

Opening Address by Mr Lee Boon Ngiap, Assistant Managing Director, Monetary Authority of Singapore, at the ASEAN Insurance Regulators Meeting, 24 November 2011, Marina Mandarin Hotel

Distinguished guests
Ladies and gentlemen

1 Good morning and a very warm welcome. Singapore is honored to host the ASEAN Insurance Regulators and the ASEAN Insurance Council Meetings again after ten years.

2 The ASEAN Insurance Regulators Meeting (AIRM) is a valuable platform for the region's insurance regulators to have frank and open exchanges of ideas and to foster closer cooperation. Its long partnership with the ASEAN Insurance Council (AIC) is testament to the foresight of our predecessors who understood the importance of collaborating with the industry to promote shared ownership of desired outcomes in supervision and market development.

3 The strong collaborative spirit underpinning the AIRM and AIC continues to put the ASEAN insurance industry on a firm footing to overcome challenges from the changing financial landscape and capitalize on market opportunities in the years ahead.

Role of AIRM

4 I would like to touch on three areas which the AIRM can play an important role in the next few years.

Enhancing Regulatory and Supervisory Regimes

5 First, the International Association of Insurance Supervisors (IAIS) recently finalized revisions to the Insurance Core Principles. The Core Principles provide a consistent framework for the supervision of the insurance sector. They constitute the globally-accepted benchmark used in the evaluation of supervisory regimes under the Financial Sector Assessment Programme (FSAP) conducted jointly by the IMF and World Bank. The latest revisions to the Core Principles take into account evolving market and regulatory developments as well as lessons learnt from the crisis.

6 As insurance regulators globally benchmark their regimes against the revised Core Principles, many will have to enhance their regulatory framework and supervisory practices. As we in ASEAN go through this exercise, the AIRM will be a useful platform for us to learn from each other's experiences. Indeed, I note that there is an agenda item on observance of IAIS Core Principles at this meeting. The sharing of experiences should, however, not be a one-off episode that is confined to the meeting. We should use the close relationships built up through the AIRM process to consult each other whenever the need arises. The aim is to collectively strengthen our regulatory and supervisory regimes, consistent with the revised Core principles, but at the same time doing it in a manner that is sensitive to our regional environment and needs.

ASEAN Framework Agreement for Services (AFAS)

7 Second, the establishment of the ASEAN Framework Agreement for Services (AFAS) will require greater co-operation among ASEAN insurance regulators. AFAS aims to substantially eliminate restrictions to trade in services, to improve the efficiency and competitiveness of ASEAN services providers. In financial services, members are working to progressively liberalise the insurance, banking and capital markets sectors. To date, the ASEAN Working Committee on Financial Services Liberalisation has completed negotiations for five packages of financial services liberalisation and entered into negotiations for the sixth package in May this year.

8 The ASEAN region represents a significant opportunity for insurers. Over the past decade, the region's combined economy has grown by an average of 5.2% per annum despite the 2008/09 global downturn. This is more than three times faster than the G-3 countries and double the global average of 2.5%. Over the next five years, the region is expected to grow by 5.8% per annum, against the global average of 3.7%.¹

9 In 2010, the savings rate of the ASEAN economies was 33% of GDP, significantly higher than the global savings rate of 23%.² The insurance market in ASEAN grew 22% in 2010³, but insurance penetration in ASEAN is still very low at under 3%, less than half the global penetration rate of almost 7%.⁴ There is clearly an expanding market for insurance products in the region, which will provide good growth opportunities for ASEAN insurers.

10 As ASEAN insurers become more active in overseas ASEAN markets under AFAS, it will be crucial for regulators to respond by establishing a comprehensive framework to address group-wide activities and risks. This calls for greater supervisory cooperation beyond the traditional cross-border exchange of information between supervisors. Under the revised IAIS Core Principles, regulators will need to agree on and designate a group-wide supervisor to take responsibility for the consolidated supervision of the group. The group-wide supervisor will need to step up its interactions with relevant host supervisors, to make group-wide supervision more effective and more reflective of actual business practices on the ground. The longstanding friendship built up amongst the ASEAN insurance regulators through the AIRM platform, provides a strong foundation for us to develop these additional supervisory arrangements.

Macroprudential Surveillance

11 Third, as the interconnectedness of ASEAN financial markets increases, the need to develop effective macroprudential surveillance techniques for the region becomes more pressing. The global financial crisis has highlighted the importance of surveillance of risks beyond the level of the individual firm, sector or country. Contagion effects from one firm, sector or country can have spillover effects that cut across geographical boundaries and financial sectors.

12 Macroprudential surveillance seeks to detect emerging patterns of financial instability in advance and to gauge their gravity when they occur. Compared to the banking sector, there is a lack of knowledge and literature on the issue of macroprudential surveillance in the insurance sector. Recognizing this gap, the IAIS has established a Financial Stability Committee which is actively developing macroprudential surveillance data and tools relevant to the insurance sector.

13 In this region, the ASEAN+3 (China, Japan and Korea) Macroeconomic Research Office (AMRO) commenced operations in May 2011. AMRO will play a key role in monitoring the macroeconomic situation and financial stability in the ASEAN+3 countries. ASEAN insurance regulators can tap on AMRO, as well as contribute inputs to the surveillance process, as we seek to identify potential vulnerabilities within the insurance markets which may have an impact on the financial system and regional economies. The AIRM platform can be used to initiate discussions amongst insurance regulators on macroprudential issues, to develop a better understanding of the

potential systemic risks posed by the insurance sector to ASEAN financial markets.

