ASEAN Insurance Council recommendations to the ASEAN Insurance Regulators

These are the recommendations that ASEAN Insurance Council had presented during ASEAN Insurance Regulators Meeting (AIRM) in Brunei Darussalam 26 Nov 2014, and submitted to the ASEAN Regulators on the 9 January 2015, along with the APFF Interim Report to the APEC Finance Ministers and Annex H.

Recommendations from the Life Sector:

<u>Long Term Investment</u>

1. Concern over the approach of regulators to adopt the capital framework that are developed for banks

- Applying the capital framework for banks may inadvertently result in higher capital requirements for insurance companies writing long term business. e.g. higher risk charge for equities, infrastructure project investment, etc. This may cause insurers to face challenges in offering long term products and who may favour shorter term products or pass on the risk of the product to customers.

- Such short term oriented capital regime may lead insurers to consider long-term business and long-term investments as excessive risk taking and thereby ignore the long term nature of the business model and illiquid nature of the liabilities.

- It is necessary to review this with care and consider the real examples of how the capital framework can appropriately accommodate both short term and long term business models without penalising the latter, whilst at the same time balance the need for appropriate capital setting against market development.

2. Accounting versus Capital Requirements

- The proposed “mirroring approach” by the International Accounting Standards Board (IASB) will not be able to adequately capture a wide range of participating policies that are commonly sold in this region. This will result in non-economic volatility in the balance sheet of the insurers selling long term products. This effect will be even worse in countries where the capital market is not deep and is illiquid.

- Although the use of Other Comprehensive Income (OCI) may overcome some of this effect from an earnings perspective, it can only be used if there is flexibility for this as the liabilities may not flow through to the OCI.

- In this regard, we would like to appeal to regulators to consider some adjustment to the IASB proposals for solvency requirement purposes taking into account the long term nature of assets and liabilities of the insurers, given that the short term volatility in the balance sheet and profit and loss statement is temporal and not permanent.

- Furthermore, we would also request that local regulators can help to manage this transition in accounting standard as the new standard is too complex and may create operational difficulties for insurers if this is adopted.

3. Underdeveloped capital market

- There are insufficient long term bonds for insurers to match their long term liabilities. Accordingly, we seek regulators to help facilitate the development of local capital markets, and in doing so, to consider giving insurers some priority in the purchase of new bond issues.

- In this regard, we propose that there should be collaboration with the Asia Pacific Infrastructure partnership and the APEC Business Advisory Council (ABAC) to make infrastructure projects less risky for insurers to take on as long term fixed income investment. This may include introducing a government-backed risk mitigating backstop, creating new forms of securitisation to allow the split of risk in infrastructure projects so that insurers can take on the longer maturity risk rather than short term construction risk, etc.

- Similarly, a deeper derivatives market would help insurers in their risk management practices especially in the area of longer term interest rate swaps, bond futures, currency swaps etc.

4. Tax incentives for long term products

- Given the increased capital requirements for long term products, which will make these products less attractive, it is proposed that incentives be provided to insurers and consumers to offset the likely fall in demand.

- Furthermore, tax incentives for long term savings are necessary to encourage people to save long term. This will also be beneficial to governments as it will reduce the need for government funding of social benefits in the long run.

5. Operational issues

– It is suggested that regulators help to facilitate the entry of more rating agencies in the local ASEAN markets to enable more bond issues to be rated and help stimulate demand for rated bonds

– In this regard, it may also be helpful if the regulators can fully recognise the ratings of the local ASEAN rating agencies provided their rating methodologies are recognised by the local regulators.

Recommendations from the Non-Life/ General Sector:

1. It is proposed that there be greater consistency in the actions of Governments, including harmonisation of regulatory policies.

2. It is suggested that greater efforts be made to push for bilateral communication/agreements between two countries, as the pre-cursor for subsequent multilateral communication/agreement amongst more countries.

3. Arising from the Joint Plenary session with regulators, we support the approach to consider cross border freedom of services by starting with "low hanging fruits" such as the marine, aviation and transport (MAT), as well as the reinsurance areas.

4. We would suggest increased discussion amongst countries on the regulation of market integration issues such as: Market Penetration, Talent Movement, Movement of Goods, etc.

5. It is hoped that the establishment of the ASEAN Catastrophe Risk Model should serve as the platform for the development of the ASEAN Catastrophe Risk Pool

6. It is suggested that there should be greater efforts to harmonise policies relating to customer protection across ASEAN.

7. It is proposed that greater efforts be made to populate the Catastrophe and Risk Management in ASEAN (CARMA) web portal, a project of the AIC's working committee – ASEAN Natural Disaster Research Works Sharing (ANDREWS). In this regard, greater engagement of the regulators is needed, so as to seek the support of the respective ministries of Education and Finance to grant accreditation to college and university students who publish their research reports on the CARMA portal.