



OECD-ADBI Roundtable on Insurance and Retirement Savings 2015
*Institutional investors and long-term investment, and the
impact of solvency modernisation initiatives*

**Strengthening Infrastructure and Capital
Market thru Retirement Income Policies**

**OVERVIEW OF THE APFF WORK ON INSURANCE
AND RETIREMENT INCOME**

Makoto Okubo (大久保 亮), Nippon Life Insurance Company
Sherpa, APFF Insurance and Retirement Income Work Stream
Sherpa, APFF Retirement and Long-Term Investment Working Group
Tokyo, Japan, 22-23 June 2016

APFF: Public-private collaboration in developing financial systems

- Importance of regional public-private collaboration:
 - Legal and regulatory frameworks
 - Financial market infrastructure
 - Financial market integration
- APFF: informal, inclusive and advisory public-private platform for collaboration in the development of common strategies for developing sound, efficient and integrated Asia-Pacific financial markets
 - Governments and regulatory bodies
 - Private sector
 - International organizations (IFIs, SSBs, others)

Finance Ministers' Process (FMP)

21 APEC Finance Ministries

Advisory Functions: ADB, IMF, OECD, WBG, ABAC

Finance Ministers
Heads of Delegation of
International Organizations and
ABAC

Deputy Finance Ministers/Deputy CB
Governors
Representatives of International
Organizations and ABAC

Senior Finance Officials
Representatives of International
Organizations and ABAC

FMP Policy Initiatives

Managed by ABAC

APEC
Finance
and
Developme
nt Institute

Financial
Regulators
Training
Initiative

APEC
Financial
Institutions
Dealing
with SMEs

Asia-
Pacific
Forum on
Financial
Inclusion

Asia-
Pacific
Financial
Forum
(APFF)

Asia-Pacific
Infrastructu
re
Partnership
(APIP)

APEC PPP
Experts
Advisory
Panel

Asia
Region
Funds
Passport
(ARFP)



Over 150 organizations



Over 300 individual experts

APFF CHAIR

- Hiroyuki Suzuki, Nomura Holdings Inc.
 - APFF Coordinator: J.C. Parrenas

CAPITAL MARKETS

- **Classic Repo Markets**
Sherpa: Mark Austen, ASIFMA
- **Derivatives**
Sherpa: Keith Noyes, ISDA
- **Information for Investors**
Sherpa: Michael Taylor, Moody's
 - Sherpa support team: Farisa Zarin/Eleni Himaras, Moody's
 - Lead, Issuer Disclosure: Stephen Taylor/Candy Fong, Deloitte Touche Tohmatsu Ltd
 - Lead, Bond Market Data: Thiam Hee Ng, ADB
 - Lead, Investor Rights in Insolvency: Charles Booth, University of Hawaii
- **Asia Region Funds Passport**
Sherpa: Hon Cheung/Steven Chan, State Street
Core Group: Boon-Hiong Chan, Deutsche Bank * Catherine Simmons, Citi * Eugenie Shen, ASIFMA * Qiumei Yang, ICI Global * Rebecca Lentchner, BNY Mellon

FINANCIAL MARKET INFRASTRUCTURE

- Core Group: Beth Smits, Johns Hopkins University * Boon-Hiong Chan, Deutsche Bank * Masayuki Tagai, JP Morgan Chase * Rebecca Lentchner, BNY Mellon

LINKAGES AND STRUCTURAL ISSUES

- Sherpa: Kenneth Waller, Australian APEC Study Centre

INSURANCE AND RETIREMENT INCOME

- Overall Sherpa: Makoto Okubo, Nippon Life
- **Retirement and Long-Term Investment**
Sherpa: Makoto Okubo, Nippon Life
 - Lead, Retirement Savings and Lifetime Retirement Income: Vanessa Wang, Citi
 - Lead, Long-Term Investment: Brian Murray, AIA
- **Disaster Risk Financing and Insurance**
Sherpa: Douglas Barnert, Barnert Global
 - Lead, Disaster Risk Financing: Masaaki Nagamura, Tokio Marine
 - Lead, Microinsurance: Antonis Malagardis, GTZ - Philippines

