



USAID
FROM THE AMERICAN PEOPLE



Strengthening Insurance Supervision to Foster Economic Growth

Regional Initiative Implementation Plan

August 15, 2011

This publication was produced for review by the United States Agency for International Development. It was prepared for the Partners for Financial Stability (PFS) Project, delivery order number EEM-I-00-07-00005-00 implemented by Deloitte Consulting, LLP

Strengthening Insurance Supervision to Foster Economic Growth

Regional Initiative Implementation Plan

USAID PARTNERS FOR FINANCIAL STABILITY (PFS) PROJECT
CONTRACT NUMBER: AID-EEM-I-00-07-00005-00
TASK ORDER NUMBER: AID-OAA-TO-10-00022

DELOITTE CONSULTING, LLP
USAID/E&E/ECONOMIC GROWTH/MARKET TRANSITION

August 15, 2011

DISCLAIMER

The report made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of Deloitte Consulting, LLP and do not necessarily reflect the views of USAID or the United States Government.

Table of Contents

1. EXECUTIVE SUMMARY.....	1
<i>Table 1: Regional Initiative Implementation Plan Summary.....</i>	<i>2</i>
2. THE DEVELOPMENT CHALLENGE.....	4
CORE PRINCIPLES ASSESSMENTS HAVE NOT BEEN CONDUCTED FOR A MAJORITY OF COUNTRIES AND/OR INDICATE SIGNIFICANT AREAS OF NON-COMPLIANCE	4
COUNTRIES LACK TECHNICAL SUPPORT TO IMPLEMENT RECENT STATUTORY CHANGES TO SUPPORT IMPLEMENTATION OF BEST PRACTICES	4
RISK BASED SUPERVISION AND CONSUMER PROTECTION ARE WEAK	5
REGULATORY GUIDANCE ON INSURANCE COMPANY TRANSPARENCY AND DISCLOSURE IS NEEDED.....	5
3. OBJECTIVES OF REGIONAL INITIATIVE	5
4. PARTNERSHIPS	6
5. PLANNED REGIONAL ACTIVITIES.....	6
<i>Activity 1: Support PFS Beneficiary Countries in (a) conducting self-assessment with IAIS Core Principles and (b) development of Action Plans for addressing weaknesses.</i>	<i>7</i>
<i>Activity 2: Follow-through on implementation of IAIS Core Principles action plans by supporting regional conferences, online meetings, and technical workshops of insurance supervisors.</i>	<i>7</i>
<i>Activity 3: Support twinning programs with Mentor Countries’ insurance supervisors.....</i>	<i>7</i>
<i>Activity 4: Support attendance at NAIC International Fellows Program.....</i>	<i>7</i>
<i>Activity 5: Support a regional Toronto Centre leadership or crisis management training program for high level managers of insurance supervisory authorities.....</i>	<i>7</i>
<i>Activity 6: Support regional technical workshops on risk based supervision, consumer protection, and other topics.....</i>	<i>8</i>
<i>Activity 7: Conduct and publicize periodic benchmarking surveys of insurance supervisors and insurance companies to assess and promote adequacy of consumer information disclosures</i>	<i>8</i>
<i>Activity 8: Conduct and publicize periodic benchmarking surveys to assess and promote insurance companies’ corporate governance and transparency practices</i>	<i>8</i>
<i>Activity 9: Develop model guidelines on insurance company corporate governance for insurance supervisors.....</i>	<i>9</i>
6. EXPECTED OUTCOMES.....	9
7. MONITORING PLAN.....	9
APPENDIX 1: THE ECONOMIC DEVELOPMENT ROLE PLAYED BY THE INSURANCE SECTOR IN EMERGING MARKETS 14	
<i>Life Insurance Premiums Per Capita to GDP in Eurozone Countries and CEE (USD).....</i>	<i>14</i>

Acronyms

E&E	Europe and Eurasia region
EU	European Union
IMF	International Monetary Fund
IAIS	International Association of Insurance Supervisors
IT	Information Technology
NAIC	National Association of Insurance Commissioners
PFS	Partners for Financial Stability
SEE	Southeast Europe
USAID	United States Agency for International Development
WB	World Bank

About PFS

The United States Agency for International Development (USAID) Partners for Financial Stability (PFS) Program is led by the Office of Economic Growth in the Europe and Eurasia Bureau (E&E). The project addresses the challenges facing the financial sector in 12 Partner Countries: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia (Southeastern Europe) as well as Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine (Eurasia). Other countries in the E&E region that are considered USAID ‘graduates’ serve as Mentor Countries in the PFS Program.

