have once again shown how our Members can come together to accomplish great things. While members have at times expressed different opinions, our aim has been the same—to help the insurance market be more stable and resilient while continuing to look forward."
Bernardino said: "This agreement achieves the clarity we needed for the way forward. When we reach the ultimate goal, we will look back on the agreement forged in Kuala Lumpur as a watershed moment in the development of the ICS."[5]

One interesting sidebar is that FIO, designated by Dodd-Frank as the official representative of the United States for international insurance issues, was not represented on the panel. Former FIO Director Michael McRaith was named a distinguished fellow of the IAIS.

Takeaways

- Current field testing will continue as planned through 2019. All IAIGs and interested volunteers are encouraged to take part.
- There continue to be many unanswered questions from field testing including discount rates, capital resources, and capital requirements.
- While the aggregation method will be compared to MAV, affected US insurers will be mandated to provide the MAV-based ICS for at least five years. Insurers may have to add resources where necessary, and it remains to be seen if this affects the enthusiasm for the aggregation method.
- The monitoring period will not be like field testing with multiple options being tested. However, the best endeavors standard under which current field testing is being performed is likely to fall away. Expectations will rise for the level of robustness of the ICS produced by participants.
- During the monitoring period, multiple reports are likely to be requested, including those based on MAV and GAAP Plus. US firms are expected to also submit reports based on the aggregation approach so it can be assessed as a possible alternative.

International regulators look beyond the status quo

The theme of the 2017 IAIS meeting in Kuala Lumpur was "Insurance Supervision: Looking Beyond… . " To set the stage, the first panel, "Looking Beyond the Status Quo: IAIS Leadership Roundtable on the Future of the IAIS and the Global Supervisory Landscape," reviewed the context of IAIS activities over the past decade.

The panel's membership reflected this focus, with Peter Braumüller, ExCo chair from 2008–14, Felix Hufeld, ExCo chair from 2014–15; and Victoria Saporta, ExCo chair 2015–present, joining moderator Jonathan Dixon, then still Secretary General-designate of the IAIS.

Braumüller reviewed the immediate response to what he characterized as the "events of September and October 2008." At that time, the IAIS looked at the quality of observance of standards for jurisdictions at the center of the crisis and found most were green or light green. In IAIS parlance, this meant that these standards were either fully or mostly observed in these jurisdictions.

The IAIS then decided to look at the standards themselves. In response, it began to create ComFrame and focus on the macro-prudential area. Braumüller said the regulators realized standard setting and implementation were not the lone topics of inquiry and began to look at emerging risks. The goal was to review not just what happened, but what could happen.
Hufeld said the ICS continued to be the number one goal of the IAIS. Other sector regulators found it close to unexplainable why insurance hadn't delivered standards previously, he said. He congratulated regulators on the just announced agreement on the ICS saying, "Hat's off …it's a tremendous step forward. Everything else would have been a complete failure."

"The other big legacy is the discovery of systemic risk," Hufeld said, adding that IAIS had done well to stay stubborn and resist cutting and pasting from other sectors. As a personal aside, he said he considered the activity-based approach more appropriate for managing systemic risk.

"The foundation of a macro-prudential regime is a micro-credential regime," said Saporta, adding that IAIS needed to deliver ComFrame.

Hufeld cited a number of megatrends including increasing volatility, digitalization in all forms, and the emergence of conduct regulation. Standards of expected conduct have risen, he said.

Saporta added that another megatrend is from potential pressure on regulators for higher productivity gains in the current economic environment. She said there was a need to balance the risk and threats against opportunities. She cited digitalization and fintech as providing opportunities to lower costs, but said while regulators knew what "good" looked like for traditional risk, this was not necessarily true about cyber resilience and other risks.

Braumüller mentioned climate change as a concern. "The more I think about it, the more I get worried about it," he said.

Braumüller went on to say that regulators needed to be careful and to explore interactions with nonregulated entities, such as mobile providers, so as not to fall behind. Regulators needed to put more emphasis on risk management than traditional approaches, Braumüller said.

Hufeld said he thought regulators needed a reshaped toolbox. What if everything was offshored to a data center owned by a particular noninsurance company? Would we have the ability to regulate that company? He answered in the negative. Saporta said the IAIS needed to reprioritize and focus on what members needed to do to become more nimble. Hufeld agreed, saying everyone needed to embrace technological knowledge.

Work increases on activity-based approach to systemic risk, ICPs

Change is coming to the IAIS committee structure. This was one of the announcements at the panel on "IAIS Major Projects Update," moderated by Victoria Saporta, chair of ExCo, with panelists Alberto Corinti, chair, IAIS Systemic Risk Assessment Task Force, Elise Liebers, acting chair, IAIS Financial Stability and Technical Committee, and Ekrem Sarper, acting chair, IAIS Implementation Committee.

A policy development committee will now be in charge of standard setting, and an assessment committee will do implementation. There will also be a macro-prudential policy committee. The IAIS is currently looking for chairs for all three committees.

