RENEWAL OF THE MANDATE OF THE INSURANCE COMMITTEE

(Note by the Secretary General)

This document, which reproduces note C(2000)110 by the Secretary-General is circulated for reference under item 9 b) of the agenda of the 65th session of the Insurance Committee, to be held on 29 and 30 June 2000.
1. The Insurance Committee’s present mandate expires on 30 June 2000. The current terms of reference were adopted by the Council on 25 September 1985 [C(85)98/FINAL] and renewed by the Council on 27 April 1990 [C(90)45] and 13 July 1995 [CES/CRC(95)9], each time for a period of five years.

2. The Insurance Committee held a preliminary discussion at its December 1999 meeting on the desirability of changing the Committee’s terms of reference as well as its name (in particular to reflect the creation of the Working Party on Private Pensions). The Committee acknowledged the usefulness of the restructuring of its structures and activities that was decided in 1998, and the importance of the work on private pensions. Most delegations considered, however, that the terms of reference were sufficiently broad and flexible and that, subject to some minor changes, they adequately reflected the objectives of the Committee and its Working Parties for the next five years. A majority of delegations considered also that there was no need to change the name of the Committee.

3. An extended bureau met on 31 January 2000 to agree on the draft of a proposed new mandate to be submitted to the Committee. The extended bureau considered that, on the whole, the current terms of reference were adequate and that only a number of minor changes were needed. A new version (reproduced in Annex I to this document) was submitted to the Insurance Committee via the written procedure and approved by the Committee on 12 April 2000. The main changes reflected the fact that the Committee’s tasks included work on private pensions, the need for further co-ordination of work with that of other committees, promotion of policy dialogue with non-member countries and the Committee’s role in submitting proposals to the Council and to other bodies of the OECD.

4. In addition, the Insurance Committee was evaluated by the Executive Committee Task Force on the Evaluation of the Insurance Committee. The report of the Task Force CE(2000)8 was endorsed by the Executive Committee at its session of 4 May 2000 and by the Council on 12 May 2000. While the purpose of the report was not to discuss the Committee’s terms of reference as such, part of the review nonetheless focused on issues that were closely related thereto, such as the relevance and topicality of the activity. The conclusions of the Task Force were positive.

5. The Secretary-General noted the positive results obtained under the Insurance Committee’s current terms of reference (see Annex II for an overview of the Committee’s work since 1995), corroborated by the Committee’s self-evaluation at the end of 1999 [in response to questionnaire CE(99)10 on the Evaluation of Committees] and the aforementioned report CE(2000)8 of the Executive Committee Task Force, the Committee’s future objectives and the proposal to renew the mandate, with minor amendments, for another five years.

6. Accordingly, the Secretary-General invites the Council to adopt the following draft conclusion:

THE COUNCIL:

1. noted document C(2000)110;

ANNEX I: PROPOSAL FOR THE RENEWAL OF THE MANDATE OF THE INSURANCE COMMITTEE

1. The Insurance Committee (hereinafter called “The Committee”) shall have the task of developing and strengthening co-operation among Member countries in the field of insurance. This includes work related to private pensions issues, in particular through the Working Party on Private Pensions.

2. The Committee shall undertake any studies necessary to achieve a better understanding of the policies of Member countries with regard to insurance and of the economic importance of, and developments in, the insurance sector in Member countries. The Committee shall be responsible for pursuing efforts to achieve further liberalisation in the field of insurance. The Committee shall establish such Working Parties, task forces, etc as necessary to perform its work.

3. The Committee shall co-ordinate and work with such other OECD Committees as necessary for carrying out its activities.

4. The Committee shall keep itself appraised of the activities carried out in other international bodies in respect of insurance, shall provide a forum for consultations among Member countries to enable them to exchange views on issues raised in such bodies, and shall carry out work enabling a better understanding to be reached on international insurance issues.

5. The Committee shall promote policy dialogue with non member countries, encourage the implementation of best principles and practices and provide related assistance.