The PFS Program is designed to complement the work of the bilateral USAID missions’ Economic Growth programs in the region by bringing together regional players to address regional challenges. PFS Program activities include benchmarking studies, conferences, knowledge sharing, research and technical assistance. The PFS Program addresses the challenges of the financial systems in these regions, working in a broad range of subject areas including anti-money laundering, banking and non-bank financial regulation, supervision and institutional rehabilitation, corporate governance, financial literacy, access to finance and implementation of international standards in financial sector reporting.

1. Executive Summary

It is well established that insurance and economic growth are interdependent. As far back as 1964, during a United Nations Conference on Trade and Development economists concluded that a sound insurance sector is an essential component of a proper economic system. A subsequent 1990 report found that both life and non-life insurers generate significant economic growth in developing countries.

Many of the economic benefits resulting from a sound insurance sector have yet to reach the emerging markets in Southeastern Europe and Eurasia. There is a clear need and opportunity to foster economic growth by strengthening the insurance industry and the insurance regulatory system through regional activities.

This Regional Initiative Implementation Plan (RIIP) defines how the PFS Program will provide regional assistance to improve insurance supervision as a means of fostering economic development. An overview of the Regional Initiative is provided in the table below.

Table 1: Regional Initiative Implementation Plan Summary

Objective	Partnerships	Activity	Outcome	Monitoring
Promote implementation of the IAIS Core Principles of insurance supervision	<ul style="list-style-type: none"> IAIS Insurance supervisors from PFS Beneficiary and Mentor countries EU Insurance Regulators NAIC World Bank IMF Toronto Centre 	1. Support PFS Beneficiary Countries in (a) conducting self-assessment with IAIS Core Principles and (b) development of Action Plans for addressing weaknesses	Improved compliance with IAIS Core Principles in PFS Beneficiary Countries	Number of PFS Beneficiary countries that assessed (or re-assessed) for compliance with the IAIS Core Principles
		2. Follow-through on implementation of IAIS Core Principles Action Plans by supporting regional conferences, online meetings, and technical workshops of insurance supervisors		Number of countries that improve compliance with IAIS Core Principles
		3. Support twinning programs with Mentor countries' insurance supervisors		Number of twinning arrangement with PFS Mentor countries
		4. Support attendance at NAIC International Fellows Program		Number of NAIC International Fellows from Beneficiary countries supported by PFS
		5. Support a regional Toronto Centre leadership or crisis management training program for high level managers of insurance supervisory authorities		Number of PFS beneficiary countries that participate in the Toronto Centre training program for insurance supervisors
Promote implementation of leading practices in risk-based supervision and consumer protection disclosures	<ul style="list-style-type: none"> IAIS Insurance supervisors from PFS Beneficiary and Mentor countries EU Insurance Regulators NAIC World Bank IMF Toronto Centre 	6. Support regional technical workshops on risk based supervision, consumer protection, and other topics	Improved consumer protection disclosures and risk-based supervision in PFS Beneficiary Countries	Number of regional technical workshops on risk based supervision, consumer protection, and other topics
		7. Conduct and publicize periodic benchmarking surveys of insurance supervisors and insurance companies to assess and promote adequacy of consumer information disclosures		Number of PFS Beneficiary Countries that show improved consumer protection disclosures

Objective	Partnerships	Activity	Outcome	Monitoring
Improve corporate governance and transparency of insurance companies, based on IAIS Core Principles and OECD Principles of Corporate Governance	<ul style="list-style-type: none"> • IAIS • Insurance supervisors from PFS Beneficiary and Mentor countries 	8. Conduct and publicize periodic benchmarking surveys to assess and promote insurance companies' corporate governance and transparency practices	Improved transparency and corporate governance disclosure practices of insurance companies	Number of PFS Beneficiary Countries that show improvement in corporate governance and transparency of insurance practices
		9. Develop model guidelines on insurance company corporate governance for insurance supervisors	Improved regulatory oversight of corporate governance practices in PFS Beneficiary Countries	Number of PFS Beneficiary Countries that adopt/improve model guidelines on corporate governance for insurance companies

2. The Development Challenge

Development of the insurance sector is integral to economic growth in emerging markets. A developed insurance industry provides businesses and individual's coverage of damage to automobiles, homes, commercial property, workers' compensation, environmental and marine insurance, and a range of other types of liability insurance. The availability of this wide range of insurance products mobilizes savings and leads to growth in credit and investment for businesses and individuals. More information about the role of the insurance sector in economic development in emerging markets is provided in Appendix 1.

