



# APFF

Asia-Pacific Financial Forum



## Key Messages

# Insurance and Long-Term Investment

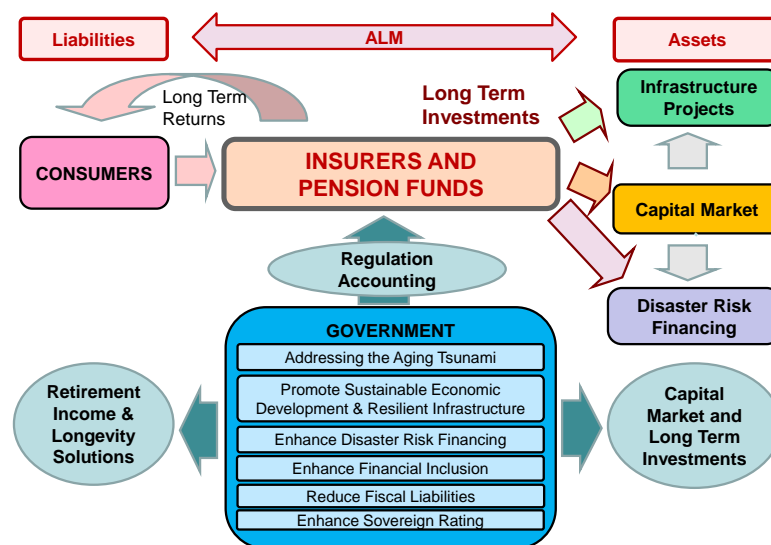
## 2015

## Asia-Pacific Financial Forum

### KEY MESSAGES: Insurance and Long-Term Investment

#### ROADMAP FOR SUSTAINABLE DEVELOPMENT IN THE ASIA-PACIFIC REGION

Insurance and retirement savings by the very nature of its liabilities is a long-term business. It requires matching long-term liabilities of policyholders and retirement savers to long-term assets, particularly long-duration bonds, real estate, and infrastructure finance. Efforts to promote retirement income and longevity solution in emerging APEC economies offer the opportunity to support capital market development, infrastructure funding, as well as alternative means of disaster risk financing. It may also assist governments to address the aging tsunami, promote sustainable economic development and resilient infrastructure, enhance disaster risk financing, enhance financial inclusion, reduce fiscal liabilities and enhance sovereign rating. It would aim to represent a “triple win” for consumers, the financial sector, and APEC governments.



#### APFF WORK ON INSURANCE AND RETIREMENT INCOME

The APFF Insurance and Retirement Income Work stream aims to promote a holistic framework to support the long-term roles of insurance and pension industry in the Asia Pacific, including financial stability, macro economy, sustainable development, financial inclusion, social security and insurance protection. For that purpose, the work stream works on the areas of (1) regulation and accounting, (2) capital market and long-term investment, (3) retirement income and longevity solution, and (4) micro-insurance and (5) disaster risk financing.

#### RESPONDING TO THE NEEDS OF AGING AND PROMOTING CAPITAL MARKET AND INFRASTRUCTURE DEVELOPMENT

Asia is facing aging. How can society catch up with drastic change in demographics has become an issue in the region. The APFF aims to ensure adequate retirement saving and to ensure adequate lifetime retirement income. For those objectives, the group will seek to facilitate retirement saving demand, through mandatory provisions,

tax measures, product design, consumer education, and distribution channels, and to facilitate retirement income product supply, through capital market and long-term investments, regulation, accounting, and risk management. It is important to note that those efforts would support capital market and infrastructure development, by promoting long-term liabilities and long-term assets achieving economy of scale.

#### **DIALOGUE ON REGULATION AND ACCOUNTING**

The APFF continues to have dialogue series on regulation and accounting impacting the long-term business of the insurance industry in Asia Pacific economies and longevity solutions. The APFF identified some regulatory and accounting issues and developed high-level recommendations. Regulatory issues include bank-centric regulations, short-term oriented economic regime, and “one-size-fits-all” models that do not fit different business models across the region. Accounting issues include volatility in balance sheet and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts. Based on those recommendations, ABAC submitted a comment letter to International Association of Insurance Supervisors (IAIS) on the International Capital Standards (ICS), and comment letters to International Accounting Standards Board (IASB) on the Insurance Contracts, and Conceptual Framework for Financial Reporting.

#### **PROMOTING LONG-TERM INVESTMENT, INCLUDING INFRASTRUCTURE**

The APFF also collaborates with APEC Finance Ministers’ Process in promoting long-term investment, including infrastructure. The APFF identified some market and operational issues and developed high-level recommendations. Market issues include underdeveloped long-term capital market, small number of bankable projects available, lack of infrastructure financial instruments, lack of market instruments (i.e. derivatives and hedging tools) to manage portfolio risk, and constraints on long-term insurance business. Operational issues include weakness in credit rating, lack of experience, and uncertainty in legal framework (i.e. creditors’ rights, resolution). The group will identify best practices in proving private funds for infrastructure investments, including the public-private partnership and explorer effective use of non-traditional financing vehicles and collaboration among institutional investors, financial institutions, multilateral development agencies, and private equity funds.

#### **NEW STRUCTURE TO SUPPORT CEBU ACTION PLAN**

The work stream plans to restructure its working party into two working groups, Retirement and Long-term Investment Working Group and Disaster Risk Financing and Insurance Working Group in parallel with the structure of Cebu Action Plan in order to provide more focused input and continues to work for contributing to the sustainable, resilient, and inclusive growth of the Asia Pacific region.

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