6. The Committee shall be responsible for monitoring and promoting co-ordination of work undertaken by the Organisation in the insurance field and, as appropriate, for submitting opinions, recommendations and proposals to the Council or to other Committees for this purpose.
Introduction

1. The importance of the economic and social role played by private insurance and pensions in domestic economies cannot be denied. This implies that, beyond the obvious sectoral issues, insurance and pension systems bring up many cross-sector issues that concern all social strata. This holds true for pensions, health insurance, life insurance, coverage against natural disasters as well as compulsory insurance. It also applies to the key financial role played by insurance companies and pension funds in financial markets and in the economy in general. They are the largest institutional investors in the OECD area and, therefore, have a decisive impact on the development of the economic infrastructure as well as the financial stability of countries. This social, economic and financial role represents a challenge for governments, especially since insurance companies and pension funds are going to be increasingly called upon to complement public systems in their social role as providers of retirement and health benefits.

2. It remains difficult to clearly grasp the technical features of private insurance and pensions, as it requires specific expertise in the field. Such expertise, along with the aforementioned important role of insurance and pension schemes, constitutes one of the reasons for the existence of the Insurance Committee which, over the past 44 years, has conducted work in virtually all areas of insurance. The relevance of the Committee is further evidenced by the fact that OECD Member Countries account for 94 percent of the world insurance market. Even though the work of the Insurance Committee was recently complemented by that of the International Association of Insurance Supervisors or of the Insurance Committee of the European Union, the Insurance Committee remains the only genuinely intergovernmental forum in which insurance issues are examined at the global level. The new Working Party on Private Pensions is the only international governmental forum dedicated to private pensions and the recent establishment of the International Network of Pensions Regulators and Supervisors is expected to further bolster its role in this area. The Insurance Committee is also the only body that brings together representatives of governments, supervisory authorities and the private sector. The active involvement of the private sector has always helped keep the work of the organisation pertinent to the actual situation in the market. The relevance of the Committee’s work will be further improved by the expansion of cooperation and co-ordination in the insurance and pension sectors which the Committee is increasingly seeking to establish with other OECD bodies as well as other international agencies.

3. In the coming millennium, the insurance sector will be faced with a series of new challenges. Private insurance and pensions will be called upon to play an expanding role as providers of complementary retirement and health coverage in most Member Countries, while at the same time helping reduce budget deficits. Environmental and technology risks will also generate additional need for insurance, while even greater demands will be put on insurers and pension schemes as the main institutional investors in the OECD area. These factors, combined with the internationalisation and globalisation of markets, as well as with the rise in electronic commerce, will cause more pressure to liberalise the markets for insurance and pensions, and to strengthen the regulatory and supervisory framework in which the institutions concerned operate. While the financial health of providers will remain a matter of utmost importance for governments, the need for a differentiated approach that takes into consideration the functional constituents of markets and their convergence and integration into financial (broadly defined) markets will become more acute. In this regard, governments will have to provide appropriate oversight – all the more so since insurance companies and pension funds will play a crucial social role in retirement and health benefits – as well as develop pertinent rules of conduct calling for the...
parties concerned to be held accountable, including through improved corporate governance, greater transparency and better management practices.

**Work conducted from 1995 to 2000**

4. Since 1995, the Insurance Committee has carried out a considerable amount of work of a diversified nature. This work has dealt with key issues that reflect the major orientations of the Committee, namely the enunciation of principles and recommendations, political analysis, the dissemination and sharing of information, as well as co-operation with non-member countries. The Committee has, *inter alia,*

- enunciated a series of principles and practices, including:
  - basic principles for the regulation of private pensions,
  - recommendations regarding reinsurance (C(98)40),
  - the 20 guidelines for insurance regulation,
  - selected principles for the regulation of investments by insurance companies and pension funds,
  - the new obligations under the Invisibles Code in insurance,
  - new obligations in terms of foreign portfolio investments by insurance companies and pension funds;
- developed political analyses in several key social, economic and financial fields, including inter alia liberalisation, private pensions, health insurance, institutional investments, financial convergence, reinsurance, distribution and solvency;
- monitored markets and regulatory systems through the development of country studies, current analyses on topics such as derivatives, mutual societies, genetic testing, segmentation, as well as by creating detailed databanks for statistical and regulatory information on Member Countries and certain non-member countries;
- pursued a policy of outreach towards non-member countries, by promoting the principles of the OECD, developing analytical tools to help those countries reform their regulatory systems, and organising closer political exchanges between those countries and Member Countries.