TRADE AND SUPPLY CHAIN FINANCE

- Sherpas: Boon-Hiong Chan, Deutsche Bank

FINANCIAL INFRASTRUCTURE DEVELOPMENT NETWORK

- **Credit Information**
Sherpas: Michael Turner/Robin Varghese, PERC/APCC (with support from Jinchang Lai/Tony Lythgoe, IFC)
 - Philippine pilot project coordinators: Jinchang Lai/Griselda Santos, IFC * Jaime Garchitorea, CIC
- **Secured Transactions**
Sherpas: Chris Wohler/Thomas Clark, GE Capital International (with support from Jinchang Lai/Tony Lythgoe, IFC)
- **Accounts Receivables Finance**
Sherpa: Boon-Hiong Chan, Deutsche Bank (with support from Jinchang Lai/Tony Lythgoe, IFC)

- 1) A pathfinder initiative to develop **credit information sharing systems**
- 2) A pathfinder initiative to improve the **legal and institutional architecture** for security interest creation, perfection and enforcement and related workshops
- 3) Dialogues on regulatory issues in **trade and supply chain finance**
- 4) Workshops on emerging facilitators of **trade and supply chain finance**
- 5) A pathfinder initiative to develop **classic repo markets**
- 6) Workshops to develop strategies to improve legal and documentation infrastructure for the development of **OTC derivative market**
- 7) Self-assessment templates on **information for capital market investors**
- 8) **ARFP (Asian Region Funds Passport) support initiative**
- 9) Workshop series to develop an enabling **Asia-Pacific securities investment ecosystem**
- 10) Dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia Pacific economies and longevity solutions**
- 11) Collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure**
- 12) Conference and workshop series on **linkages on structural issues**

The Cebu Action Plan (CAP)

A Ten-Year Roadmap for the APEC Finance Ministers' Process

FOUR PILLARS



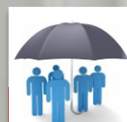
FINANCIAL INTEGRATION

- **Financing MSMEs**
- **Financial inclusion / literacy**
- Facilitating remittances
- Financial services liberalization
- Capital accounts liberalization
- **Asia Region Funds Passport**



FISCAL TRANSPARENCY

- Fiscal reforms
- Open Data Initiative
- Exchange of financial account information
- Base erosion profit shifting
- Tax and crime



FINANCIAL RESILIENCE

- Macroeconomic policy
- Disaster risk financing and insurance
- **Capital market development**



INFRASTRUCTURE

- Knowledge portal
- Standardization of terms and practices
- Maximizing PPPs in infrastructure investment
- **Long-term investors**
- Urban development
- Regional connectivity

APFF Insurance and Retirement Income WS [Sherpa Makoto Okubo]

CAP

**4E Long - Term Investment
in Infrastructure**

**3B Disaster Risk Financing
and Insurance**

WG

**Retirement and Long-Term
Investment Working Group**

[Sherpa Makoto Okubo /
Vice Sherpa Paul F. Lynch]

**Disaster risk financing and
Insurance Working Group**

[Sherpa Douglas Barnert]

SG

**Retirement Savings and
Lifetime Retirement Income**

[led by Vanessa Wang]

Disaster Risk Financing

[led by Masaaki Nagamura]

**Capital Market and
Long-Term Investments**

[led by Brian Murray]

**in collaboration with
APFF Capital Market WS**

Micro-Insurance

[led by Antonis Malagardis]

