REGULATORY ISSUES IN SIX ASIAN REGIMES

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Abstract

Strict accounting rules and supervisory regulation are of fundamental importance in the field of insurance, to protect claimants' right to financial reimbursement, and to maintain confidence in the reputation of the insurance industry. This article reviews developments in six regulatory regimes in East Asia: Hong Kong, Indonesia, Malaysia, Singapore, Taiwan, and Thailand. The review is preceded by an overview of the necessity for insurance regulation, and some of its features. The conclusion is that from diverse, inadequate regulation principles and practice have emerged more convergence and sophisticated improvements. The process continues.

Introduction

The peculiar nature of the insurance product, a conditional promise to pay in the future, and the drawn out settlement of some claims, makes insurance accounting so different from that of ordinary trading firms, and needs great care and professionalism to make it accurately reflect the future liability and ability to pay claimants. This is why insurers are subject to special regulations, to ensure accounting discipline, thus protecting the interests of policyholders and claimants.

A policyholder is expected to trust an insurer to fulfill its contractual obligations. That trust, in a world of fallible human insurance owners and executives, has to be bolstered and ensured, by a legally constituted supervisory body which issues mandatory regulations and is empowered to check that these are followed. Where trust is weakened by even one insurer, it spreads to all and triggers reputation risk. Many national insurance associations, and regulators, are increasingly concerned with this risk, having seen the run on banks in Europe by depositors anxiously trying to withdraw their money for fear the banks will collapse.

Insurers are required to maintain an excess of assets over liabilities, not less than a solvency margin set by the regulator, which represents a safety margin of the insurer's capacity to pay claims, and is related to their capital and reserve funds. One worry is that in the face of the

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increase in catastrophe risks, insurers may not have adequate financial capacity, and their solvency could be at stake. After the twin towers atrocity in 2001, some reinsurers went out of business, and there was a general warning of the new recognition of such risks (Kitseree and Lawrence, 2006).

Many countries have safety nets, to compensate claimants when an insurer has become insolvent or closed down; the fund is either established through a voluntary agreement between insurers or imposed by the regulator, with annual contributions to the fund based on premium income, or through an ad hoc fund constituted for each unfortunate event. However, such schemes are often incomplete, in not including all types of insurance or in having upper limits (Miani and Dreassi, 2008).

Many regulatory authorities in developing nations adopted a restrictive policy, with tariffs and protection of local insurers. This was understandable in immature markets, but needed to be reformed later in the interests of fairness and a freer competition, providing that essential solvency regulations are in place and enforced. Non-competitive markets lessen consumer choice and value, and hinder national economic development (Skipper and Klein, 2000). Some regulatory regimes impose a premium tariff on some or all general lines, to avoid irresponsible competition through price-cutting. It is especially prevalent in motor insurance, a large premium generator and therefore attractive to each insurer for its investment potential, its cash-flow benefit, and its long-tail liability claims which can be put off till next year and thereafter. Through liberalisation of insurance markets, and global trading, many tariffs have been dismantled.

Estimation of future liabilities is the most uncertain item in calculating reserves, especially for legal liability claims which have a long-tail and are therefore vulnerable to inflation, currency exchange rates, tougher court decisions and awards, and other contingencies. By its nature, this estimation, involving as much corroborative evidence as possible, is deterministic rather than stochastic (Royal & Sun Alliance, 2007).

Regulation is a complex issue, with so many aspects, that different approaches have been adopted in different parts of the world. Most of them focus on quantitative aspects of solvency capital requirements, risk management, and supervisory review, but disregard market conduct and its risks. There is a need for greater convergence of supervisory frameworks, with a more comprehensive inclusion of criteria. The convergence would avoid non-comparable systems which require expensive interrelation by insurers operating across borders (Miaini and Dreassi, 2008). More convergence of regulations is seen as necessary and inevitable (Skipper and Klein, 2000). The common structure in a regulatory model developed by the International Association of Insurance Supervisors (IAIS) does aim at more convergence and does include both financial governance and market conduct requirements (Swiss Re, 2006).

The concentration and globalization of insurance companies have necessitated closer co-operation between supervisory authorities, but there is a wider issue due to the alliances between insurers, banks and other financial institutions, which presents challenges to regulation and corporate governance (Thanavaranit, 2004). There is a need for greater similarity and convergence of financial regulation, while recognizing the distinct non-banking nature of insurance and allowing for some local variations for country-specific aspects.

