An Overview of APFF Work Related to Insurance and Retirement Income

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APFF Interim Report  12 Action Plans

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

Composition of the workstream

- Participants include experts from the insurance, pensions and financial industries, academic specialists and policymakers and regulators
  - Participants (as of 23 December 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 micro-insurance), 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), J.P. Morgan Asset Management Global Real Assets, Life Insurance Association of Malaysia, 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, RFPI Asia, Samsung Life (accounting, and liaison with AOSSG), Sun Life Financial, Tokio Marine, ASIFMA (observer and liaison with other relevant workstreams)
Workplan of the workstream

- 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
  - Collaborate with interested authorities, consultants, and regional/international organizations (i.e. World Bank, OECD, ADB, ASEAN) and other relevant workstreams

2014 seminars/conferences contributed by the WS

- G20/OECD High-Level Roundtable on Institutional Investors and Long-Term Investment, Singapore, 4 June
- OECD Roundtable on Regulatory Factors Affecting Insurer Long-Term Investment, Paris, 5 June
- APEC Finance Ministers’ Process Seminar on Disaster Risk Financing in the Asia-Pacific Region, Jogjakarta, 18-19 June
- APEC/OECD Seminar on Long-Term And Stable Financing for Infrastructure Development, Dalian, 26-27 June
- APFF Symposium, Seattle, 7 July
- Asia-Pacific Financial Corporation Seminar, Seoul, 29 August
- ASEAN Insurance Summit, Singapore, 1 October
- OLIS-LIAM-MII Life Insurance Seminar, Kuala Lumpur, 8 October
- APFF Conference, Beijing, 23 October
- East Asian Insurance Congress, Taipei, 26 November
- APIP Infrastructure Dialogue and APEC PPP Experts Panel Meeting, Jakarta, 24 November
- Dialogue with ASEAN Insurance Regulators, Brunei, 26 November
- OECD Roundtable: Annuity Regulation and Risk Management, Impact of the Low Interest Rate Environment, Paris, 3-5 December 3-5
2015 seminars/conferences relevant to the WS

- APFF Roundtable on regulatory issues, Hong Kong, 27 January
- APEC PPP Experts Advisory Panel Meeting, Clark SEZ, Philippines, 9-10 February
- APEC Seminar on micro-insurance and disaster risk finance, Bacolod City, 16-17 April
- ASSAL Annual Conference, San José, 13-16 April
- ABAC meeting, open to possible APFF insurance-related event, Mexico City, 20-23 April
- ABAC meeting, possible APFF event/open to possible retirement income-related event, Melbourne, 10-13 August
- APEC Finance Ministers Meeting – open to possible APFF event, Cebu, Philippines, 9-11 September

Agenda, 5th meeting, Hong Kong, 26 January 2015

- Hearing update on the APFF
- Hearing report on the recent and upcoming conferences and seminars
- Hearing information on retirement system in selected APEC economies, discussing high level policy recommendations on retirement security and longevity solutions
- Discussing regulatory and accounting issues, and, in particular, finalizing the draft ABAC comments to the IAIS public consultation “Risk-based Global Insurance Capital Standards”
- Discussing capital market issues, including securitizations, a possible model-financing project, the use of derivations and swaps for hedging purposes, as well as next steps
- Discussing future work plan on micro-insurance and disaster risk financing, including preparation for the APEC seminar in Bacolod City in April and coordination with other initiatives
Regulatory and Accounting Issues

Regulatory issues
- Bank-centric regulations
  - Insurers play an important role as long-term investors and in the social security system
- Short-term oriented economic regime
  - Economic-based regime should have a long-term vision
  - Otherwise, unintended consequence may occur on long-term products/investments
- “One-size-fits-all” models
  - Different business models by economies

Accounting issues
- Volatility in the balance sheet
  - Assets-liabilities interaction
- Volatility in the income statement
- Other issues for traditional long-duration contracts
  (i.e. complexity, consistency, transition, presentation)

Market and operational Issues

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)

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

Governments facing a retirement tsunami
Existing market not adequate
Insurance industry can help