**in collaboration with
Financial Inclusion Group**

Regulation and Accounting

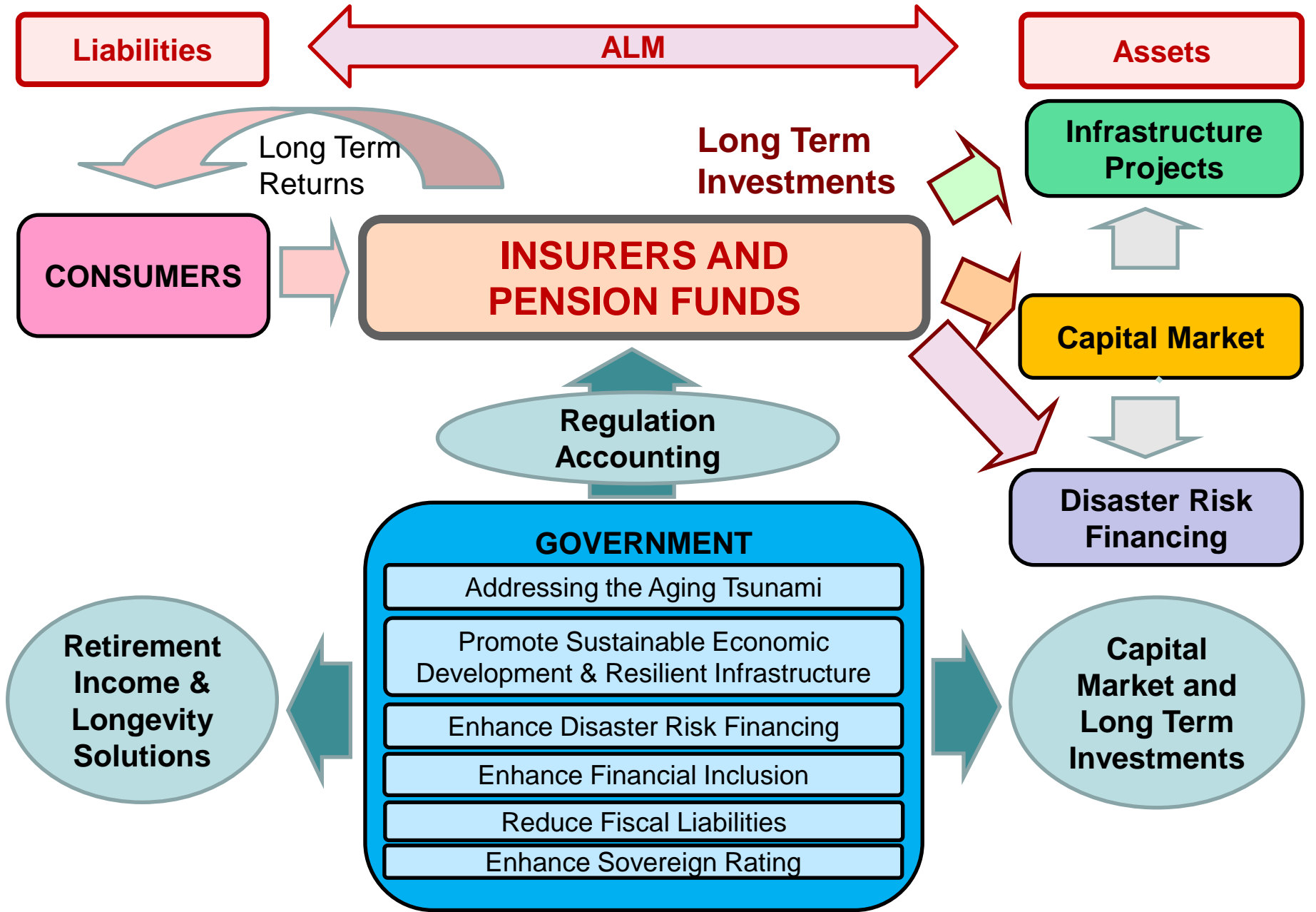
[led by Makoto Okubo]