Many of the economic benefits of insurance have yet to reach the emerging markets in SEE and Eurasia. As noted in PFS' Regional Benchmarking Report dated June 2011, both regions lag significantly behind the northern tier of Central and Eastern European countries in terms of financial sector economic development. *The insurance markets in SEE and Eurasia can be characterized as underdeveloped because the insurance industry's size and contribution to economic development remains very low despite the introduction of the necessary legal structure.* There is a clear need and opportunity for USAID to foster economic growth by strengthening the insurance sector. The industry should be allowed to develop in accordance with market forces, but development can be supported through measures to strengthen the insurance regulatory system and the corporate governance of insurance companies to build consumer confidence in the industry.

Earlier this year PFS undertook an analysis to determine the soundness of the insurance regulatory systems in SEE and Eurasia. We conducted a high level assessment of each country's insurance supervisory agency's practices compared to the International Association of Insurance Supervisors (IAIS) Core Principles. The results of the assessment served as a basis for defining the regional activities that are detailed in Section 5 of this RIIP. Three major findings resulting from the assessment are listed below.

Core Principles assessments have not been conducted for a majority of countries and/or indicate significant areas of non-compliance

Only five of the 12 Beneficiary countries have undergone some type of IAIS Core Principles assessment and, of those that have, results indicate that significant work is needed to improve Core Principles compliance. For example, Montenegro's assessment indicated that either it does not observe or only partially observes 13 of the 28 of the Core Principles; while Armenia's revealed that 16 of the 28 Core Principles were completely or materially unobserved. Further, none of countries has begun to address the proposed revisions to the Core Principles that are expected be adopted formally by the IAIS at its fall 2011 meeting.

Countries lack technical support to implement recent statutory changes to support implementation of best practices

Despite the weaknesses in Core Principles compliance, all 12 countries have made recent statutory changes to improve insurance regulation, underscoring the need for technical assistance to support implementation of these new practices. This is consistent with the IMF's 2010 findings that, "while progress is being made in putting regulation in place, work remains to be done...to strengthen supervision."¹ All 12 countries stated that they need assistance in implementing international standards and best practices.

¹ "The Making of Good Supervision: Learning to Say No," May, 2010.

Risk based supervision and consumer protection are weak

Seven of the 12 countries surveyed stated that an area of major concern is implementation of risk-based supervision and Solvency II (capital adequacy). Thus, there is sufficient need to approach risk-based supervision and Solvency II training on a regional basis. A second important area of concern cited by respondents was the need to strengthen consumer protection as part of building confidence in the insurance market.

These findings were confirmed by a subsequent needs assessment undertaken during a regional technical workshop supported by a small PFS cost-share (Activity 4.1) and through benchmarking surveys of regulatory and insurance company websites (Activities 7 and 8). The technical workshop involved five SEE countries and featured trainers from the IAIS, EU countries, and Mentor countries on consumer and risk based supervision. It was agreed during conference deliberations that both areas have not yet received the attention necessary to bring SEE Beneficiary countries into compliance with international best practices. The PFS benchmarking survey identified a serious weakness in consumer best practices: 12 of the 13 the regulatory authorities² in SEE and Eurasia have no consumer information on their websites; while more than half of the top ten largest insurance companies in each country do not have 'consumer complaints' or 'how to file a claim' sections on their websites.

Regulatory guidance on insurance company transparency and disclosure is needed

The fourth key finding arose from PFS' preliminary benchmarking survey of insurance company websites in SEE and Eurasia (Activities 7 and 8). The survey determined that insurance companies do not disclose an appropriate level of corporate governance related information on their websites. In most countries, the majority of companies do not provide the most basic information: annual reports, lists of management members, or names of supervisory board members. This finding is consistent with the survey results of the PFS Investor Relations Online survey of websites of listed companies in SEE and Eurasia (March 2011) which found that, "much work needs to be done (in Beneficiary Countries) in the areas of...business ethics, compliance, financial/extra financial reporting and transparency."

3. Objectives of Regional Initiative

The overarching objective of this regional initiative is:

To facilitate economic growth and financial sector sophistication by improving insurance regulatory systems and improving the transparency and disclosure practices of insurance companies.

PFS will meet the overarching objective through these intermediate objectives:

- Promote implementation of IAIS Core Principles of insurance supervision.
- Promote implementation of the leading practices in risk-based supervision and consumer protection disclosures.
- Improve corporate governance and transparency of insurance companies based on IAIS Core Principles and OECD Principles of Corporate Governance.

² Bosnia and Herzegovina has two insurance supervisory agencies, thus for the 12 PFS beneficiary countries there are a total of 13 insurance supervisory authorities.