5. One of the primary activities of the Insurance Committee has focused, and continues to focus, on the *liberalisation of trade in insurance services* (including in respect of establishment and investment matters). Since 1995, most of this work has been performed within the joint CMIT and Insurance Committee Working Party. Pursuant to its assignment, the working party has examined in detail the six items in the Invisibles Code pertaining to insurance. Its objective is to clarify, update and expand the scope of these items. The review is almost complete and a report is expected to be submitted by the two Committees to the Council very shortly with suggestions concerning a revision of the items. The Joint Working Party has also completed an extension of the Capital Movement Code to include foreign portfolio investments by insurance companies and pension funds. The Committee is also in the process of looking at a series of basic principles for the insurance market. The participation of the Insurance Committee in the accession process of Korea provided it with an opportunity to play a key role in assisting that country achieve its current degree of liberalisation. Beyond the policy work, the Joint Working Party and the Committee have also been monitoring the progress of liberalisation in Member Countries and certain non-member countries with which a special co-operation programme was set up under the aegis of the Centre
6. Another very important field in which the Committee has been working concerns the development of an **appropriate regulatory and supervisory framework**. This issue is closely tied to the one mentioned above as the Insurance Committee has always underscored the importance of the link between liberalisation and regulation -- successful liberalisation requiring the existence of an appropriate regulatory system. A key portion of the Committee’s work in this area has been carried out by the Group of Government Experts on Insurance Solvency, formed in 1992. Among its activities, this Group has pursued the review started earlier on the financial health of insurance companies in Member Countries. However, its principal achievement has been a series of political and technical analyses on several very important topics, including the consolidation of supervision, the solvency of mutual societies and the de-mutualisation phenomenon, the actuarial profession, the development of guarantee funds, the relevance of rating agencies, segmentation, issues having to do with fraud, risk techniques in non-life insurance, new solvency techniques such as dynamic tests, risk-based capital, as well as warning systems, asset/liability matching and locating rules, and the review of new international IASC accounting standards. The Group also conducted an exhaustive comparison between regulations governing the use of derivatives by insurance companies, which has been frequently used by other bodies and government authorities. Lastly, the solvency group conducted a review of reinsurance regulations in Member Countries (comparative review and detailed analyses of the situation in Belgium, France, Germany, Mexico, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom and the United States) and, more importantly, was the initial source of the Council’s Recommendation of 1998 on the assessment of reinsurance companies (C(98)40).

7. Besides the technical work conducted by the Solvency Group, the Insurance Committee completed several studies concerning **insurance regulatory policies**. These studies dealt with such issues as the distribution of insurance, the role and scope of activities of institutional investors, regulatory reform, competition in the insurance field, mandatory insurance, the taxation of life insurance, environmental matters (e.g. nuclear risks and insurability of environmental liability), access to insurance and, more recently, the debate on genetic testing. The Committee also pursued its work on financial convergence, first started in the early 1990s and on which very few other international bodies have focused until very recently. The Committee has recently started a major review of regulations governing investments by insurance companies and pension funds. A series of basic principles applicable to the regulating of such investments was approved in December 1999 and an agreement on future work in this area was approved.