The 2008 great financial crisis was and remains primarily a banking sector issue, and regulatory remedies applicable to banking are not necessarily appropriate for insurance. Insurers are different from banks, they have comparatively low leverage, do not rely on the capital markets for working capital, generally pose little or no systemic risk, and engage in comparatively little securitization (Skipper, 2009).

All regulators issue mandatory capital requirement, in various forms. However, a problem in setting capital requirements and solvency criteria is that well-intentioned regulators, through imposition of ill-advised solvency requirements, might jeopardize the health of financially sound insurers (Trainar, 2006). Increasing the level of capital requirements may cause the withdrawal of those insurers unable to raise the extra capital (Ewedemi and Lee, 2008), but sometimes it is done to actually force mergers of smaller insurers (often family-owned) in a crowded market (Lawrence, 2001). Undoubtedly, changes in regulations have a varying effect on lines of insurance (Cheng and Weiss, 2010). Deciding specific capitalization and solvency requirements is complex, in its many factors and statistically. Scholars have a great interest in this essential feature of insurance, and have explored the many different factors (e.g. Shiu, 2004; Chao, 2007; Siegel and Schneiser, 2010).

Hong Kong

There are three main developments in the Hong Kong regulatory system: independence of the regulatory authority from the executive side of government, the creation of a safety net by means of a policyholders' protection fund, and activating a closer involvement with clients on the mainland of China (Choi, 2010).

Insurance Authority Independence

In 2010, the Hong Kong Government completed its consultation exercise on the proposed establishment of an independent Insurance Authority in 2013. This would replace the present Insurance Authority which is a government department under Financial Services and the Treasury Bureau. This would follow the growing trend of international practice whereby the regulatory body is financially and operationally independent from the Government. This would improve the regulation of insurers and place insurance intermediaries under the supervision of

the new Insurance Authority. It is also intended that the new Authority should take a more active role in consumer education and arrange research into development of the Hong Kong insurance market.

Currently, insurance intermediaries in Hong Kong are regulated by three self-regulatory bodies.The proposal for a new Authority to replace those three, represents a significant and huge transformation of the philosophy and structure of the insurance regulatory framework. The new Insurance Authority would be funded by differential fees and levy on insurance premiums, which will also have far-reaching implications for the industry and the insuring public.

The Hong Kong Federation of Insurers (HKFI), which represents 133 authorized insurers, has consulted widely within the industry abut the proposed Authority, and has presented its position to the Government. The HKFI sees and supports the need for the proposed changes, and will work with the relevant authorities and stakeholders to learn more about details and how best the exercise should be progressed.

Policyholders' Protection Fund (PPF)

Even since before the global financial crisis, the present Insurance Authority and the HKFI have been engaged in studying the feasibility of setting up the safety net of a PPF. The industry supports its early implementation, as it is an important confidence-builder for the public.

Inevitably the emphasis will be on life insurance, as the major lines of general insurance business (i.e. employees' compensation and motor insurance) are already protected under the Employees' Compensation Insurers Insolvency Bureau and the Motor Insurers' Bureau. However, is has also been suggested that the PPF should also cover small and medium enterprises. The industry is now working closely with the Insurance Authority on an actuarial study to establish the best way forward.

Closer Economic Partnership Arrangement (CEPA)

The Hong Kong Government and the Central People's Government agreed in July 2008 on further services liberalization under the Mainland and Hong Kong CEPA. To realize the CEPA benefits for Hong Kong, the HKFI has taken the initiative to explore possible opportunities of setting up a special scheme for Hong Kong's indigenous insurers under CEPA to do business initially in Mainland China. Since 2009 HKFI has met with the Vice Chairman of the China Insurance Regulatory Commission at the Commission's Guangdong and Shenzhen Bureaux. HKFI will maintain regular dialogue with the relevant authorities in the Mainland to enable Hong Kong's locally-based insurers to conduct business and provide post-sale customer service in southern China.

A previous Hong Kong Insurance Commissioner in 2003 had warned the international insurance community of the importance of effective regulatory control. An insurance regulatory framework must require regular financial returns delivered on time, to be properly analysed by experts, with the Regulator's staff having the legal right to make random inspections of an insurer's premises and any files and other data. He warned that if the regulatory requirements are too low, the margin of safety is too low. If the Regulator has insufficient competent staff to supervise the insurers, then regulations may be ignored (Tang, 2003).