CG

Coordination Group

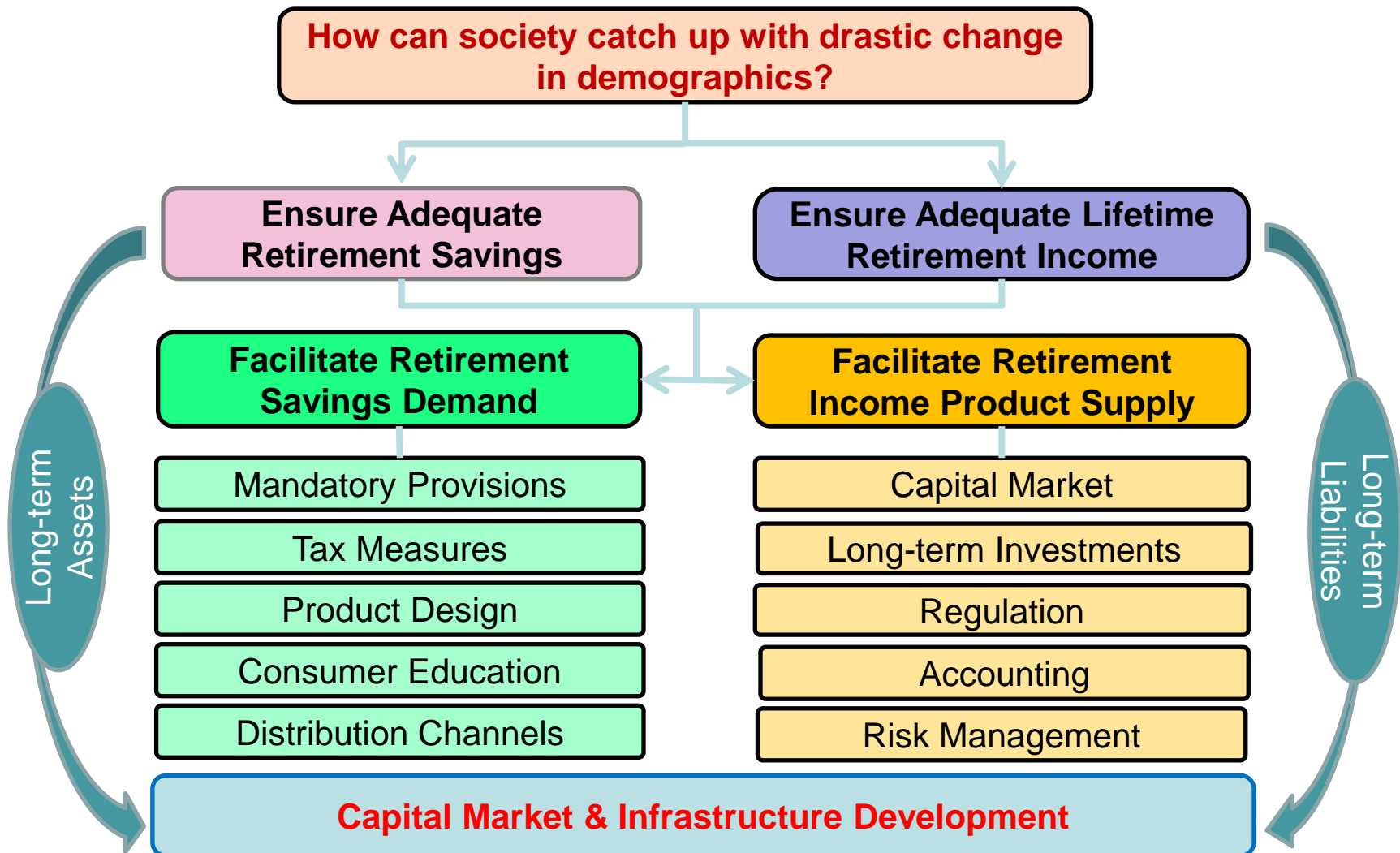
[led by JC Parrenas, Anthony Nightingale, Sherpas]

