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ASIA-PACIFIC FINANCIAL FORUM

An Overview of APFF Work Related to Insurance and Retirement Income

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Sherpa, APFF Insurance and Retirement Income Work Stream

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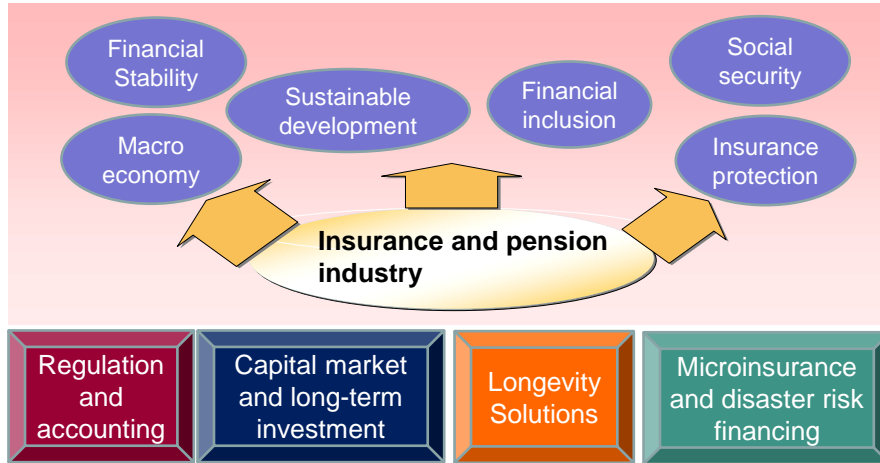
APFF Interim Report 12 Action Plans

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- 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**

APFF Insurance and Retirement Income Work Stream ³

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



Composition of the workstream ⁴

- 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 worksterams](#))

Workplan of the workstream

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- 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

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- 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

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- 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
- APEC Financial Ministers Process Infrastructure Financing Seminar, Legazpi City, Philippines, 23-24 July
- 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

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- 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

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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

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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)

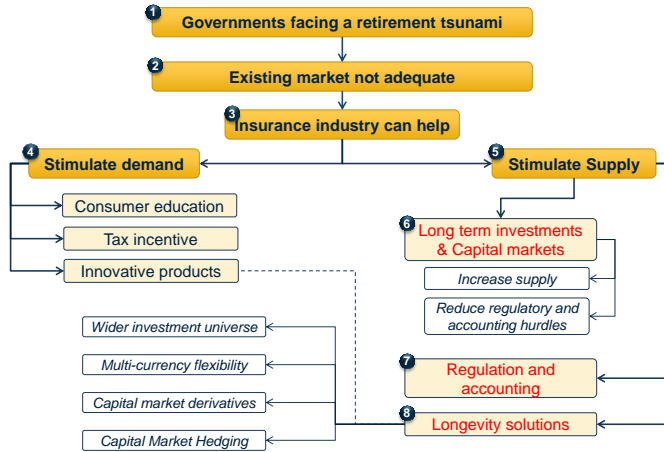
*Collaboration with
Capital market/FMI/PPP
work is the key*

Longevity solutions

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- 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



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

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For more details on the APFF, visit mackglobe.com
or email Makoto Okubo, Nippon Life (m-okubo@nliinter.com)

APPENDIX

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

- Executive Summary
<https://www.abaconline.org/v4/download.php?ContentID=22611923>
- Full report
<https://www.abaconline.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.abaconline.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

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**

Constraints and recommendations

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Bank-centric regulations (Cont.)

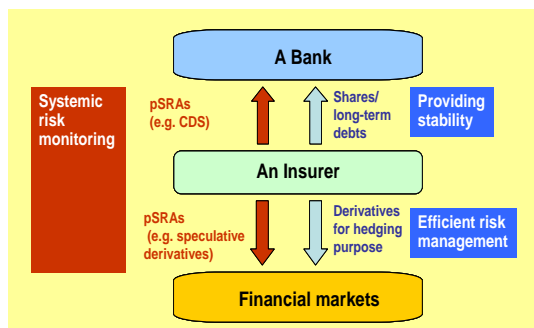
- **Capital constraints on traditional long-term products may drive the companies to shift to short-term investment products**
 - Capital charges should be looked into, for the companies to have incentives to promote long-term products, taking into account the interaction between long-term assets and 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**

Constraints and recommendations

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Bank-centric regulations (Cont.)

- **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)

Constraints and recommendations

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Short-term oriented economic regime

- **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**

Constraints and recommendations

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Short-term oriented economic regime (*cont.*)

- **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

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"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

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"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