Indonesia

In Indonesia there are two recent developments. One is the progressive increase from 2010-2014 of minimum capital requirements for insurers, reinsurers, and their brokers. The other is the establishment of a new financial services regulatory authority which will include insurance (Simanjuntak, 2010).

Minimum Capital Requirement

On 31st December 2008, the Indonesian government issued Government Regulation No.81 Year 2008 concerning minimum capitalization requirement for all insurance companies, both life and non life, operating in Indonesia.

All insurance companies are required to have minimum equity of IDR 40 billion by the end of 2010, then increased to IDR 70 billion by the end of 2012 and further increased to IDR 100 billion by the end of 2014. However, for a new license, IDR 100 billion equity/capital is required. Reinsurance companies must have minimum equity of IDR 100 billion by the end of 2010, increased to IDR 150 billion by the end of 2012, and further increased to IDR 200 billion by the end of 2014. However, for a new license, IDR 200 billion equity/capital is required. Insurance & Reinsurance Brokers were required to have minimum equity of IDR 1 billion effective from 2009.

Financial Supervisory Authority (OJK: Otoritas Jasa Keuangan)

The Ministry of Finance and the Parliament of the Republic of Indonesia have been working on a draft law concerning the Indonesian Financial Supervisory Authority (OJK). The Government planned to establish OJK before the end of 2010.

After the establishment of the OJK supervisory authority, the supervisory elements of Insurance, Banking, Capital Markets and Other Non-Bank financial services institutions will be under the OJK.

The Indonesian Insurance Industry, through the executive board of The Insurance Council of Indonesia (DAI: Dewan Asuransi Indonesia) have discussed the proposal for the new supervisory authority with Parliament members, and forwarded insurance industry suggestions, both oral and written, for the draft law establishing the OJK.

Malaysia

There are three recent regulatory developments in Malaysia. The first is a move to a risk-based capital requirement framework (RBC). The second is to strengthen corporate governance and risk management. The third is a phased implementation to adopt international financial reporting standards (Harun, 2010).

Risk Based Capital (RBC) Framework

In Malaysia, the insurance industry made a smooth transition from the Risk-based solvency system to the Risk Based Capital (RBC) framework on 1 January 2009. The RBC framework requires each insurer to maintain a capital adequacy level that is commensurate with its risk profile. The RBC framework is based on the following principles:

1. Allow greater flexibility for insurers to operate at different risk levels in line with their own specific business strategies, so long as commensurate capital is held and the insurers observe the prudential safeguards set by Bank Negara Malaysia (BNM, the insurance regulator).
2. Explicit quantification of the prudential buffers which are currently embedded in the existing valuation and solvency framework, with the objective of improving transparency;
3. Convergence with international practices is promoted to enhance comparability with other jurisdictions and reduce opportunities for regulatory arbitrage within the financial sector;
4. Provide an early warning system on any significant deterioration in capital adequacy levels in order to allow prompt and pre-emptive supervisory actions to be taken, when necessary;
5. Insurers are given incentives to put in place an appropriate risk management infrastructure and adopt more prudent practices. For example, under the RBC Framework, the level of capital required by an insurer will also depend on the qualitative factors that influence the choice of risk-profile, such as the quality of its Board of directors and management, the adequacy of internal risk control measures, and monitoring processes.

Under the RBC framework, each insurer is required to decide the adequacy of the capital available in its insurance and shareholders funds to support the Total Capital Required (TCR) which serves as a key indicator of the insurer's financial resilience. The framework is implemented on the basis that insurers effectively implement sound risk management practices and

market conduct governance. These include periodic reviews of the strategies and internal policies and decision-making processes by the Board of directors and senior management of the insurers, regarding the risks that the insurers assume. Insurers are also expected to actively manage the adequacy of capital by taking into account the potential impact of their business strategies on risk profiles and financial resiliency. The responsibility for the implementation of sound risk management practices and market conduct governance rests primarily with the Board and senior management of the insurers. It is also the responsibility of the Board and management to ensure that risks which are not adequately addressed within the Framework are properly identified, monitored and controlled.

