



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

ORGANISATION DE COOPÉRATION ET
DE DÉVELOPPEMENT ÉCONOMIQUES

Contribution of Insurance Statistics to Market Transparency

Part 1

*Second OECD-Asia regional seminar:
Enhancing transparency and monitoring of insurance markets*

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Bangkok, Thailand



Transparency

● Rationale

“The operations of the financial system and its participants should be sufficiently transparent, both to:

- i. facilitate a proper empirical understanding of the functioning of the system, its features, and evolution, and
- ii. promote the efficiency of the system, given the value of high-quality and accurate information for its functioning.”

(a key element of the *OECD Policy Framework for Effective and Efficient Financial Regulation*, an OECD Recommendation to member and non-member countries for improving the quality of financial regulation)



Transparency

- Financial system transparency means timely, comprehensive, and comparable data/information on
 - Products, services, processes, transactions
 - Institutions, markets, and supporting infrastructures
 - Participants
 - Interlinkages (e.g., sectoral, macroeconomic, international)...that support the functioning of the financial system, domestically and internationally

Functions of financial system

Overall function: Facilitate the allocation and deployment of resources across space and time amidst uncertainty

i) Facilitation of trade in goods and services

Provide means to facilitate the exchange of goods and services, such as payment systems, and foster specialisation

ii) Mobilisation of capital, allocation of resources, and corporate discipline

Mobilise savings/investments and pool funds
Obtain information on projects, managers, and firms
Allocate resources across industries, regions, and time
Monitor managers and exert corporate control

iii) Risk transfer and risk reduction

Provide for the trading, hedging, diversification, and pooling of risk

iv) Price discovery

Provide price information to help coordinate decentralised decision-making within the economy

See R. Merton (1995) and R. Levine (1997)



Benefits of transparency

- Understanding the financial landscape
 - Linkages with economic and social activity
 - Enhanced analysis; relevance for all stakeholders
- Improving policymaking and regulation
 - Market failure analysis and identification of needs
 - Policy decision-making and evaluation; accountability
- Enhancing surveillance (micro and macro)
 - Monitoring developments and identifying risks
 - Challenges of complexity and constant innovation
- Promoting efficient market functioning
 - Industry self-monitoring: benchmarking
 - External monitoring: market discipline (efficiency, solvency)
 - Consumer awareness and education: better conduct



Some elements of transparency (policy-oriented)

- Market development and growth
 - Use of financial services and contribution to growth/welfare
- Financial stability, market structure, and efficiency
 - Safety of individual institutions and financial system
 - Market power, market dynamics, and pricing/costs
 - ...cross-sectoral dimension and interactions
- Internationalisation
 - Level of regional/international integration and competition
 - Location of risk: home or abroad
- Market conduct and consumer behaviour
 - Nature of interactions and consumer decision-making



Tools to promote transparency

- Statistics

- Include aggregate and firm-level data
- Collected and disseminated by government authorities, trade associations, and other bodies

- Firm-specific disclosures

- Market data: disclosures made by undertakings
 - Often disseminated by private-sector sources
- Supervisory information
 - Detailed, granular, and sensitive data – not released
 - Selected firm-level and industry-level disclosures, providing a source for statistics (see above)

- General qualitative and quantitative information



Challenges in insurance statistics

- Insurance sector perceived to be a “black box”
 - Complexities of insurance, variety in type of products and coverage, longer time horizon
 - Less transparency in pricing / transactions
 - At level of insurance undertaking, e.g., technical provisions
 - At broader industry level, certain markets, e.g., reinsurance
- National segmentation of insurance markets
 - National specificities and challenges of comparability, e.g.
 - Role of private insurance in social security systems and private occupational pension schemes
 - Variation in types of products
 - International/regional insurance statistics have traditionally been limited in scope and lacked frequency/timeliness



Challenges in insurance statistics

- Issue of nature, frequency, breadth and depth of insurance statistics
 - FSB-IMF report to G20 identifies nonbank financial sector as sector in need of better data
 - *The Financial Crisis and Information Gaps* (2009)
- Goals at international level (G20/FSB)
 - Capture the build-up of risk in the financial system
 - Improve data on international financial network connections and systemically important global financial institutions
 - Develop sectoral, financial, and other economic datasets
 - Address nonbank sector and “shadow banking”
 - Improve communication of official statistics
- Some issues relevant for insurance sector



Relevant key themes of G20 work for insurance data gaps

(from report to G20)

1. *Linkages between institutions/markets*

- *Linkage between individual financial institutions*
- *Exposures of SIFIs to different financial sectors and markets*
- *Separate identification of nonbank financial institutions in consolidated banking data*

2. *Cross-border*

- *Cross-border exposures of financial corporations*
- *International exposures of large nonbank financial institutions*