Roadmap for the Sustainable Development



Retirement Income and Longevity Solutions

- Responding to the needs of aging, while promoting capital market and infrastructure development



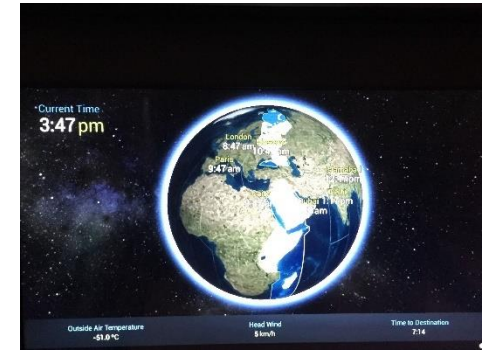
- **Bank-centric regulations** should be avoided, and the ICS should take into account **the specific nature of the insurance sector**
 - Should capture **all material risks across the sectors**
 - but **avoid bank-centric capital weighted rules**
 - And consider characteristics of **long-term assets supporting long-term liabilities**, as well as the **effect of asset diversification**
 - **High risk charges for long-term investment**, including infrastructure projects and equities, may discourage insurers to provide such investments
 - Regulations should be designed in a way to promote and incentivize the insurers' role to **stabilize the financial system/market** and its ability to **manage risk efficiently**