8. In order to facilitate the Committee’s **analysis and monitoring work**, the markets and regulatory systems of several Member Countries (Australia, Belgium, Czech Republic, Denmark, Hungary, Ireland, Japan, Mexico, the Netherlands, Poland, Switzerland and Turkey) have been examined in detail, in addition to the surveys conducted by the Solvency Party and the Working Party on Private Pensions. Monitoring by the Committee is also done through regular reviews of recent developments in the OECD area. The Committee also collects a unique set of data, including that published in its Insurance Statistical Yearbook, an OECD best seller. The information collected also concerns regulatory systems, with the updating of the report on the regulation and supervision of insurance in Member Countries to be published in the near future and which will be made available on the Internet. The Committee is also going to promote more extensive dissemination of its information and analyses by creating a new Internet sub-site providing public access to many documents along with better means of sharing information among Member Countries and between them and non-member countries.
9. Two major concerns of the Committee are **private health insurance** and, above all, private pensions. Substantial work has been conducted in the field of private health insurance and a survey of the situation in Member Countries was prepared, which will be published in the summer of 2000. Through in-depth Committee discussions, such factors have come to the fore as the benefits and shortcomings of private health insurance and the need for appropriate controls, including in respect of competition, access to information and care, consumer protection and portability. Major work has been initiated on insurance statistics by the task force on insurance statistics and a new questionnaire is schedule to be submitted to the Committee in the near future. These items are expected to be back at the top of the Committee’s agenda for 2001-2002 and will be handled in close co-operation with the working party on social policy of the Employment, Labour and Social Affairs Committee.

10. The topic of **private pensions** has been debated by the Committee for several years, and it has continued to gain increasing significance. It has been on every Committee agenda since 1995. Much work has been accomplished on the subject. This has contributed significantly to the horizontal OECD project on the ageing of populations, which resulted in a report on the topic of “Maintaining prosperity in an ageing society”, submitted to the Ministers’ Meeting of 1998, which approved a series of recommendations concerning the regulation of private pensions, initiated by the Insurance Committee. An important amount of data has been collected. The Solvency Group and the Joint Working Party also contributed to this work. The Solvency Group examined issues linked with the financial health of private pensions in several Member Countries, as well as technical questions concerning the actuarial treatment of retirement schemes, the risk of pension fund insolvency as well as the supervision of such funds. The work of the Joint Working Party made it possible to attain a higher degree of liberalisation for investments by pension funds. However, the principal development took place in 1998, with the creation of a new Working Party on Private Pensions, which met for the first time in June 1999. Since then, the Working Party has been very active. Surveys have been conducted concerning eight countries (Hungary, Italy, Japan, Mexico, Sweden, Turkey, the United Kingdom and the United States). It has looked at the issue of the advantages and shortcoming of defined contributions and defined benefit systems, and at the issue of administrative costs. Some of its work has already been published in a new series on private pensions started in 1999, the first volume of which was issued in April 2000. Work toward a world classification of private pension systems has started. The group has also launched a discussion on regulatory principles and set up a broad working programme that should enable it to play a leading role in the organisation and at the international level in matters of private pensions. The recent establishment of an international network of pension regulators and supervisors, to be hosted by the OECD, is undoubtedly a major step in that direction.

11. Outreach towards **non-member countries** has been another major project of the Insurance Committee, which has expanded sharply. Following a series of activities since the start of the 1990s, the second East-West Conference of insurance supervisors and regulators, held in 1997, marked a turning point in the Committee’s activities. It was at that meeting that the twenty guidelines for insurance regulation were approved. The following year the Committee also decided to broaden the scope of its activities in respect of non-member countries – which had until then been aimed primarily at economies in transition (CEECs and NIS) – toward Asia and Latin America, and to add special programmes for the Baltic Countries, Russia, China and Brazil. Activities were also expanded to include private pensions. This resulted, in 1999, in the first OECD conference on insurance in Asia (the proceedings of which were published at the end of 1999), a workshop on institutional investors in Latin America in September 1999 and one on insurance in the Baltic Countries in November of that year, followed by the first OECD workshop on insurance in China in January 2000 and the initial meeting of the OECD forum on private pensions in April 2000 (which included a workshop on pensions in Central and Eastern European Countries along with the first seminar on private pensions in the Baltic Countries), as well as a May 2000 round-table discussion on insurance in Russia. This outreach programme has also resulted in new requests for observer status, with Russia and Singapore being recent applicants. The Committee will intensify its work with non-member countries, in co-operation with other institutions such as the IAIS or the World
Bank. The Committee’s work has also included several expert missions and analytical studies, which have resulted in a number of publications. In 1999, the Committee also published a glossary of insurance terms.