The consumer protection activities described in this RIIP will serve as cross-cutting activities in connection with PFS' Financial Literacy activities.

4. Partnerships

The PFS program has been designed to meet financial sector challenges and gaps by facilitating partnerships, regional knowledge sharing and cost sharing. This regional initiative will be built upon partnerships and potential cost sharing arrangements with insurance supervisors, educational institutions and regulatory authorities in the Beneficiary and Mentor countries as well as cooperation with other donors, international standards setters, and professional institutions in the insurance field. Key partnership arrangements are being discussed and will likely include the following:

- The International Association of Insurance Supervisors (IAIS), the global insurance regulatory body that sets international regulatory standards and promotes best practices. The IAIS could provide support in several ways, including international standards, access to their core-training curriculum and through consideration of PFS Beneficiary Country applications for training grants.
- Mentor country supervisors will contribute through knowledge sharing and training. Their expertise will be sought for training and twinning efforts with Beneficiary countries. Mentor countries could provide instructors and guidance, e.g., on their paths to IAIS compliance, manuals they have developed and practices and producers they have implemented.
- Beneficiary country supervisors will benefit from PFS activities and share costs.
- European Union insurance supervisors will provide knowledge and expertise on EU insurance provisions. This is particularly important for those countries that are committed to achieving EU membership.
- The National Association of Insurance Commissioners (NAIC), the state based insurance regulatory body in the United States. Of particular interest are the fellowships they offer to insurance staff from foreign countries.
- World Bank (WB) and International Monetary Fund (IMF) conduct occasional IAIS assessments of emerging market countries. Their assessments of SEE and Eurasian countries will be used to determine IAIS compliance as well as to identify the insurance regulatory areas most in need of attention.
- Toronto Centre for Leadership in Financial Supervision provides acclaimed high level training programs for senior managers of financial sector supervisors in emerging markets.

5. Planned Regional Activities

The activities described below are interrelated and build on each other to assure sustainable development and institutionalization of insurance regulatory best practices in Eurasia and SEE. To the extent possible they will be integrated with Regional Initiative Implementation Plans on actuarial development and corporate governance to control costs and maximize effectiveness.

Objective 1: Promote implementation of IAIS Core Principles of insurance supervision

Activity 1: Support PFS Beneficiary Countries in (a) conducting self-assessment with IAIS Core Principles and (b) development of Action Plans for addressing weaknesses.

PFS will organize three 2.5 day regional workshops where experts from PFS, Mentor countries, and/or IAIS would assist insurance supervisors from 3-4 countries to conduct self-assessments of their compliance with the IAIS Core Principles and develop Action Plans for addressing weaknesses (while sharing knowledge and experience with their peers). Beneficiary countries would pay attendance expenses; PFS would pay costs of experts / facilitators and experts from Mentor Countries; venues would be provided by host country.

Proposed Timing: 1Q-2012 and 2Q-2012

Activity 2: Follow-through on implementation of IAIS Core Principles action plans by supporting regional conferences, online meetings, and technical workshops of insurance supervisors.

PFS will organize or support at least three follow-up workshops, workshop sessions (in connection with other workshops described in this RIIP), or online meetings to support implementation of action plans to improve conformance with the Core Principles. These sessions will focus on implementation challenges relating to the most important Core Principles with which a number of countries are not in compliance, for instance, consumer protection or risk based supervision.

Proposed Timing: 2Q-2012 and 3Q-2012.

Activity 3: Support twinning programs with Mentor Countries' insurance supervisors

PFS will provide organizational or cost-sharing support to formal or informal twinning programs which may arise from the assessments exercise.

Activity 4: Support attendance at NAIC International Fellows Program

PFS will provide cost-share of up to 50 percent of the direct costs for two to six supervisors from Beneficiary countries to attend this program in the U.S. The objective of this program is to advance working relations amongst insurance supervisors internationally and to promote the transfer of applied regulatory knowledge and best practices for practical application.

Proposed timing: Fall 2011 and Spring 2010. (This is a continuation of a demand-driven legacy activity from the former PFS program.)

Activity 5: Support a regional Toronto Centre leadership or crisis management training program for high level managers of insurance supervisory authorities

Through its partnership with Toronto Centre for Leadership in Financial Supervision and the various financial sector supervisory authorities in SEE and Eurasia, PFS will provide cost-sharing to support a high level training program for insurance supervisors in SEE and Eurasia. The most likely host country would be Poland, one of the strong Mentor Country regulators; Armenia, which has hosted two Toronto Centre events; or Montenegro, which is interested in serving as a partner to host Toronto Centre events.

Proposed timing: 2012 or early 2013.