(Photo – Sydney, Australia)

■ Short-term oriented economic regime should be avoided, and the ICS should take into account the long-term nature of insurance

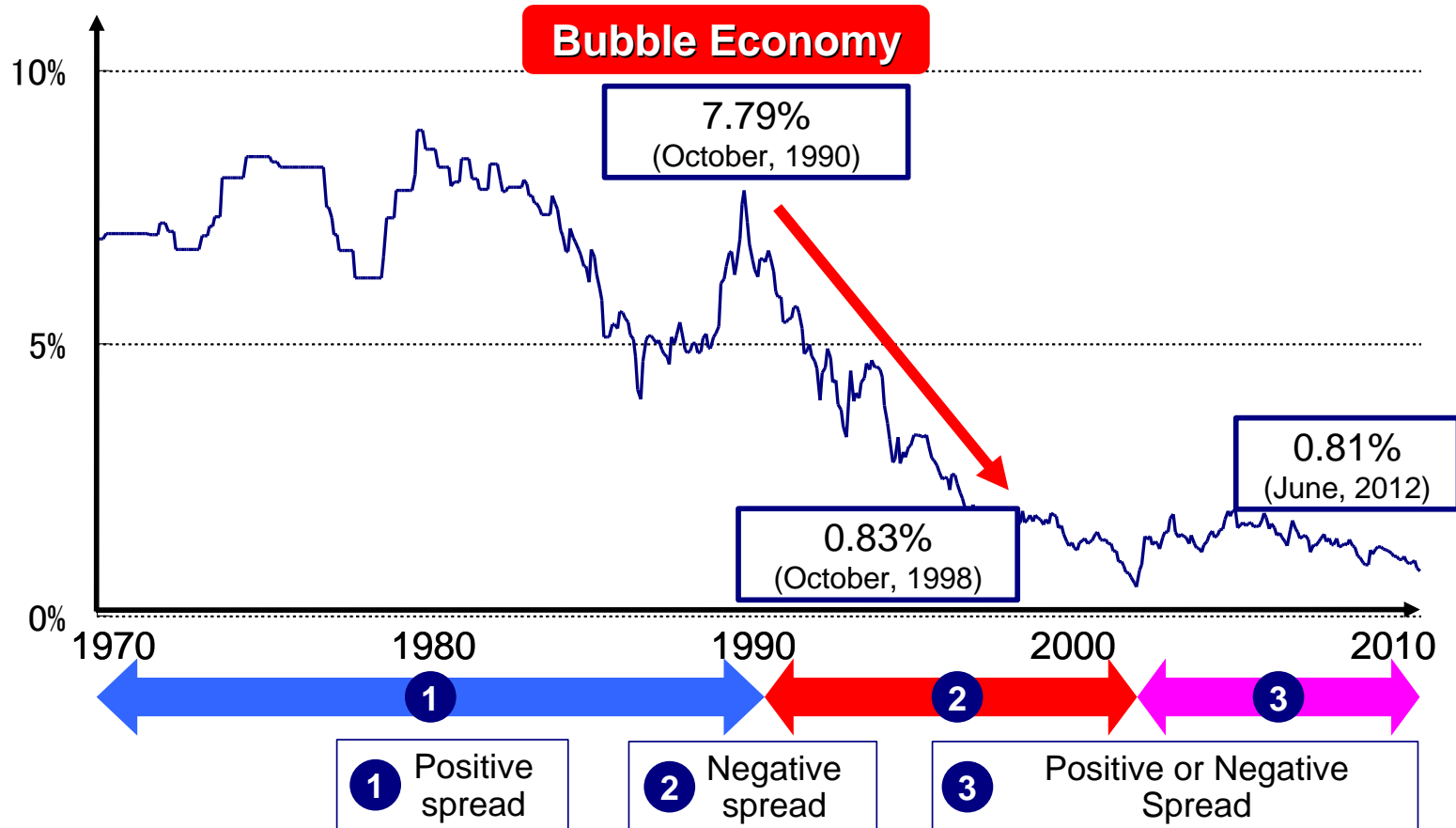
- An economic based regime should have a long-term vision
- Short-term oriented economic valuation may produce significant volatility for long-term business
- Economic information may be a useful indicator in determining a future long-term direction, but the long-term nature of the business model and illiquid nature of liabilities should be taken into account
- The ICS should avoid the introduction of a regulatory regime which would require immediate regulatory actions in response to short-term market fluctuations
- Measures should be taken to mitigate impact on long-term protection business and the assets supporting such contracts