12. The expansion of the activities of the Committee has not been limited to other countries. It has also resulted in more co-operation and co-ordination of activities with OECD bodies and other international institutions. Within the OECD, the Committee has had an opportunity to work closely with the Committee on Financial Markets, the Working Party on Social Policy, the Committee on the Environment, the Competition Committee and the Committee on Fiscal Affairs. At the international level, the Committee has co-operated mainly with the European Commission and Eurostat, the International Association of Insurance Supervisors, the European Insurance Committee, the Conference of Insurance Supervisory Authorities of the Member States of the European Union, the World Bank and the World Trade Organisation.

1998 restructuring and future projects

13. In order to take into account the views of the 1998 report on the structure of the Organisation’s Committees (Vinde report) and to enable the Insurance Committee to improve its ability to handle new challenges, the Member Countries decided in 1998 to substantially restructure its activities and working methods, including by:

- reducing the number of existing working parties and creating a new one on private pensions;
- focusing, in addition to the core activities on liberalisation, prudential policies and regulatory reform, on new crucial issues, mainly private pensions and health insurance;
- strengthening its role in setting guidelines for public authorities by promoting the adoption of best practices;
- developing better co-operation and co-ordination with other OECD and international bodies;
- improving its work methods;
- increasing its visibility;
- promoting policy dialogue with non-member countries through several projects.

14. This restructuring was strongly approved by the Committee and of the Council’s Task Force on the Evaluation of the Insurance Committee (see CE(2000)8). In June 2000, the Committee will examine the first recommendations issued by the Task Force in this regard.

15. As of June 2000, the Committee included the following working parties:

- Joint Working Party (CMIT/Insurance Committee) which will be wound up this year after the insurance obligations in the OECD Codes of Liberalisation have been revised;
- Working Party on Private Pensions, the only international governmental forum dedicated to private pension issues. The creation of this working party, after the Committee’ restructuring in 1998, was offset financially by the abolition of two other working parties, on statistics and on developing countries;
• Working Party of Governmental Experts on Insurance Solvency, created in 1992, which surveys and analyses regulatory and supervisory systems and techniques, focusing on solvency issues;

• Four ad hoc task forces perform work, respectively, on statistics, the exchanging of information on reinsurance, the third pillar/private pensions and outreach for private pensions. These task forces are light structures and cause no additional expenses for the Organisation.

16. In general, it is expected that the work of the Insurance Committee and its working parties will expand in the coming years. The issues which insurance and pension systems are going to be confronted with are undoubtedly going to require more attention on the part of governments and all those directly or indirectly concerned. The natural trend towards a growing role for the private sector in supplementing, or in some instance replacing, public services requires the adoption of appropriate regulations to strike a fair balance between the protection of the society and individuals and the development of markets that contribute to the well-being of populations.

17. Without anticipating the decisions that will result from the discussion of the work programme of the Insurance Committee for 2001-2002, scheduled to take place in June 2000, it can be expected that the main axis concerning medium-term projects will be maintained. In this regard, the Committee had previously decided that it should focus over the medium-term on the liberalisation of the insurance sector, conduct comprehensive studies of the growing role of insurance in three key economic areas in Member Countries – i.e. pensions, health and the environment –, continue to review structural and regulatory developments affecting insurance and expand its relations with non-member countries and other OECD and non-OECD bodies. The Committee has also decided to undertake substantial projects in the field of the regulation of investments by main institutional investors. The Committee is further expected to improve its technical and political analysis and to seek and reach more operational conclusions for the benefit of the governments of Member Countries. As was previously decided, the Committee intends to improve the visibility of its work, taking into consideration in this respect that Member Countries account for more than 94 per cent of the world insurance market, that insurers are the largest institutional investors in the OECD area and, more importantly, that the Committee’s work is the sum of a considerable accumulation of experience, developed over 40 years of unique work and dialogue among governments (the ministries and supervisory authorities concerned) and the insurance industry. The private sector should, in this regard, be encouraged to increase its contributions to the work of the Committee and to be more closely involved in its activities.