Objective 2: Promote implementation of the leading practices in risk-based supervision and consumer protection disclosures

Activity 6: Support regional technical workshops on risk based supervision, consumer protection, and other topics

To further promote the implementation of international best practices and IAIS Core Principles, PFS will support a number of regional technical workshops and knowledge sharing events, including:

Activity 6.1: Conduct Regional Technical Workshop for SEE Insurance Supervisors

Hosted by Macedonian Insurance Supervision Agency, May 2011, in Ohrid, Macedonia

PFS provided a technical expert / trainer on risk-based supervision; conducted a needs assessment of supervisors with regard to risk-based supervision; presented and discussed the results of its first-round benchmarking surveys (see Activities 3 and 4); and provided a small cost-share contribution.

Activity 6.2: Conduct Regional Technical Workshop on Risk-Based Supervision for SEE Insurance Supervisors

Hosted by Macedonian Insurance Supervision Agency, November 2011, in Skopje, Macedonia

PFS will provide technical and financial support for the knowledge-sharing workshop amongst Beneficiary and Mentor country supervisory agencies.

Activity 6.3: Support technical workshops on consumer protection

PFS will provide cost-share support for one to three (depending on demand) host Beneficiary countries to organize technical workshops focusing on developing consumer protection legislation, regulations and materials (Core Principle 25). These workshops will facilitate sharing of knowledge and best practices.

Proposed timing: Estimated timing of first event: 2Q-2012 in Eurasia.

Activity 7: Conduct and publicize periodic benchmarking surveys of insurance supervisors and insurance companies to assess and promote adequacy of consumer information disclosures

PFS will conduct an annual survey of websites of insurance supervisors and insurance companies to measure, assess and benchmark progress toward adoption of best practices in providing consumer information. The results will be published and presented to insurance supervisors in order to promote best practices.

Proposed Timing: Consumer Protection Survey 1, 2Q-2011; Consumer Protection Survey 2, 2Q-2012; Consumer Protection Survey, 1Q-2013

Objective 3: Improve corporate governance and transparency of insurance companies, based on IAIS Core Principles and OECD Principles of Corporate Governance

Activity 8: Conduct and publicize periodic benchmarking surveys to assess and promote insurance companies' corporate governance and transparency practices

PFS will conduct an annual survey of websites of insurance companies to measure, assess and benchmark progress toward adoption of best practices in transparency and corporate governance disclosures. The results will be published and presented to insurance companies and supervisors to promote adoption of best practices.

Activity 9: Develop model guidelines on insurance company corporate governance for insurance supervisors

By Q1-2012 PFS will undertake an assessment of regulatory oversight of corporate governance practices as compared to the new IAIS Core Principles. Statutory and regulatory gaps in insurance company transparency and disclosure requirements will be identified. A regional approach to addressing those gaps will then be undertaken by developing and encouraging the adoption of model corporate governance guidelines (by Q3-2012 at latest) consistent with international best practices.

PFS will share the model guidelines and promote implementation during special sessions of the technical workshops or conferences to be held in conjunction with Activity 1.

6. Expected Outcomes

The expected outcomes of the regional activities are:

- Improved compliance with IAIS Core Principles in PFS Beneficiary Countries;
- Improved consumer protection disclosures and risk-based supervision in PFS Beneficiary Countries;
- Improved transparency and corporate governance disclosure practices of insurance companies;
- Improved regulatory oversight of corporate governance practices in PFS Beneficiary Countries.

7. Monitoring Plan

This section of the Regional Initiative Implementation Plan outlines how PFS will measure and monitor whether PFS activities are on track and contribute to the achievement of Regional Initiative Outcomes.

PFS will track the results of this Regional Initiative as part of its PFS PMP, using various data sources, such as PFS assessments and benchmarking studies, international institutions data reporting, counterpart self-assessments and reporting. PFS will also use surveys to measure overall satisfaction with PFS events amongst stakeholders (for example, after study tours or knowledge-sharing events), and thereby also gauge future demand for PFS initiatives/interventions. PFS will track cost-sharing amounts and percentages by the beneficiaries of the activities and by other co-financing organizations. Beneficiaries' and other organizations' willingness to share in the costs of PFS activities is a strong indicator of the usefulness of the events.

The Monitoring Plan below highlights the existing PMP indicators to which this Regional Initiative will contribute; as well as specific indicators at the Regional Initiative's Objective level (outcome-type indicators), and Activity level (output-type indicators). Recognizing that some of the activities may be demand-driven, appropriate indicators will be removed or added based on activity status during our regular quarterly reporting process to USAID.