As the RBC framework is calibrated to the average of industry experience, the framework expressly requires insurers to establish their own internal capital targets which are higher than the benchmark minimum capital adequacy ratio of 130% in the framework. Therefore, an insurer must take into account its own specific risk profile, considering both risks that are covered in the calculation of regulatory capital under the framework, and risks that are not captured, or not fully captured. At the end of December 2009, the industry-wide capital adequacy ratio stood at 230%, well above the benchmark minimum.

Corporate Governance

The global financial crisis demonstrated the importance of effective corporate governance and risk management in preventing loss and failure in financial systems. International standard setters had already focused attention on corporate governance reforms after the last crisis in 1997.

These developments are consistent with the direction and emphasis of changes that have shaped corporate governance practices in Malaysia's financial sector for some time. Following the Asian financial crisis in 1997, strengthening corporate governance has been a central focus of capacity building measures aimed at providing a strong foundation for a stable and more resilient financial system. The resulting prudential standards of corporate governance which have been adopted for financial institutions in Malaysia are built on the following key principles:

1. Clear separation of the management and oversight functions
2. Competent and committed Boards
3. Presence of a strong independent element on the Board
4. A clear, explicit and dedicated focus on the oversight responsibilities of the Board for risk, internal controls, remuneration, and directors and management performance and succession
5. Rigorous fit and proper assessments for key functionaries
6. Incentive structures that are aligned with long-term performance and the interests of depositors and policyholders, in addition to the shareholders

7. Explicit responsibilities of the Board for related party transactions
8. Sufficient reporting and disclosures on corporate governance policies

Observance of these prudential standards forms an integral part of the supervisory assessment of the safety and soundness of financial institutions under the RBC framework.

Financial Reporting Standards

In 2009, the Malaysian Accounting Standards Board and Financial Reporting Foundation announced plans to bring Malaysia into full compliance with the International Financial Reporting Standards (IFRS) by 2012. To facilitate a phased changeover to IFRS, the effective date for FRS 139-Financial Instruments: Recognition and Measurement, FRS 4-Insurance Contracts, and FRS 7-Financial Instruments: Disclosure, was set for 1st January 2010.

Singapore

The insurance regulator, the Monetary Authority of Singapore (MAS) exerts great influence on insurers, for their own benefit, to enhance and maintain their reputation, and probably goes further than many regulators in its field of interest beyond the usual capital, solvency, and accounting directives.

In 2003 the regulatory framework was amended to introduce Risk Based Capital (RBC), which considers not only insurance risks but also risks arising from the way an insurer invests the collected premiums, and operational risks which cannot be quantitatively determined. A 'surplus' account is is required within the participating fund, to track capital support provided to that fund by shareholders and adds clarity in the allocation to shareholders. Authorised reinsurers operate a cross-border service to Singapore, and the regulator has enhanced its oversight over transactions between those registered in Singapore and those not. Health (and accident) insurance was also brought into the regulatory framework in 2003; long-term policies (over five years), which cannot be unilaterally cancelled by the insurer, need their funds managing like life insurance (Tan, 2004).

In 2009, MAS introduced Guidelines on Fair Dealing which establish five fair dealing outcomes applicable to life insurance. The guidelines cover the selection, marketing, distribution, advice, after-sales and handling of complaints regarding investment products.

The responsibility for adhering to the Guidelines is placed on the Board of directors and senior managers. The Life Insurance Association and individual companies have the dual responsibility for making the Fair Dealing Guidelines an essential part of their activities in Singapore for the benefit of the policyholders and future customers.

Another critical issue which needs an industry philosophy and position statement is the remuneration structure of representatives, and to what extent is it true that traditional schemes tend to incentivise sales based on the adviser's self interest rather than the customer's need (Teo, 2010).

Because of all this responsive concern, the general public see that the fundamentals of life insurance are strong, which is a good context within which life insurers have great opportunities to place affordable protection solutions into the hands of ordinary Singaporeans.

Insurers work with the regulator to ease the provision of products and financial advisory services to persons of high net wealth (HNW) individuals from around the region and the world. Insurance, tax and advisory regulations may need to have hindrances removed or new provisions put in place, without compromising the Singapore brand that stands for high regulatory standards and consumer protection. Insurers do not expect the pace of innovation and change coming from competitive and regulatory quarters to relax.

