

Regional Insurance Market Integration – Updates on the Asia Pacific Financial Forum (APFF)

For OLIS-LIAM-MII Life Insurance Seminar 2014

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Sherpa, APFF Insurance and Retirement Income Workstream

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)

APFF WORK STREAMS:

- **Insurance and retirement income**
 - Lending infrastructure
 - Trade and supply chain finance
 - Financial market infrastructure(FMI)
/cross-border practice
 - Capital Markets
- + *Linkages and structural issues*

- This year, **ABAC submitted an Interim Report to APEC Finance Ministers**, recommending concrete undertakings across the broad financial sector that can yield tangible results within two or three years.
- This report drew from discussions undertaken by more than 270 senior representatives and experts from 137 major private and public institutions.
- The interim report contains **12 action plans** which are clustered around two major issues:
 - **Promoting capital market depth and liquidity and long-term investments**
 - **Expanding financial access** of enterprises and individuals to financial services

- 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**

- Among the 12 action plans, the following two actions are particularly relevant to insurers and pension funds:
 - Dialogue series on regulation and accounting issues impacting **the long-term business** of the insurance industry in Asia Pacific economies and **longevity solutions**
 - Developing the long-term institutional investor base through enhanced regulators' understanding
 - of **regulatory and accounting issues'** impact on insurers' incentives to do long-term business and
 - of longevity solutions for management of retirement savings
 - Collaboration with APEC Finance Ministers' Process in promoting **long-term investment, including infrastructure**
 - Identifying **market and operational issues** that constrain insurers, and pensions funds' investment in long-term assets, including infrastructure

- Aims to promote policies/regulations supporting **long-term business roles** of insurance and pension funds
- and to provide advice on the development and funding of **retirement systems, with particular focus on longevity and aging**
 - The work stream has three sub-streams:
 - Regulation and accounting
 - Long-term investments and capital market
 - Longevity solutions

- Participants include experts from the insurance, pensions and financial industries, academic specialists and policymakers and regulators
 - Participants (as of 1 October 2014): Nippon Life ([Sherpa](#)), Jardine Matheson ([Vice Sherpa](#)), ADB, AIA Group, ASEAN Insurance Council/WanaArtha Life, ASEAN Secretariat, Asociación de Aseguradores de Chile, Association of Insurance Supervisory Authorities of Developing Countries/Association of Insurers and Reinsurers of Developing Countries, Australian APEC Study Centre at RMIT University, Australian Super, Australian Treasury ([liaison with G20 Australian Presidency](#)), Barnert Global([regulatory and microinsurance](#)), Canadian Pension Plan Investment Board Asia, Cathay Life, Citigroup, Great Eastern Life, HK-APEC Trade Policy Study Group, IAG, ING Bank Singapore, International Insurance Society ([special advisor](#)), Manulife, MetLife([capital market](#)), Nomura Securities, OECD ([liaison with Institutional Investors and Long-Term Investment Project](#)), OJK Indonesia, PIMCO, Pramerica Financial Asia([longevity solution](#)), Prudential Corporation Asia, Samsung Life ([accounting, and liaison with AOSSG](#)), Sun Life Financial, Tokio Marine, ASIFMA ([observer and liaison with other relevant worksterams](#))

- Current and future work of the workstream:
 - Active participation in international discussions (providing inputs as needed and appropriate) and dialogue with policy makers and regulators
 - Gap analysis: through a survey and/or case studies on insurance, investment, pensions, accounting, and regulations
 - Basis for a proposed list of deliverables, timeframes, benchmarks, action plans

- Current and future work of the workstream(*cont.*):
 - Collaborate with interested authorities, consultants, and regional/international organizations (i.e. World Bank, OECD, ADB, ASEAN) and other relevant workstreams (i.e. APFF Capital Market Workstream)
 - The following issues are also to be part of the work in the future
 - Disaster risk financing
 - Microinsurance

You can find **APFF Interim Report to the APEC Finance Ministers** here:

- Executive Summary

<https://www.abaonline.org/v4/download.php?ContentID=22611923>

- Full report

<https://www.abaonline.org/v4/download.php?ContentID=22611921>

E. Insurance and Retirement Income (see page 56-62)

- Annex H: Constrains on Promoting Long-Term Investment in the Asia-Pacific

<https://www.abaonline.org/v4/download.php?ContentID=22611898>

- **High-level issues and recommendations**

(regulatory, accounting, market and operational issues) as a basis for discussion with policymakers and regulators

- **Unintended consequences might occur if banking regulations were copied for insurers**
 - Insurers play an important role as **long term investors**
 - Life insurers play an increasing role in the social security system
 - **Diversity** needed to support a sound development of the environment



(Photo – Sydney, Australia)

- Economic-based regime should have a long-term vision
- If a short-term-minded economic regime were implemented

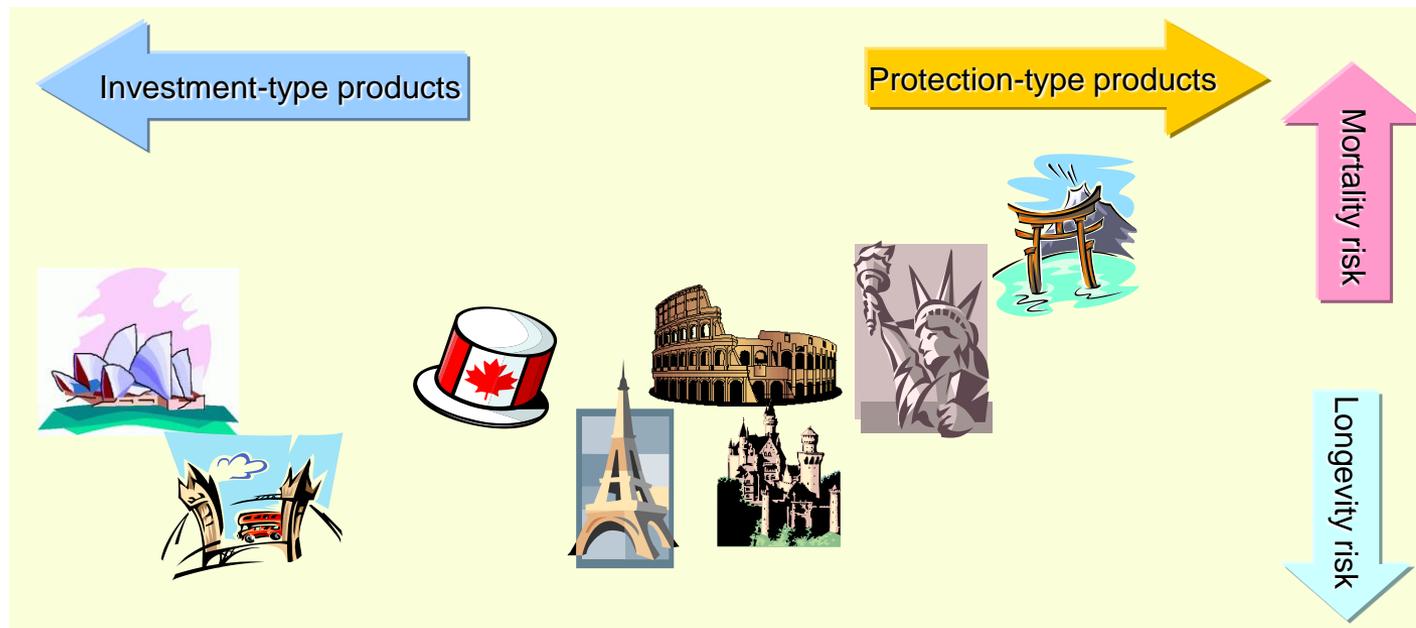


(Photo – Santiago, Chile)

- **Significant volatility** for long term products
- Driven to transfer risks over to customers
- Refrain from investing in non-fixed income assets

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

- **“One-size-fits-all”** models would not work
- **Different business models by jurisdiction**
 - Consumers’ **risk preference**
 - **Expected roles** of the insurers
 - State of **development of financial markets**