E&E/EG Office Level	AO: Broad-based, inclusive and sustainable economic growth and integration in the E&E region				
	IR: Increased Financial Sector Stability, Growth and Inclusion				
	IR Indicators:	Credit to the private sector as of GDP (FA Framework)			
		Interest rate spread percentage (FA Framework)			
		Capital adequacy			
NPL as a % of total lending					
Sub IR 1.1: Increased financial sector integration	Sub IR 1.2: Increased harmonization of policies and practices with intl standards	Sub IR 1.3: Increased institutional capacity of financial sector actors	Sub IR 1.4: Increased access to financial services for historically underserved groups		
PFS Program PMP-Level	Sub IR Indicators:				
	Number of formal partnerships developed with regional and international standard organizations, donor organizations, and research organizations in PFS areas	Number of Financial Sector Professionals trained on international standards with PFS assistance (PPR)	Number of Financial Sector Supervisors or Regulators trained with PFS assistance (PPR)	Number of financial institutions supported by PFS technical assistance in the area of SME lending	
	Number of networks established between PFS financial sector stakeholders across PFS technical areas across E&E region	Number of internationally recognized financial sector standards adopted as a result of PFS assistance	Number of material improvements in the infrastructure institutions that reduce market risks made with PFS assistance (PPR)	Positive change in utilization of donor credit lines or guaranty facilities for onlending to SMEs by those financial institutions supported by PFS technical assistance	
		Number of financial sector training and/or certification programs established or supported that meet international standards (PPR)	Increase in revenue of PFS partners associations, training institutions or other organizations for provision of training or other services to financial sector stakeholders.	Number of financial sector training and/or certification programs established or supported that meet international standards (PPR)	

Regional Initiative Implementation Plan – Insurance Regulation			
Notional Budget: \$250,000			
RIIP Primary Objective: To facilitate economic growth and financial sector sophistication by improving insurance regulatory systems and improving the transparency and disclosure practices of insurance companies.			
Project Initiative (RIIP) Level			
<p>RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision</p>	<p>RIIP Intermediate Objective 2: Promote implementation of leading practices in risk-based supervision and consumer protection disclosure</p>	<p>RIIP Intermediate Objective 3: Improve corporate governance and transparency of insurance companies, based on IAIS Core Principles and OECD Principles of Corporate Governance</p>	
<p>Number of PFS Beneficiary countries that assessed (or re-assessed) for compliance with the IAIS Core Principles Unit of measure: Cumulative number of countries that conduct a thorough assessment/reassessment for compliance with the IAIS Core Principles</p> <p>Number of countries that improve compliance with IAIS Core Principles Unit of measure: Cumulative number of countries that show improvement with IAIS Core Principles as compared to the baseline (move from materially unobserved to partially observed, from partially observed to observed, etc.)</p> <p>Number of twining arrangement with PFS Mentor countries Unit of measure: Cumulative number of twining arrangements between Mentor and Beneficiary countries established with PFS assistance</p>	<p>Number of regional technical workshops on risk based supervision, consumer protection, and other topics Unit of Measure: Cumulative number of regional workshop</p> <p>Number of PFS Beneficiary Countries that show improved consumer protection disclosures Unit of Measure: Based on websites’ surveys, cumulative number of countries that adopt best practices in providing consumer info, as compared to the baseline assessment</p>	<p>Number of PFS Beneficiary Countries that show improvement in corporate governance and transparency of insurance practices Unit of measure: Based on websites’ surveys, cumulative number of countries that improve practices in corporate governance and transparency, as compared to the baseline assessment</p> <p>Number of PFS Beneficiary Countries that adopt/improve model guidelines on corporate governance for insurance companies Unit of measure: Cumulative number of countries that either adopt the model guidelines or improve corporate governance practices based on the model guidelines.</p>	