Stimulate demand
- Consumer education
- Tax incentive
- Innovative products
- Wider investment universe
- Multi-currency flexibility
- Capital market derivatives
- Capital Market Hedging

Stimulate Supply
- Long term investments & Capital markets
- Increase supply
- Reduce regulatory and accounting hurdles
- Regulation and accounting
- Longevity solutions

Asia Pacific Financial Forum (APFF)
Insurance and Retirement Income Work Stream

For more details on the APFF, visit mackglobe.com or email Makoto Okubo, Nippon Life (m-okubo@nliinter.com)
You can find APFF Interim Report to the APEC Finance Ministers here:

- Executive Summary
- Full report

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

- Annex H: Constrains on Promoting Long-Term Investment in the Asia-Pacific
  - High-level issues and recommendations
    (regulatory, accounting, market and operational issues) as a basis for discussion with policymakers and regulators

### Constraints and recommendations

**Bank-centric regulations**

- Bank-oriented regulations may negatively impact on insurers’ role to provide long-term investments and stabilize the financial system
  - Insurance regulations should take into account the specific nature of the insurance business and
  - should not apply regulations which are targeted for bank deposits and other financial products with short-term liquidity needs

- High risk charges for long-term investment, including infrastructure projects and equities, may discourage insurers and pension funds to provide such investments
  - Avoid bank-centric capital-weighted rules and
  - consider the characteristics of long-term assets supporting long-term liabilities as well as
  - the effect of asset diversification
Capital constraints on traditional long-term products may drive the companies to shift to short-term investment products

- Capital charges should be looked into, for the companies to have incentives to promote long-term products, taking into account the interaction between long-term assets and liabilities

Bank-oriented regulations with focus on systemic risk and interconnectedness may dis-incentivize insurers to stabilize the financial system and market, rather than mitigate systemic risks

- Regulatory framework should holistically promote the role of insurers and pension funds to support macro-economy, sustainable development, social security and long-term insurance protection, and
- pay due care to the issue of pro-cyclicality

It may affect negatively on the equity and long-term debt instruments and efficient risk management tools, such as hedging instruments

- Regulations should be in designed in a way to promote and incentivize the insurers’ and pension providers’ role to stabilize the financial system and market and its ability to manage risk efficiently

(Note: pSRAs = potentially systemically risky activities)
Economic valuation may produce significant volatility for long-term business, which may not be relevant to the insurers’ capacity to meet long-term obligations

- Economic based regime should have a long-term vision
- Avoid replacing the existing regulatory regimes simply with a regime based on an economic based regulations

If such regime is used for regulatory interventions, insurers with no concern in solvency positions for the foreseeable future may be forced to take remedial actions, including the exit from long-term business and investments, in response to short-term fluctuations in financial markets

- Avoid the introduction of a regulatory regime which would require immediate regulatory actions in response to short-term market fluctuations

Short-term oriented regimes tend to capture the risk assessment with a snapshot and consider long-term business and investments excessive risk taking

- Long-term nature of the business model and illiquid nature of liabilities should be properly taking into account when designing the regulatory regime

Short-term oriented economic solvency regimes may incentivize insurers to transfer risks to customers, shift away from long-term protection business and investments, and discourage them from investing assets other than fixed income assets

- Measures should be taken to mitigate impact on long-term protection business and the assets supporting such contracts
Constraints and recommendations
“One-size-fits-all” models

- Adoption of “one-size-fits-all” regulatory models would not capture the diversity that exists in the region and may produce unexpected negative consequences for insurance/capital markets, and social security system
  - Consider an approach to start from the regulatory framework in each jurisdiction, evolved and tested on its characteristics and harmonize those regimes from a unified point of view

- A model based on one jurisdiction may not meet the regulatory objectives in other jurisdictions
  - Consider the use of the different valuation approaches for different purposes
  - The use of existing regulatory regime in each economy may be an option

Constraints and recommendations
“One-size-fits-all” models (cont.)

- 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 in the region
  - International standards should be principle-based and aim to achieve the comparable outcome by taking into account the diversity in the region