■ Volatility in the balance sheet

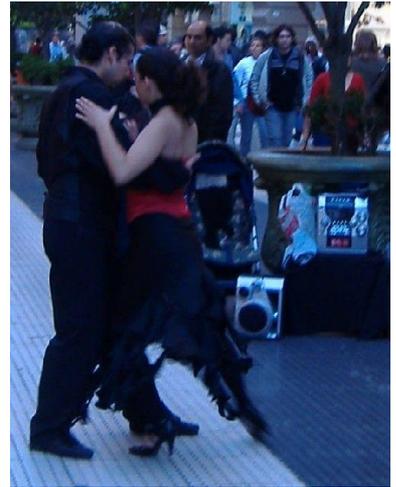
- Short-term fluctuation should be avoided
 - Assets-liabilities interaction should be reflected for a wide range of products sold in the region
 - Discount rate should reflect the business model

■ Volatility in the income statement

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

■ The proposed IFRS contains other significant issues for traditional long-duration products

- Complexity
- Consistency
- Transition requirements
- Presentation



(Photo – Buenos Aires, Argentina)

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)

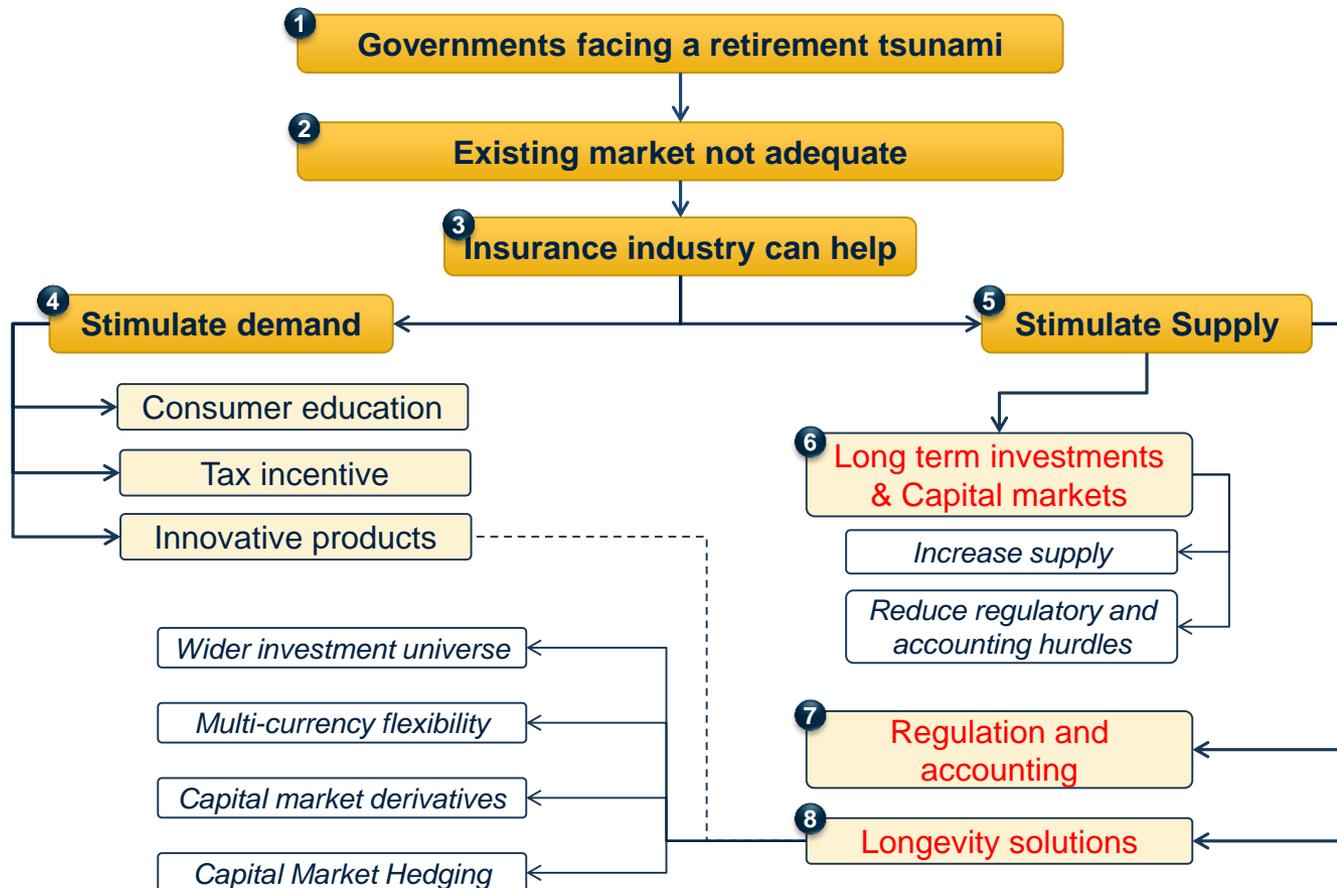


(Photo – Auckland, New Zealand)

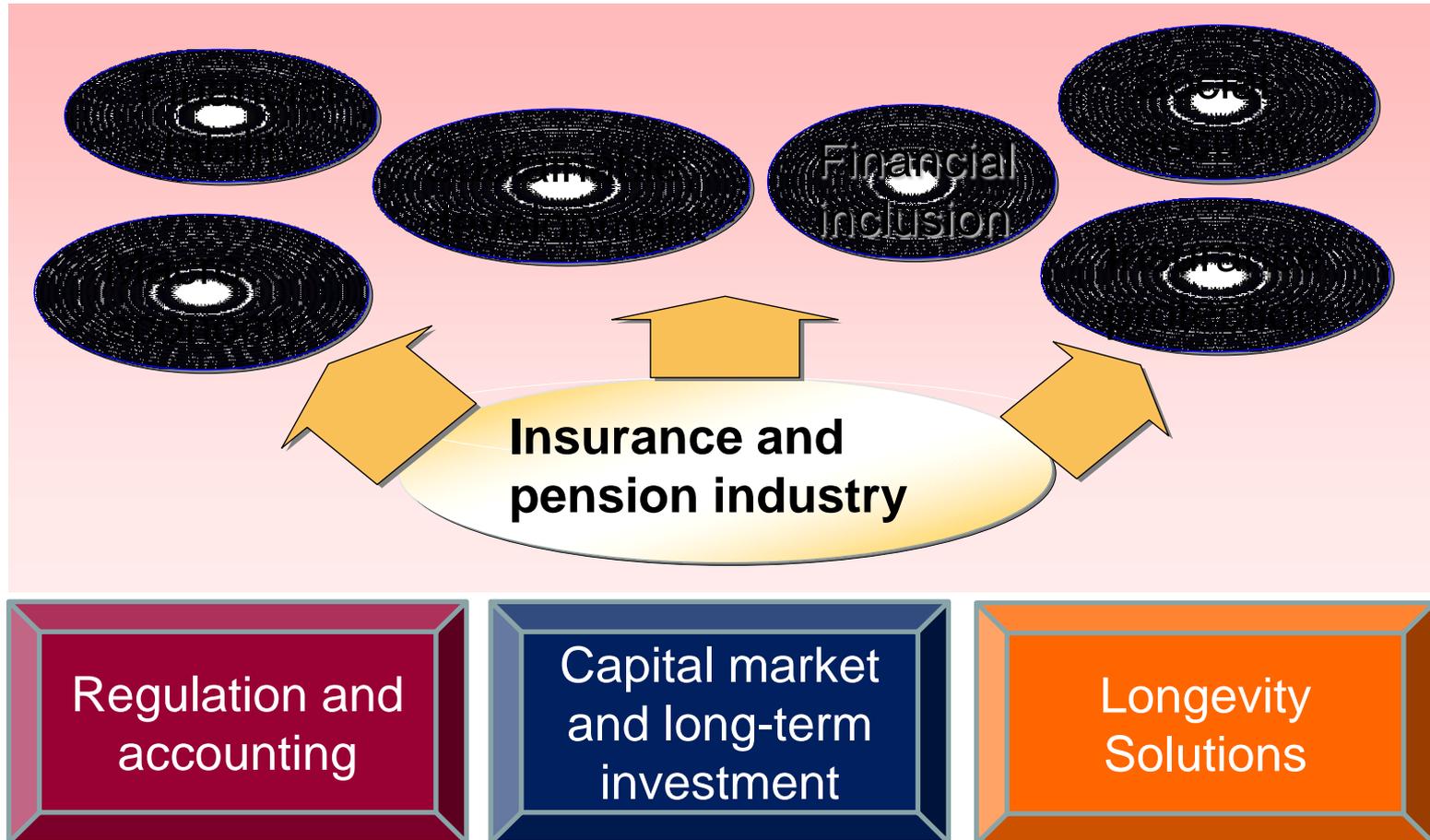
Collaboration with Capital market/FMI/PPP work is the key