Of immediate relevance is the need to fully restore any consumer trust and confidence which was weakened by the financial crisis elsewhere. This cannot be achieved without all stakeholders doing their part – the regulator, product issuers, distributors and the media. In the wake of the financial crisis, policyholders became anxious, but the Regulator assured anxious policyholders that life insurers based in Singapore have to meet specific capital requirements set by the regulator, and that their assets belonging to Singapore policies are ring-fenced. The existing law providing for a Policy owners' Protection Fund (PPF) was also cited. The Life Insurance Association (LIA) also worked with the press to encourage policyholders to remain calm and take a long-term view of their insurance and investment holdings. LIA successfully urged the MAS to expedite inception of the PPF amendments. The 2011 changes increase coverage for life policies to 100% (from 90%), and the Fund is extended to accident and health policies (Asia Insurance Review, eWeekly, 11 (73), 18 April 2011).

The MAS succeeded in having an amendment made to the insurance law in 2011, to allow the regulator to act swiftly when dealing with a distressed insurer, so as to maintain financial stability and ensure continuity in coverage, especially for life insurance because of its long-term nature. The amendment gives discretion to the regulator in a wider range of options – dealing with an insurer before or after it goes into liquidation, power to amend the priority ranking of liabilities, authority to take over the insurer and determine the sale or transfer of its assets and liabilities, or future ownership of the company. For an insurer in liquidation, MAS has the right to approve the appointment of a liquidator (Asia Insurance Review, eWeekly, 11 (73) 18 April 2011).

New initiatives have been taken to help bring down the cost of making accident claims for motorists and insurers. The Motor Insurance Taskforce was set up in September 2009 to address the issue of high claims costs and premiums. The taskforce, which is co-chaired by

consumer group CASE and AA Singapore, included as members the Monetary Authority of Singapore, the Land Transportation Authority (LTA) and GIA.

Taiwan

In Taiwan, there are five developments. The first is the deregulation of tariff rates for general insurance, which resulted in price competition. The second is the introduction of risk-based solvency (RBC). The third is the action to rehabilitate an insurer which become financially inadequate, and the operation of a safety-net guarantee fund. The fourth is the promotion by the regulator of the practice of enterprise risk management (ERM) by insurance companies. Finally, there is the implementation of set 4 of the international financial reporting standards (Kim, 2010).

Rate deregulation for non-life insurance

To maintain a competitive but disciplined market environment, a three-stage rate deregulation timeframe was launched in 2001, the third stage being implemented in April 2009. This abandonment of regulatory price control, produced intensive price competition. The premium rates of motor and fire insurance dropped by 7.87% and 16.3% respectively in 2009. In addition, underwriting profits decreased by 9.85%. Although price reductions were expected because of rate deregulation, the regulator will closely monitor developments, and market self-discipline will be strengthened to ensure the soundness of the insurance developments and benefits for consumers.

Also following the implementation of the third stage of rate deregulation in 2009, the premium rates of commercial fire insurance, particularly the large account businesses with coverage including natural disaster risks, dropped sharply. As Taiwan is highly exposed to the risk of huge catastrophe losses, the regulator will request insurers to properly assess and control the risks assumed. The premium level of commercial fire and natural disaster risks will continue to be closely watched to maintain market discipline and enhance the solvency of the insurers.

Risk-Based Capital (RBC)

Insurance companies in Taiwan are now required to maintain their RBC ratio above the 200% level. As the net worth of many life insurance companies dropped sharply due to substantial investment losses due to the global financial crisis, the regulatory authority FSC adopted temporary measures at the end of 2008 to mitigate the impact on those companies of being below regulatory capital requirements due to their reduced market value. These measures allowed insurance companies to recognize as capital 20% of unrealized gain/loss from their security investments, and the special reserve for catastrophic events was recognized as equity capital.

These tentative measures have helped life insurance companies by relieving the pressures of a capital increase.

Implementation of a Market Exit Mechanism

Due to financial difficulties, Walsum Insurance Company was ordered by the regulatory authority to terminate operations in January 2009. This was only the second insolvent non-life insurance company in history (the first being Kaohwa, which was ordered by the regulator to terminate operations in November 2005). The Taiwan Insurance Institute (TII) was assigned by the regulator as the rehabilitator of the two companies.

In addition, a life insurance company, Kaohwa Life, was taken over by the regulator in 2009. Due to the deterioration of its financial position, the company had failed to meet the statutory RBC requirement and no capital injection was made within the requested period. Therefore, as ordered by the regulator, the safety-net Insurance Guarantee Fund took over the company in July 2009.