Lesson from Japan - Negative spread problems in 1990s

- After the collapse of the bubble economy, Japan experienced a long-lasting, severe investment environment with low interest rates and poor performing stock prices. This, combined with a market dominated by long-term insurance products with high guaranteed returns, led to negative spread problems in the mid 1990s, although most Japanese life insurers endured the severe business environment.

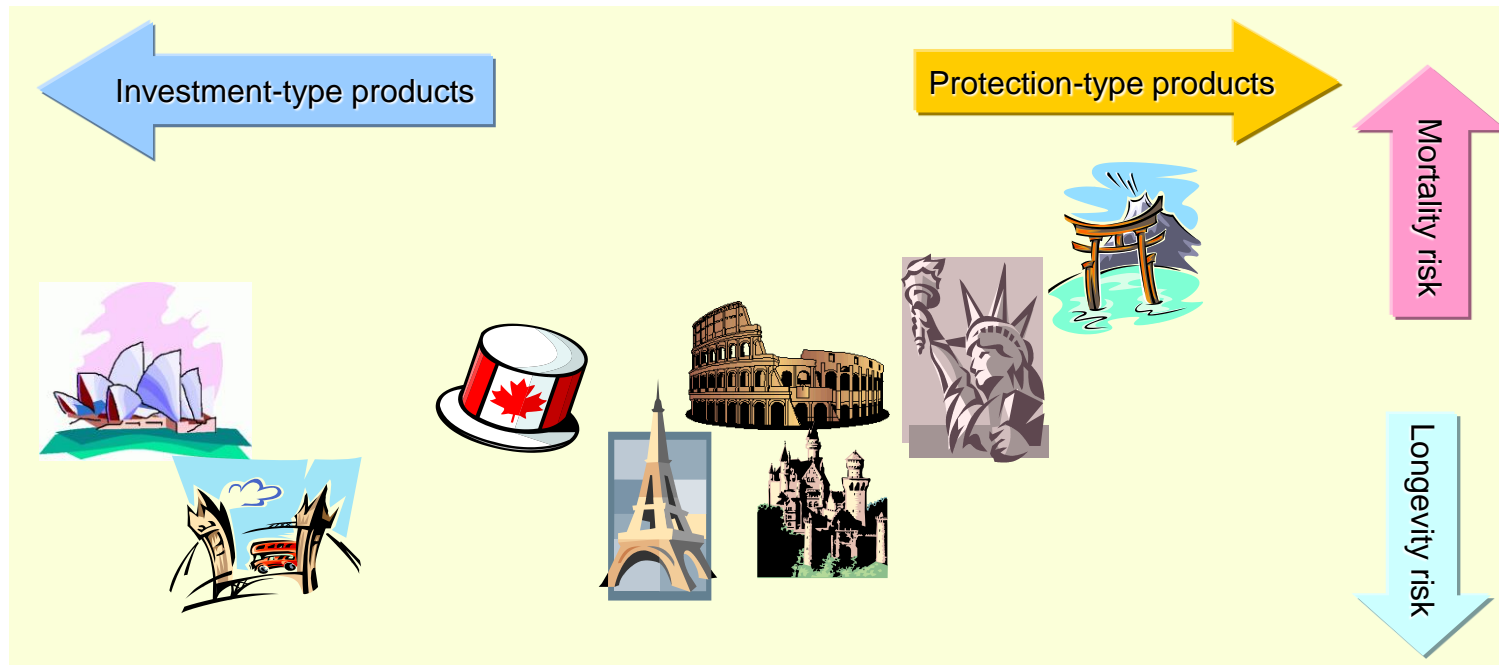
10-year Interest Rate in Japan



(Source – Nippon Life Insurance Company)

Regulatory issues “One-size-fits-all” models

- **“One-size-fits-all” models should be avoided, and the ICS should reflect the diversity in different jurisdictions**
 - International standards should be **principle-based** and aim to **achieve comparable outcome by taking into account the diversity** in the region
 - Due to the difference in business models and existing regulatory framework, the **application of prescriptive international standards would not ensure the overall comparability or level playing field**



■ Volatility in the balance sheet

- Short-term fluctuation should be avoided
 - Assets-liabilities interaction should be reflected for a wide range of products sold in the region
 - Discount rate should reflect the business model

■ Volatility in the income statement

- The (optional) use of OCI for insurance liabilities and corresponding assets

■ Other issues for long-duration contracts

- Consistency/complexity/transition
- Presentation/disclosure
- Unit of account
- Scope for participating contracts



Market issues

- Underdeveloped long-term capital market
- Small number of bankable projects available
- Lack of infrastructure financial instruments
- Lack of market instruments (i.e. derivative, hedging tools) to manage portfolio risk
- Constraints on long-term insurance business (both demand side and supply side)

Operational issues

- Weakness in credit rating
- Lack of experience
- Uncertainty in legal framework (i.e. creditors rights, resolution)



■ Some words from Taoism

- Be aware that the world is cyclical
- Don't go to the extreme, otherwise you will fall
 - Bring the balance of yin and yang to the universe
- In order to manage the world, you should control yourself
 - In order to implement international standards, you should first know your own country



The screenshot shows the MackGlobe.com website. At the top, there is a search bar and a navigation menu with links for Home, Insurance/Finance, Language/Essays, Travel/Photography, and Theater/Entertainment. The main content area features a large green banner with the headline "ABAC submitted ABAC report and 2015 APFF Progress Report to the APEC Finance Ministers, August 20, 2015". Below this, there is a "Read more" button. To the left, a "Recent Posts" section lists several articles, including one titled "Mack participated in the APFF Roundtable and the ABAC meetings in California, February 24-27, 2016". To the right, there are sections for "Members Only" and "Resources".

For more details on the APFF, visit mackglobe.com or email
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