- The work on longevity solution will focus on addressing demand- and supply-side issues in the development of lifetime retirement income solutions

Figure: Interrelated Issues in Providing Lifetime Retirement Security



- A holistic framework to support the long-term roles of insurance and pension industry in the Asia-Pacific



■ 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

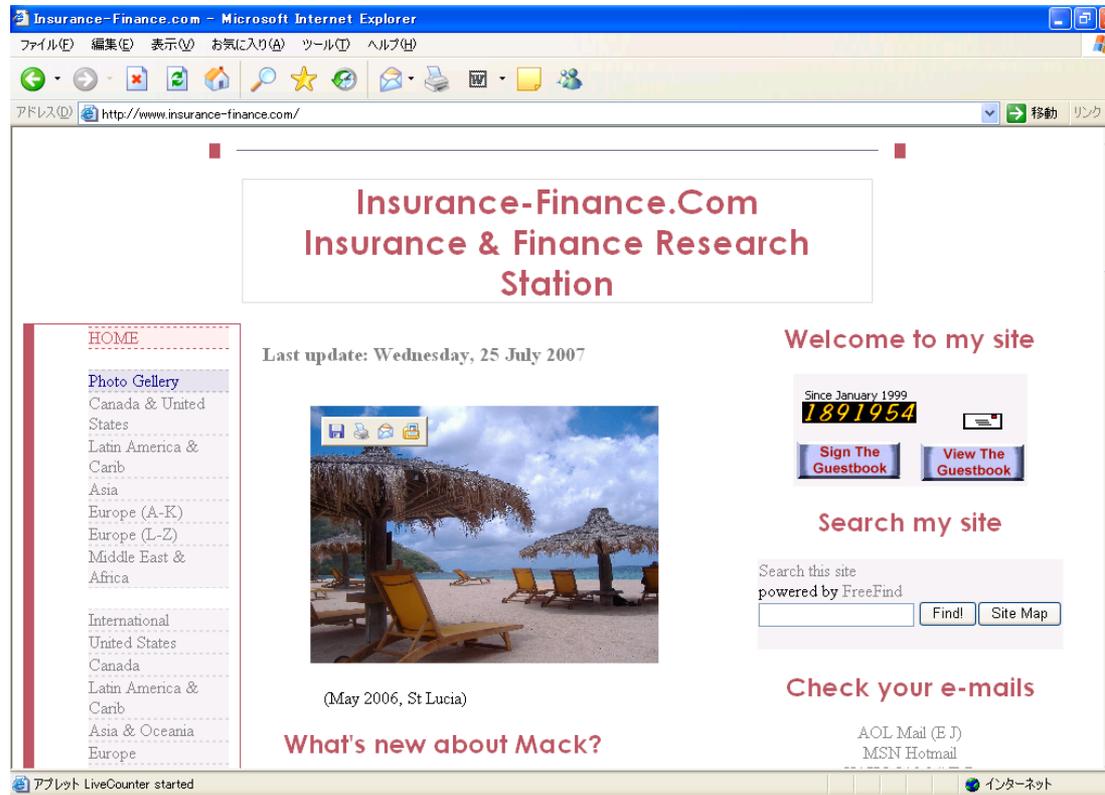
■ In order to implement international standards, you should first know your own country



(Photo – Tao Garden, Chang Mai, Thailand)

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*Any questions? email to m-okubo@nliinter.com
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