3. *Sectoral data*

- *Compilation and dissemination of the balance sheet approach, flow of funds and sectoral data more generally. Data on nonbank financial institutions should be a particular priority.*



Progress made

- Improvements to OECD insurance aggregate statistics (GIS)
 - New balance sheet and income statement information
 - Portfolio investments – some breakdowns and clarifications
 - More global exercise
- Expected expansion of IAIS data collection on selected reinsurers to selected direct insurers
- New ECB data collection effort
 - Insurance companies and pension funds
 - Balance sheet information only
 - Financial stability and monetary policy purposes



Progress made

- Enhanced data collection effort on securities
 - Development of the *Handbook on Securities Statistics (BIS, IMF, and ECB)*, focussing on debt securities
 - Relevant for insurers as institutional investors
 - More information being sought on holdings of securities, not just issuers (currency, maturity, type of interest rate)
- Legal entity identifier (LEI) initiative
 - Unique tracking of entities throughout the financial system
 - Need for understanding role of insurers in financial markets
- International accounting standards (IFRS)
 - Phase II project



Progress made

- Enhanced market monitoring
 - IAIS GRMR and expected expanded report
 - EU: EIOPA Financial Stability reports
 - OECD: *Global Insurance Market Trends*
- ...use of data helps to promote data relevance and quality,
and strengthen awareness – positive feedback loop



Some challenges ahead

- Interconnections

- Insurance and banking
 - Broad sectoral breakdown of exposures (see next page)
- Insurance, reinsurance, and retrocession

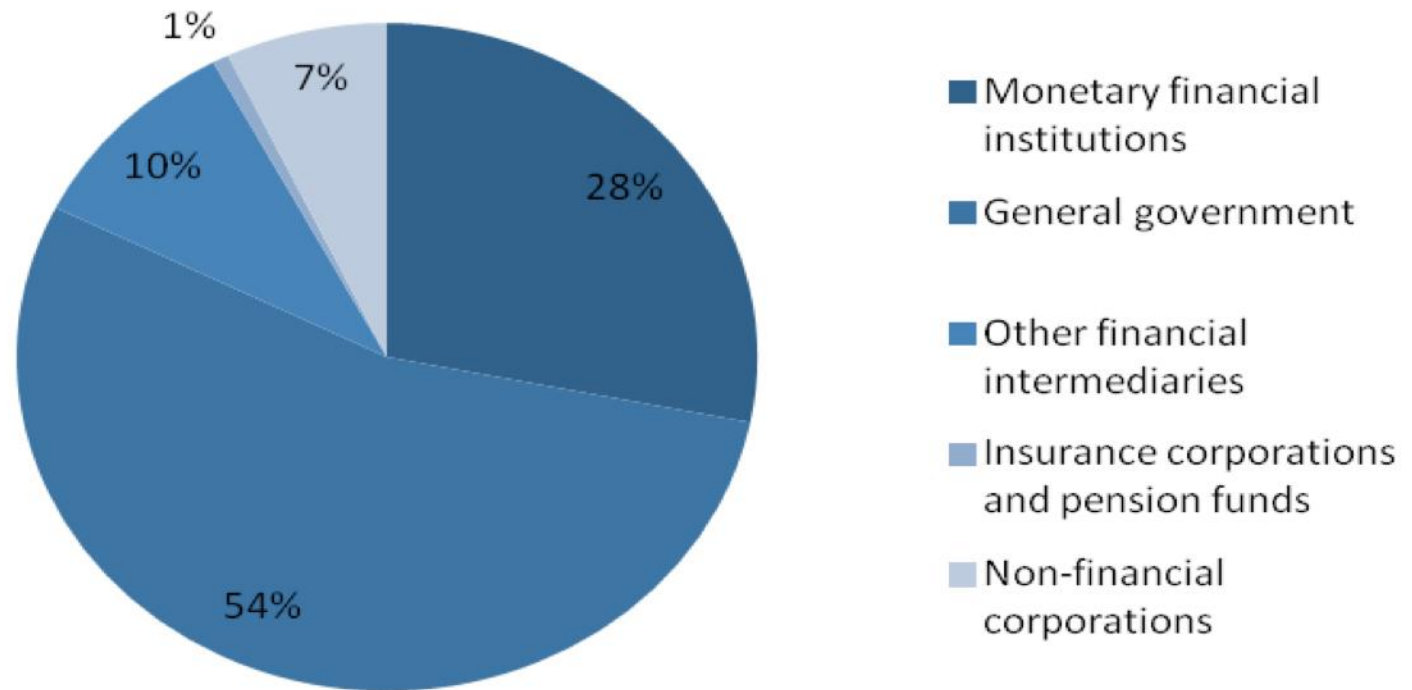
- Institutional investments

- Greater granularity needed – for aggregate statistics, sectoral counterparty and nature/maturity of debt securities
- High level of interest
 - Impact of insurer investments on capital markets
 - Impact of regulation