Enterprise Risk Management

The practice of enterprise risk management was promoted by the regulator, so that insurance companies effectively manage all kinds of risks using a holistic approach. The Risk Management Best Practice Principles were implemented on July 1, 2010, aimed at ensuring capital adequacy of insurers as well as the healthy development of business operations. Insurers are requested to establish an appropriate risk management mechanism and organization structure as part of their corporate governance.

Implementation of IFRS 4

Phase I of the set of International Financial Reporting Standards 4 (IFRS 4) will be implemented in Taiwan in 2011. To meet the requirements for information disclosure, every insurance company has to explain its accounting policy, significant assumptions and methods, and its qualitative and quantitative information. The measures are to improve transparency of a company's financial status. Insurance companies which sold whole life insurance products with a high assumed interest rate before 2001, will have to deposit more reserves based on a risk-free interest rate. In the long term, it is expected that the selling of long-term life insurance products will decline.

Thailand

Thailand has seen many regulatory changes in recent years, to the regulatory body itself, to the

two basic Insurance Laws, and to the principles of capital / solvency requirements. The regulator, now independent, has a broader role than in some countries, not being confined to financial accounting issues but extending to include education, professional development, corporate social responsibility, growth, penetration and density, operational efficiency and fairness, reputation and public trust, and electronic data systems.

Independence of the Regulatory Authority

In 2007, the regulatory authority was transferred from the Ministry of Commerce to the Ministry of Finance, was then made independent of the executive arm of government and re-titled 'Office of Insurance Commissioner' (OIC) raising its income from fees and levies. Amendments to the two main Insurance Acts became effective in 2008, making the OIC responsible for implementing and supervising a shift from rule-based to risk-based regulations, specifically in the calculation of capital requirements, with an additional requirement for a certified actuary in calculating reserves, etc. (Asvatanakul, 2008).

The Regulator's National Insurance Master Plan

Thailand had its first National Insurance Master Plan in 2006, produced by the Department of Insurance. It included new capital fund rules based on risk exposure, according to rules of IAIS, the Bank of Thailand, and the Security & Exchange Commission. The non-life insurers were seen as having relatively poor risk assessment, with the worst score according to the standards of IAIS (Arunmas, 2006).

In 2007, The regulator ordered all insurers to submit to credit ratings. International credit-rating organizations would be hired. Before this order only Thai Life and Muang Thai Life had credit ratings. Multinational insurers, whose parent companies were already rated would also have to comply with the new requirement as their involvement in Thailand took many forms – joint ventures, branches, or owners, making them different from tbeir parent companies (Pratrwangkrai and Setthasiriphaiboon, 2007).

The OIC formulated the 2nd National Insurance Master Plan, 2010-2014, to upgrade the insurance industry and prepare it for the upcoming Free Trade Agreements. The plan can be achieved through various mechanisms such as an insurance education program, promotion of corporate social responsibility, continuous insurance professional development, revision of the current law and tax systems, and implementation of risk-based supervision through a risk-based capital framework, enterprise risk management requirements, and financial reporting standards (Asvatanakul, 2010). The four major measures of this master plan are:

1. Creating public understanding and access to life insurance products by all.
   * The proportion of insurance against GDP tol increase to 6% from 4.07% in 2009.

* Insurance density to be 7,500 Baht (from 4,600 Baht in 2009).
* The penetration proportion per population tol increase to 40% from26.75%.

2. Stabilization of Insurance Business
The aim is to create public trust in insurers and agents, through improved performance compliance with policy obligations. Insurers must maintain their capital adequacy, install an effective assets and liabilities management system, be able to make an efficient projection of income and expenses, and have an effective claim system.

3. Improving Service Standards and Protection of Public Interest
The aim is to ensure good and fair service for the public, including a convenient and quick claim process. Government agencies and the private sector must work together to produce the following improvements: set up a comprehensive and standardized operation of customer service, and the Insurance Dispute Resolution Organization.

4. Improving Insurance Infrastructure
This is achievable by establishing an electronic insurance information center which can assess financial status, and closely and promptly monitor the financial and operations status of insurers. Amendment to legislation will be drafted to be in line with the changing insurance environment and public interest, to protect Insured. Also, professional standards will be improved in insurers and brokers.

Source: Office of Insurance Commission (OIC)

These are significant specific measures, across a range of issues, to ensure that the insurance industry in Thailand enhances its reputation and trustworthiness through professionalism and financial disciplines, which should also enable it to face greater competition and opportunity from imminent free trade agreements. The OIC has set a tough agenda, in consultation with the two insurance associations.