Strengthen Partnership with Industry

14 Even as ASEAN insurance regulators strengthen our cooperation with each other, we must continue to work closely with industry players to achieve our common objectives. Let me share some areas where a private-public partnership can bear fruit. Some of these initiatives may be more appropriate at a national level, while others could be extended to a regional level.

15 In the area of educating consumers on the importance of planning for their insurance needs, Singapore's national financial education programme MoneySENSE, benefits from the active participation of the general and life insurance associations. MoneySENSE works closely with these associations to promote financial literacy through the media, seminars, workshops and consumer guides. Financial education is a long term effort requiring strong commitment from all stakeholders and MAS will continue to work with the industry associations to raise financial literacy levels.

16 There is also scope for market players to take the lead, with support from regulators, in enhancing self-regulation and improving risk management practices in the industry. Let me highlight three such initiatives in Singapore.

17 First, the Agent Registration Board (ARB) was set up by the General Insurance Association of Singapore in 1990. The ARB registers all agents selling insurance on behalf of registered general insurers, and self-regulates to ensure the professionalism and proper conduct of general insurance agents in Singapore. This self-regulatory framework administers MAS' regulatory requirements on the agents such as registration, proper agency contracts and competency levels of the agency force. MAS continues to be supportive of this self-regulatory mechanism, which has worked well since its inception.

18 Second, the General Insurance Association in Singapore is exploring the development of a fraud database where insurers can share information to better support their fight against fraud. With the ratification of Protocol 5 of the ASEAN Scheme of Compulsory Motor Vehicle Insurance and the proposed AFAS, ASEAN countries may find it useful to jointly work towards the development of an ASEAN-wide fraud database.

19 Third, the industry has formed a multi-sector workgroup to come up with guidelines and best practices to advance reinsurance contract certainty. The workgroup comprises the Singapore Reinsurance Association, the General Insurance Association, Reinsurance Brokers Association, Lloyd's and Insurance Law Association of Singapore. MAS supports this initiative and will work with the industry to implement the new standards. There may be value for the ASEAN insurance industry to consider a similar initiative given the growing volume of cross-border regional reinsurance business.

20 An important initiative which ASEAN countries have already started work on is the ANDREWS project. In recent years, the ASEAN insurance industry has had to deal with large insurance claims arising from the increased frequency and severity of natural disasters in the region. There is a clearly an urgent need for better collaboration by the public and private sectors to address and manage the threats and risks posed by such disasters.

21 Established in 2007, the ASEAN Natural Disasters Research Works Sharing committee or ANDREWS committee, comprises representatives from various technical universities and relevant research institutes in ASEAN. It provides a platform for exchanging information on the latest scientific research and developments relating to natural disasters as well as risk transfer mechanisms for catastrophe risk management. The ASEAN insurance community should examine how it can work with such groupings to jointly harness the expertise and help mitigate the risks and potential implications of growing losses from such disasters. Insurers could also work towards incorporating such information and statistics into their own pricing and loss reserves models.

Capability Building

22 Finally, allow me say something on the importance of building up the capabilities of insurance sector professionals.

23 I mentioned earlier the potential for strong growth in the ASEAN insurance industry. If this is not underpinned by an equally rapid growth of capabilities, whether it is in product manufacture or quality of sales advice, we risk derailing the growth potential.

24 A quality talent pool is critical to sustain long-term growth of any industry. MAS is committed to working in partnership with the industry on capability building efforts. We have worked alongside

industry associations in various manpower development programmes such as the Global Internship Programme led by the General Insurance Association and the Insurance Executive Scholarship Programme led by the Singapore College of Insurance.

25 I should add that capability building is also an area of focus for regulators. In this regard, the ASEAN Insurance Training and Research Institute (AITRI) plays a crucial role in providing training for regulators as well as the private sector. AITRI also works to improve and enhance capabilities and technical knowledge in the insurance industry so that our respective insurance industries continue to help each other achieve sustainable growth.

Conclusion

26 Let me now conclude. Prospects for the ASEAN insurance market appear promising but we will not be insulated from economic and financial developments in the US and Europe. Insurers must brace themselves for a more difficult risk and investment environment. Insurance regulators and the industry will need to work closely together to navigate successfully through this uncertain environment. ASEAN is fortunate that we have already made a head start. Through the longstanding AIRM and AIC meetings, we have ready-made platforms for discussing both how to surmount the challenges in insurance supervision, as well as how to harness the opportunities in the insurance industry. I am sure that over the course of the meetings, there will be many useful ideas and insights to be shared.

27 On that note, I wish you all a rewarding and fruitful meeting. Thank you.

¹ IMF World Economic Outlook, Sep 2011. Aggregate GDP figures are obtained using PPP-adjusted weights.

² IMF World Economic Outlook, Sep 2011. Figures exclude Laos as data is not available.

³ ASEAN Secretariat (ASEAN Insurance Report 2011)

⁴ 2011 Swiss Re Sigma Study "World Insurance in 2010"

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