- Cross-border exposures

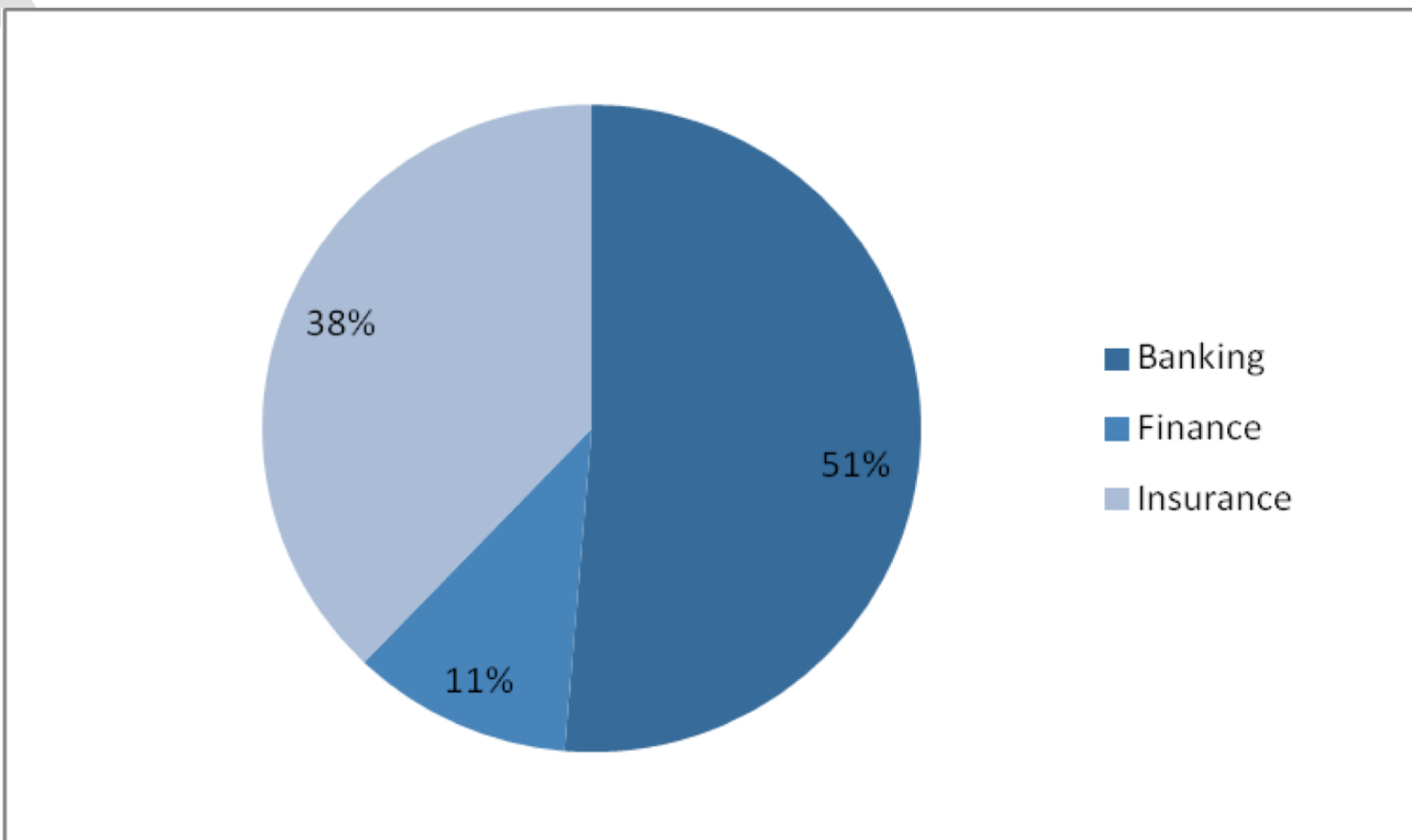
- OECD data: domestic versus foreign; no further refinement

Figure: Investments of euro area insurance corporations and pensions funds in securities issued by euro area residents (excluding shares) (2nd quarter 2011)



Source: ECB

Figure: U.S. insurance industry exposure to the financial sector: debt instruments by sector (year end 2010)



