”Enormous changes” to market conduct rules may be on the horizon

By Susan Yellin - 2013-06-18

International regulators will be spending this summer poring over Canada’s insurance regulatory regime for input into a report that could lead to enormous changes in market conduct rules and capital requirements, Frank Swedlove, a founder and the first chair of the Global Federation of Insurance Associations (GFIA) told a recent Toronto conference. But Mr. Swedlove, who is also the president of the Canadian Life and Health Insurance Association (CLHIA), voiced concern about the possibility of over-regulation of the Canadian insurance industry especially as it pertains to long-term investments that come with guarantees.

Mr. Swedlove said the 2009 crisis prompted the creation of GFIA in October 2012, whose aim is to increase industry effectiveness by providing input to international regulatory bodies.

Major reforms have gone on in many financial industries around the world since 2009. But even before then, the International Association of Insurance Supervisors had put together 26 core principles aiming for more effective supervision, accountability and transparency among insurance regulators.

Mr. Swedlove said the International Monetary Fund is getting set for a review of Canada’s regulatory system. Part of that review will assess Canada’s insurance regulatory system as it compares to those 26 principles, looking for any gaps.

“’It’s happening for Canada this summer,” Mr. Swedlove told a conference of the Canadian Association of Independent Life Brokerage Agencies (CAILBA). “This is serious stuff, but we need to make sure these regulations reflect reality.”

Mr. Swedlove said there could be “enormous changes” in market conduct rules once the full report representing information from all countries is released.

Capital requirements

“But in the long-term, there are issues about capital requirements for insurance companies – [such as] will we have international standards for capital – which could fundamentally change the insurance business around the world.”

He said the CLHIA is most concerned about over-regulation and over-capitalization, specifically of long-term products with guarantees, an area in which Canada excels.
“We think it’s really unfortunate that at a time when governments are less and less able to provide assurances and guarantees to Canadians, that we as an industry are being hampered in providing those assurances and guarantees because of regulatory and capital rules that apply,” he said.

He believes there will be pressure to raise capital requirements on long-term products, adding that the Office of the Superintendent of Financial Institutions (OSFI), while a responsible and forward-looking regulator, will be under the gun to change its current rules.

Insurers are currently in good shape with their capital requirements, said Mr. Swedlove. The Minimum Continuing Capital and Surplus Requirement (MCCSR), which gauges their minimum level of risk-adjusted capital, is currently in good shape among Canadian insurers and enabled them to make it through the financial crisis, he said.

Long-term insurance-based products are increasingly important due to the current demographics. Mr. Swedlove said it is up to all insurance groups to inform governments of the ways these products work and help encourage their use rather than discourage them, i.e. by adding retail taxes to these products or increasing capital requirements on insurers.

“You are looking to the future and saying: who is going to meet the social needs of Canadians and for us, it’s the insurance industry collectively,” he said. “If we don’t do a good job of explaining to regulators the real risk that does apply, then there is a chance that we’ll be significantly changing the product mix, and that would be very unfortunate.”

Greg Pollock, president of Advocis, said his organization, among others, meets frequently with regulators across the country and is frustrated by those who give “wrong-headed directions.” “There’s a lot of anxiety out there,” he said.

While many changes dealing with the Client Relationship Model are taking place on the mutual fund side now, Mr. Pollock warned the insurance MGAs that at the end of the day, whatever happens on the mutual fund side, will make its way over to the insurance industry.

“It makes no sense to have a double standard. So eventually we will see this regulation coming together.”

Mr. Pollock said financial services organizations need to work together to ensure their voice is heard in both the provinces and on the federal level.

“We need to seize control of our destiny in terms of how we’re regulated in this country.”

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