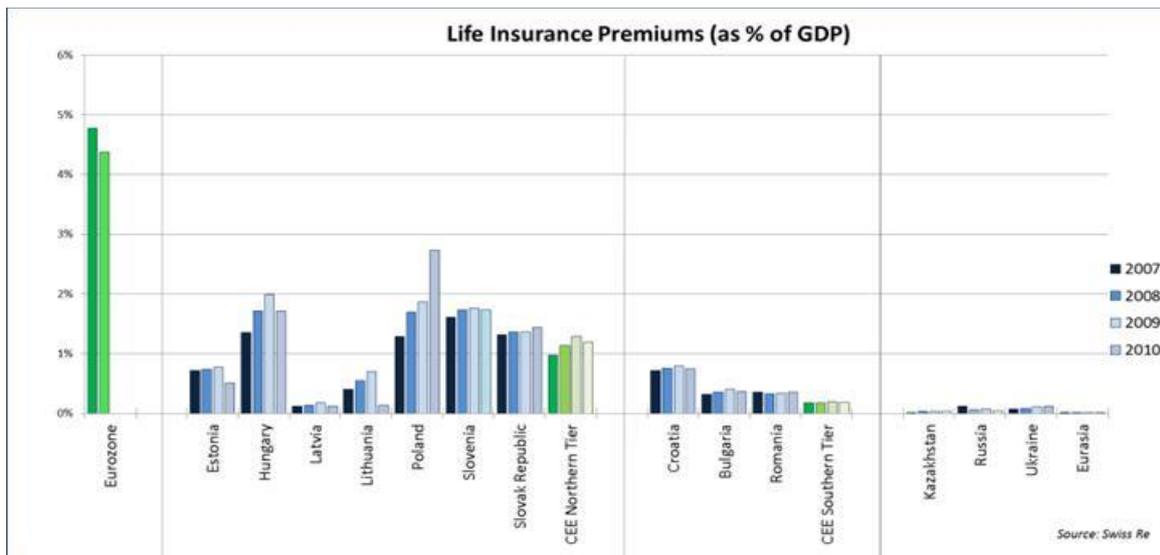
	Activity	Activity Indicator(s)	Related RIIP Objective(s)	Related PMP Objective(s)
Activity Implementation Level	Activity 1: Support PFS Beneficiary Countries in (a) conducting self-assessment with IAIS Core Principles and (b) development of Action Plans for addressing weaknesses	Number of PFS Beneficiary Countries participating in regional workshops to conduct self-assessments of compliance with the IAIS Core Principles and develop Action Plans.	RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision	Sub IR 1.3: Increased institutional capacity of financial sector actors
	Activity 2: Follow-through on implementation of IAIS Core Principles action plans by supporting regional conferences, online meetings, and technical workshops of insurance supervisors	Number of post-assessment/follow-up events, including workshops, workshop sessions (in connection with other workshops described in this RIIP), or online meetings to support implementation of Action Plans.	RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision	Sub IR 1.3: Increased institutional capacity of financial sector actors
	Activity 3. Support twinning programs with Mentor countries' insurance supervisors	Number of twinning arrangement with PFS Mentor countries	RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision	Sub IR 1.1. Increased financial sector integration
	Activity 4. Support attendance at NAIC International Fellows Program	Number of NAIC International Fellows from Beneficiary countries supported by PFS	RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision	Sub IR 1.2: Increased harmonization of policies and practices with intl standards
	Activity 5. Support a regional Toronto Centre leadership or crisis management training program for high level managers of insurance supervisory authorities	Number of PFS beneficiary countries that participate in the Toronto Centre training program for insurance supervisors	RIIP Intermediate Objective 1: Promote implementation of the IAIS Core Principles of insurance supervision	Sub IR 1.3: Increased institutional capacity of financial sector actors
	Activity 6. Support regional technical workshops on risk based supervision, consumer protection, and other topics	Number of PFS Beneficiary Countries participating in regional workshops on risk based supervision, consumer protection, and other topics	RIIP Intermediate Objective 2: Promote implementation of leading practices in risk-based supervision and consumer protection disclosures	Sub IR 1.3: Increased institutional capacity of financial sector actors
	Activity 7. Conduct and publicize periodic benchmarking survey of insurance supervisors and insurance companies to assess and promote adequacy of consumer information disclosures	Number of benchmarking surveys on adequacy of consumer information disclosures		Sub IR 1.3: Increased institutional capacity of financial sector actors

<p>Activity 8. Conduct and publicize periodic benchmarking surveys to assess and promote insurance companies' corporate governance and transparency practices</p>	<p>Number of benchmarking surveys on insurance companies' transparency and disclosure practices</p>	<p>RIIP Intermediate Objective 3: Improve corporate governance and transparency of insurance companies, based on IAIS Core Principles and OECD Principles of Corporate Governance</p>	<p>Sub IR 1.2: Increased harmonization of policies and practices with intl standards</p>
<p>Activity 9. Develop model guidelines on insurance company corporate governance for insurance supervisors</p>	<p>Model guidelines on insurance company corporate governance for insurance supervisors developed, yes or no.</p>		<p>Sub IR 1.2: Increased harmonization of policies and practices with intl standards</p>

Appendix 1: The Economic Development Role Played by the Insurance Sector in Emerging Markets

In emerging markets, particularly those of former command economies, basic financial products and services, such as short term bank loans and deposits, have been established. But more complex, long term financial products, such as life insurance, are almost nonexistent. (See chart below.)