Liebers discussed the revised ICPs. These included ICP 13 on reinsurance and other forms of risk transfer, which was put out for public consultation in mid-2017. Revised versions of ICP 18 on intermediaries and ICP 19 on conduct of business were also adopted.

Work continues on other ICPs, including ICPs 15, 16, and 8, which will be released for consultation, and ICP 24, which is to be finalized after the work of the activity-based approach team is completed in 2019. The revised ICPs will not be implemented until adoption by an annual general meeting.

Liebers noted that 50 volunteer groups are currently in ICS field testing. Among other accomplishments, the application paper on group corporate governance (a follow-up to the 2014 publication) had been issued.

The 2017 G-SII exercise continues, she said, with decisions expected within the next few weeks. The IAIS is tasked by the FSB with recommending insurers to be named to the list of G-SIIs. Following up on systemic risk, Corinti briefly discussed the relatively new activity-based approach to systemic risk management being considered by the IAIS.

Conceptual approach to developing activity-based policy measures: A four-step process

Step 1:

Identify activities that insurers engage in that could potentially threaten global financial stability.

Step 2:

Evaluate the existing IAIS policy measures that may help mitigate the potential system risk stemming from the identified activities.

Step 3:

Pinpoint risks associated with an activity that are not sufficiently mitigated by an existing policy measure. Include a gap analysis, which can help determine whether there are any insufficiencies in the relevant supervisory tools.

Step 4:

Develop new or enhance existing policy measures to address any residual systemic risk (subject to findings in the previous steps). This process should also cover application scope and proportionality considerations.

Source: International Association of Insurance Supervisors

"We should not see the development of the activity-based approach as a different framework from what we have done up to now," he said, adding that it was more building on previous work. Previously, the IAIS focus was on entity-based systemic risk management. Calls have increased for an activity-based approach, including in the latest US Treasury report.

Corinti also said revision of the G-SII assessment methodology will follow conclusion of the activity-based approach. The timeline for this remains a 2019 completion with a 2020 implementation. An interim consultation to get feedback to inform the work will start soon.

"Interest in the activity-based approach is already building up very much," said Corinti. He told the audience that the interim consultation paper would not present conclusions, but issues and directions. It would describe the activity-based approach and the process for developing policy measures. Corinti said the focus will be on risk exposures across companies (that may create correlated responses across companies), transmission channels, and the potential systemic impact.

That would include exposure to risk that could be created through insurance, reinsurance, or noninsurance activities. He said they would be seeking an economic, not a legalistic approach. He described a potential failure as a tsunami, not a shock effect as under an entity-based approach.

The focus, he reiterated, would be on risk exposure, not the legal form of the entities, and the starting point would include work already done by the IAIS. The beginning focus would be on liquidity risk and macroeconomic factors, but other risks such as cyber would also be considered. Gap analysis will be a key step in this process, and the committee will design any policy measures it considers necessary. It will also consider any mitigation measures put in place by companies.

Proportionality and cost benefit will be considered in any design. Given that some measures such as derivatives use could be both a source of risk and a mitigating measure, the focus will be on the net risk exposure for the balance sheet.

Corinti indicated that no decision had yet been made on whether the activity-based approach would complement or replace the entity-based approach.

Revised ICPs

ICP 13 Reinsurance and Other Forms of Risk Transfer

The supervisor requires the insurer to manage effectively its use of reinsurance and other forms of risk transfer. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.

ICP 18 Intermediaries

The supervisor sets and enforces requirements for the conduct of insurance intermediaries, in order that they conduct business in a professional and transparent manner.

ICP 19 Conduct of Business

The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Takeaways

- A recent US Treasury report supported the use of activity-based as opposed to entity-based systemic risk management. This may mean less concentrated regulatory oversight of the largest insurers, but a broader net may be cast on products and affect more insurers.
- Insurers may wish to engage with the committee on the effectiveness of their mitigation measures.

Regulators told new tools needed for big data

"We are where we are today because we have been too focused on regulation and product," a panelist who is the chief operating officer (COO) of an Asian insurance lab told attendees at the "Looking Beyond Current Business Models and Distribution Strategies: 'High Tech' vs. 'High Touch'" forum at the IAIS annual meeting.

High touch is driven by the need for trust, she said, noting that the average policy document was longer than a famous Shakespeare play.

Panelist Don Forgeron, CEO of the Insurance Bureau of Canada and chair of the GFIA Disruptive Technology Working Group, said regulators should be technology agnostic and seek to foster innovation, promote competition, and protect consumers. High tech and high touch were not in competition, he said, and insurers needed to do both well.

Panelist Birny Birnbaum, executive director of the Center for Economic Justice in the United States, said big data had the potential to benefit consumers and insurers, but could also have effects on fairness that regulators may not now be equipped to address. Birnbaum said the free market alone could not offer consumers protection, and regulators must understand the implications of big data use.