18. In conjunction with its examination of the programme of activities for 2001-2002, the Committee will also review the recommendations issued by the Council’s Task Force on the Evaluation of the Insurance Committee and is expected to make the scope of its programme more flexible, in an effort to become more proactive in its approach. Factors with current significance, such as electronic commerce for instance, may have to be dealt with by the Committee in due time. The discussion will also enable the Committee to take a more thorough look at the current level of its resources, which are particularly limited, at least in so far as the budget is concerned, exclusive of grants, and to draw the corresponding conclusions.
ANNEXE III: MEETING ORGANISED WITHIN THE FRAMEWORK OF THE CENTRE FOR CO-OPERATION WITH NON-MEMBER COUNTRIES

Workshop on insurance in Ukraine, Kiev, 6-7 April 1995
Workshop on insurance in Baltic countries, Stockholm, 25-26 September 1995
Seminar on insurance for transition economies, Joint Vienna Institute, 3-7 July 1995
Workshop on insurance in Romania, Bucarest, 8-9 February 1996
Workshop on insurance for transition economies, Istanbul, 27-29 March 1996
Workshop on insurance for transition economies, Joint Vienna Institute, Vienna, 1-5 July 1996
Second East-West Conference on insurance in transition economies, Warsaw, 3-4 April 1997
Workshop on insurance for transition economies, Istanbul, 30 September - 3 October 1997
Expert meeting on insurance in Estonia, Tallinn, 23-24 November 1998
Expert meeting on insurance in Lithuania, Vilnius, 7-8 January 1999
Conference on insurance regulation and supervision in Asia, Singapore, 1-2 February 1999
Expert meeting on insurance in Latvia, Riga, 8-9 July 1999
Workshop on institutional investors in Latin America, Santiago de Chile, 1-2 September 1999
Executive seminar on insurance regulation and supervision, Tokyo, 27-28 September 1999
First meeting of the Task Force on private pensions in non-member countries, Budapest, 14-15 October 1999
Preparatory meeting for the Roundtable on insurance in Russia, Moscow, 4-5 November 1999
Workshop on insurance in Baltic countries, Vilnius, 22-23 November 1999
Workshop on insurance in China, Beijing, 20-21 January 2000
First meeting of the International Forum on private pensions, Prague, 3-4 April 2000
Workshop on private pensions in Central and Eastern Europe and in the New Independent States, Prague, 5-6 April 2000
Workshop on private pensions in Baltic countries, Prague, 6-7 April 2000
Roundtable on insurance in Russia, Moscow, 15-16 May 2000
Conference on insurance regulation in Latin America, Oaxaca, 4-8 September 2000
Conference on private pensions in Brazil, Rio de Janeiro (to be confirmed), 11-12 September 2000

Workshop on insurance and private pensions in Baltic countries, October 2000

Conference on insurance regulation in Asia, Malaysia, January 2001
ANNEXE IV: LIST OF PUBLICATIONS

1995

- Insurance statistics yearbook 1986-1993
- Insurance solvency supervision

1996

- Insurance statistics yearbook 1987-1994
- Policy issues in insurance investment, tax, insolvency

1997

- Insurance statistics yearbook 1988-1995
- Insurance regulation and supervision in economies in transition
- Insurance guidelines

1998

- Insurance statistics yearbook 1989-1996
- Private pensions systems: regulatory policies. [Internet et N° 70 and 71 of Financial market trends (FMT)]

1999

- Insurance statistics yearbook 1990-1997
- Survey of private pensions systems (N° 74 FMT)
- Glossary of insurance policy terms (English version)
- Liberalisation of international insurance operations
- Insurance regulation and supervision in Asia

2000

- Private pensions series: Private pension systems and policy issues
- Institutional investors in Latin America
• Glossary of insurance policy terms (French version)
• Policy issues in insurance (third volume)
• Private health insurance in OECD countries
• Private pension series : (special issue) : First OECD Forum on private pensions
• Private pension series : Country survey and administrative costs
• Insurance regulation and supervision in OECD countries
• Regulation and supervision of the financial security of insurance companies