Life Insurance Premiums Per Capita to GDP in Eurozone Countries and CEE (USD)



This is particularly significant because the depth and efficiency of a country's financial sector generally determines how well its economy allocates resources. Greater financial sector depth and sophistication, i.e., the variety and availability of financial services and instruments, advances economic growth by providing more opportunities to for businesses and individuals to save, invest, and borrow.

It is well established that insurance and economic growth are interdependent. In 1964, at a United Nations Conference on Trade and Development economists concluded that a sound insurance sector is an essential component of a proper economic system. A subsequent 1990 Conference report by François Outville found that both life and non-life insurers generate significant economic growth in developing countries (see box).

The insurance sector promotes economic growth in ways that differ from other financial intermediaries:

- reducing the capital firms need to operate,
- generating price points for certain types of risk that enable the economy to allocate its resources effectively and promote sensible risk management,
- measuring and managing certain types of credit and borrower risk more efficiently than other institutions providing credit,
- offering more competitive and long term savings options than other financial institutions,
- providing a source of long-term finance (particularly life insurers),
- facilitating investment in infrastructure and high risk/return activities by generating long-term financial investments and managing high risk exposure,
- mobilizing substantial funds through contractual savings and investing in bonds, stocks, stimulating the growth of debt and equity markets,
- (as institutional investors) pressuring equity markets to adopt stronger corporate governance measures

Developed countries tend to have a better functioning insurance sector, with industrialized countries having 90% of the insurance market in 2007 as compared to 10% for emerging markets.³ A 1994 World Bank (WB) Development Report notes that the growth in life insurance assets provides a scarce but highly valuable commodity in developing countries – long-term finance. According to the standard insurance penetration measure (the ratio of insurance premiums to gross domestic product), industrialized countries were at 9.1% in 2008 while emerging markets overall stood at only 4.3%. The situation is even worse in SEE in Eurasia. This measure was just 0.63% in 2009 for the PFS Beneficiary countries in SEE and 0.37% for those in Eurasia.

It should also be noted that research shows that the insurance, banking, and capital markets development are inter related, a factor reflected in PFS's approach to supporting financial sector development in SEE and Eurasia.⁴ For example, while insurance and banking separately contribute to economic growth, their individual contributions are greater when both are present (Brainard) Further, in 2001, WB researchers Musalem and Impavido found that growth of insurance contractual savings contributed to the development of the capital market.

Three examples of the role of insurance in economic growth in emerging markets

- A manufacturer might produce only for the local market, foregoing opportunities in remote locations, to avoid the risk of losing goods in shipment. Transport insurance could mitigate that risk and allow the manufacturer to expand.
- To avoid loss from a drought, a commercial farmer may retain half his seed in the absence of crop insurance. With such coverage, he could plant all the seed for a smaller premium than the cost of withholding half.
- The presence of property-casualty insurance can facilitate credit transactions for houses, consumer durables, and small and medium sized businesses that banks typically finance.

Finally, the IAIS concluded that “without the stability of the economy as a whole and sound development of basic and financial legal infrastructure such as banking, credit and tax systems, the sound development of the insurance industry will not be achieved.”⁵

In emerging markets, the insurance sector's growth and development is sometimes hampered by weak corporate governance and disclosure practices. Both promote confidence in the insurance market, facilitating economic growth. The IAIS, working with the Organization for Economic Cooperation and Development (OECD), has recognized the importance of corporate governance in relation to an insurer's risk profile. As weak governance is seen by regulators as a reason for insurer failures, IAIS Core Principle 9 requires that, “The corporate governance framework recognizes and protects rights of all interested parties (and) the supervisory authority requires compliance with all applicable corporate governance standards.” Notably, the IAIS has proposed a new Core Principle 9 for adoption in fall 2011 that harmonizes governance guidance to promote a consistent approach among regulators and supervisors. It provides that, “the supervisor must require insurers to establish and implement a corporate governance framework which provides for sound and prudent management of the insurer's business. The supervisor must ensure that the corporate governance framework adequately recognizes and protects the interests of policyholders and other beneficiaries.”

³ Opening Address of James Zhan, United Nation Conference on Trade and development, February 23, 2009.

⁴ “What is the Role of Insurance in Economic Development?” Lael Brainard, 2001.

⁵ IAIS Guidelines for Emerging Market Economies, 1997.

Partners for Financial Stability (PFS)
1919 N. Lynn Street
Arlington, VA 22209
Phone: +1 571 882 5000
Fax: +1 571 882 5100