Birnbaum presented a vision of two contrasting possible futures, one with empowered consumers and businesses and the other with a small group controlling access to data. Supervisors need to articulate a future vision for insurance, he said, and monitor markets more comprehensively and efficiently. Consumers should be empowered with better information, and supervisors need tools to understand the economic structure of the market, not just insurance.

"In the ideal world, high tech would enable high touch," said panelist Emma Curtis, group senior manager for Insurance, Deposit Takers, Credit & Insurers at the Australian Securities and Investment Commission (ASIC). She expressed concern about the inherent risk in the increasing use of big data and said regulators needed a toolkit to ensure that they could take timely action whenever there was a problem.

US regulators are engaging more with regtech and fintech, panelist Ted Nickel, Wisconsin insurance commissioner and NAIC president, told the audience. Birnbaum followed up by saying that the problem with big data is that there would be no end of granularity to risk classification. The innovation lab COO responded that the problem was a lack of clarity of thought, especially as it concerned risk pooling versus risk classification.

Birnbaum said looking at market outcomes may be a more efficient way to protect consumers in examining algorithms. Regulators should get ahead of this, Nickel said, suggesting the use of advanced analytics to see where problems are instead of going blindly into exams.

The problem with our current system is that it doesn't leave companies with good records alone, Birnbaum said. The COO agreed, suggesting regulators should monitor the outcome and not the process.

Malaysian central bank governor calls for evolution in regulatory paradigm

In his keynote address, Muhammad bin Ibrahim, governor of Bank Negara Malaysia, called on international insurance regulators to take steps to ensure the continuing relevance and validity of insurance regulation.

"Insurance innovation has enabled many of mankind's most important feats," Ibrahim said, adding that challenges remain. He said insurance markets should be efficient and effective to serve greater goals.

Ibrahim cited some challenges facing regulators. "The effects of climate change are real," he said. He added that competitive stability and ethical paradigms are needed for a future world dominated by technology, and that cooperative competition could result in synergistic advantages.

While it has been 10 years since the financial crisis, Ibrahim said, there is no room for complacency despite what had been accomplished so far. The importance of effective and proportional regulation cannot be overstated, he said. Ibrahim called for an ethos of ethics and sustainability, saying a rethinking of professional and ethical standards will be required given the changes, especially technological, that regulators will face. As an example, he cited genetic evaluation. The advancement of technology means ethics must be embedded in the DNA of regulation, along with a consideration of the wider impact on society, equity, and fairness, he said.

The life span of regulation is getting shorter and shorter with challenges such as new entrants and unfamiliar technologies, Ibrahim opined. He said there needs to be improvement in supervision, including technology and the sharing of information across agencies and borders. He cited the US Securities and Exchange Commission's (SEC) use of analytics as an example.

"We need to recognize regulation is as much an art as a science," the Malaysian central bank governor said, telling the audience that regulation needed to be properly tailored to jurisdictions and had to create room for experimentation and innovation.

Upcoming meetings

- December 2017—Field-testing participants meeting to include some accounting experts to discuss issues such as IFRS17 in Basel, Switzerland.
- January 13, 2018—A half-day meeting for ICS stakeholders will be held in Nashville, TN.
- The mid-year IAIS meeting will be in Russia in 2018.
- The 2018 IAIS annual conference will be held in Luxembourg.

The IAIS panel noted that going forward, the stakeholder sessions will be less about the IAIS presenting to attendees and more about taking representation from firms.

Endnotes

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Contacts

Gary Shaw
Vice Chairman
US Insurance Leader
Deloitte LLP
+1 973 602 6659
gashaw@deloitte.com

Richard Godfrey
Advisory Principal
US Insurance Risk and Financial Advisory Leader
Deloitte & Touche LLP
+1 973 602 6270
rgodfrey@deloitte.com

Howard Mills
Managing Director
Global Insurance
Regulatory Leader
Deloitte Services LP
+1 212 436 6752
howmills@deloitte.com

Neal Baumann
Principal
Global Insurance Leader
Deloitte Consulting LLP
+1 212 618 4105
nealbaumann@deloitte.com

Authors

Andrew N. Mais
Senior Manager
Deloitte Center for
Financial Services
Deloitte Services LP
+1 203 761 3649
amais@deloitte.com

David Sherwood
Advisory Senior Manager
Deloitte & Touche LLP
+1 203 424 4390
dsherwood@deloitte.com

About the authors

Andrew N. Mais, formerly a director at the New York State Insurance Department, is a member of Deloitte's Center for Financial Services, providing industry-leading thought leadership and insight on regulatory affairs on state, national, and international levels, and related topics to the financial services sector.

David Sherwood, formerly an examiner with the UK Financial Services Authority, has 20 years of risk and regulatory experience. His focus is insurance risk management and regulation, including the issues that affect companies both at an international level (such as Solvency II, systemic risk, and ComFrame), and domestically (ORSA, federal oversight, and the SMI).

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