The strengthened regulations are in keeping with the conservative regulatory and supervisory regime in Thailand. Mergers and acquisitions among the large number of local insurers in the non-life insurance industry are likely to rise, as the increased regulatory focus on solvency and professionalism of the insurance industry continues (Avatanakul, 2010).

Applying discipline for infringements

In 2005, the Ministry of Commerce revoked the licence of Commercial Insurance Co. Ltd. on grounds of unstable financial condition and violations of the provisions of the General Insurance Act, leaving unexpired bail bonds and motor policies. The GIA therefore raised a fund for the bail bond liabilities, and 42 insurers agreed to take up the unexpired risks, at no additional premium, if the Insured agreed to renew with them (Asvatanakul, 2006). In 2006, another

three insurers were ordered to rectify their financial status (Kitseree and Lawrence, 2006). Seven other insurers were either fined or summoned by the regulator to discuss their financial status or business practices. Some were in breach of regulations and others had inadequate reserves (Pratrwangkrai and Setthasiriphaiboon, 2007).

A Few Other Countries

In USA, there is a regulatory body for each of the 50 states. There is a limited degree of oversight by the federal government, but the National Conference of Insurance legislators has influenced moves towards convergence. In the European Union, which has a long practice of achieving harmonisation of laws and practices generally, insurance regulatory convergence has been continuously developing, especially through the Solvency II Project, although actual regulation itself is left to each member state (Miani and Dreassi, 2008).

There are acute differences between the USA and EU solvency systems. In USA it is mainly the RBC model, calculations being based on direct estimation of risks. Solvency II takes a broader enterprise-wide view which takes into account the whole risk profile of the company, and implicitly addresses long-term effects such as interest rate changes, but which involve substantial uncertainties (KPMG, 2007).

Japan made significant improvements in its non-life reserve calculation requirements, for unearned premiums, contingency reserves, and solvency margins. The regulator also strengthened supervisory activities specific to reinsurance (Toa Re, 2004). Since 2005 insurers have also been required to set up a catastrophe reserve fund, statistically calculated against potential large losses instead of being merely a percentage of premium income: the regulator checks these calculations. Earthquake risks are ceded to Earthquake Re which then retrocedes 80% to the government and 20% back to direct insurers (Kawachimaru, 2006). In 2006 the regulator tightened requirements to increase the minimum capital or reduce peak-zone exposure (Isherwood, 2006). It is therefore no surprise that because of these strict regulations that Japanese insurers and reinsurers are successfully coping with the quake and tsunami consequences of the 2011 earthquake. China regularly reviews and improves its regulatory system, with special attention on solvency (Nakabayashi, 2009).

Korea is planning to introduce the International Financial Reporting Standards (IFRS). Amendments of relevant insurance and accounting regulations are in progress. Changes will be in accordance with international accounting standards, and there will be enhanced accounting transparency. There will also be system improvements for better protection of insurance consumers, and stricter supervision of solvency margins after enforcement of RBC in 2011 (Kim, 2010).

Insurers in Vietnam have called for a more transparent legal framework incorporating a complete regulatory scheme and industry accounting standards. The Association of Vietnamese insurers has become concerned that the licensing of new insurers and brokers, the surge in uncompetitive products, and lack of professional skills has affected the solvency of all insurers (Asia Insurance Review, eDaily, 15 April 2011).

Conclusion

This is a record of remarkable progress and determination in these six regulatory regimes. The need for adequate and effective financial requirements and strict supervision of performance are recognized to be the foundation of trustworthy, responsible insurance markets, which operate in freely competitive markets but must be subject to some legally enforceable criteria.

There is evidence of many of the regulatory aspects outlined in the Introduction. There is actual and planned adoption of international accounting standards, and of risk-based capital/solvency requirements (with sophisticated provision for varying risk profiles), deregulation of premium rates, creation of regulatory authorities independent of the executive branch of government, and the closure of failed insurers with safety-net guarantee funds and other insurers taking over the unexpired risks. There is also much evidence of attention to qualitative aspects, such as reputation and public trust, corporate governance and social responsibility, education and professional development, and enterprise risk management.

This part of the world is taking a seriously responsible attitude to its insurance business, which is never complete but always a work in progress.

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