

SYNOPSIS

Globalisation of the Insurance Capital Standard: Should we be concerned?

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Purpose of your paper: Illustrating the implication of the IAIS Insurance Capital Standard for various jurisdictions and the potential implications for Australia, answering the question: should we be concerned?

Synopsis:

Measures being developed by the International Association of Insurance Supervisors (IAIS) herald a new era of insurance regulation, one where international standards take centre stage. Insurers simply cannot afford to ignore the important debates that are currently taking place.

The IAIS has challenging work to do. The risks facing (re)insurers in any particular jurisdiction are a function of idiosyncratic market developments which have evolved over decades. Commensurately, there are also substantial differences in capital regimes in place across jurisdictions.

These differences arise not from subtle technicalities, but because the fundamental philosophy about solvency and capital can differ between one regime and another. Global acceptance of the IAIS activities will depend on the ability to reconcile these philosophies.

The insurance industry is a major component of the world economy owing to the scale of assets it manages and the essential social and economic role of insurance. Low economic growth and persistently low (or negative) interest rates look set to continue. Amid these global challenges, regulatory change threatens to exacerbate an already difficult outlook.

Whilst Australia is arguably 'ahead of the curve' with the implementation of LAGIC, how will the roll out globally of the Insurance Capital Standard impact Australian insurers in respect of capital, products, pricing and risk management?