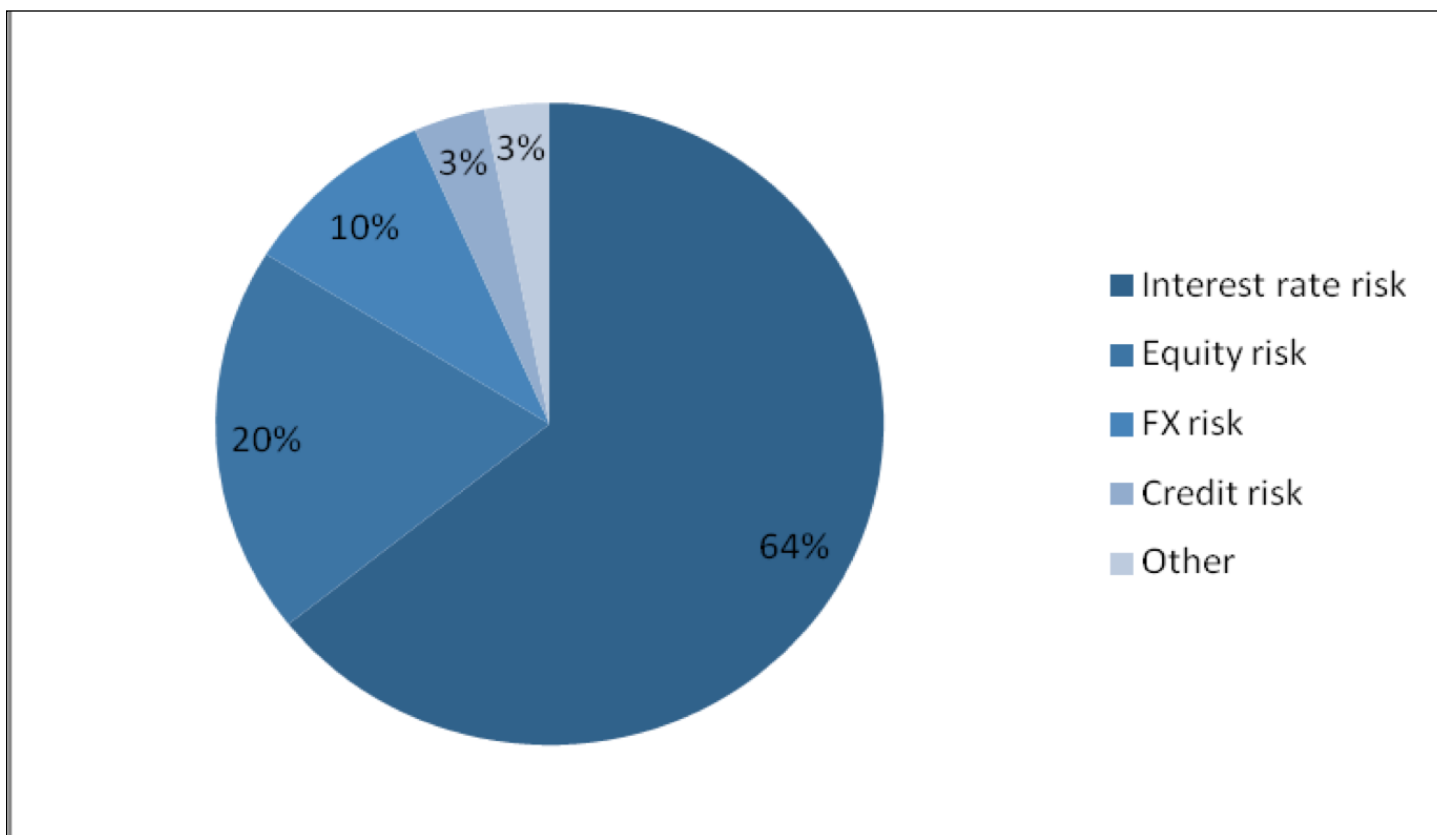
Source: NAIC. Banking includes domestic and foreign banks and broker-dealers.



Some challenges ahead

- Derivatives and financial market activity
- Industry characteristics and dynamics
 - Insurance coverage, pricing
 - More detailed information on industry (Swiss Re “wish list” from Kuala Lumpur)
- Catastrophe losses
 - Enhanced and more harmonised measurement of losses
- Frequency
 - Need for greater timeliness
- Methodology
 - Better, more standardised definitions of insurance terms to enhance interpretation and promote consistency

Figure: Types of risks hedged by the U.S. insurance industry (year end 2010)



Source: NAIC



Next steps for the OECD

- Need for more global insurance statistics
 - OECD needs to make further efforts – a priority
 - More Asian countries are invited to join the GIS
- Improving the framework
 - Methodologies
 - Framework and data elements
 - Further thinking on a streamlined questionnaire
 - Consultations (governments, industry, and other users)
- Need to strengthen cooperation amongst different bodies at national and international levels
 - Building on the experience of regional Asian seminar
 - Helping to accelerate the process



Next steps for the OECD

- Scope for further work in Asia and expected synergies with OECD



Thank You

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