

SUSEP-FENASEG Seminar May 3, 2006
Rio De Janeiro, Brazil
NAIC President Alessandro Iuppa

“Increasing Regulatory Cooperation in Latin America”

Opening

Good Afternoon, I am happy to be here in Brazil for the first time. Thank you SUSEP and FENASEG for the opportunity to participate in today’s symposium. As insurance regulators or supervisors, our primary responsibility is to protect the interests of policyholders while balancing the needs of the industry. The integration of economies and financial markets is increasing at a rapid pace, and the members of the NAIC recognize the importance of being active at the international level. As supervisors of the world’s largest insurance market, we try to take a leading role in the supervision of insurance globally, and in doing so, we are committed to working more effectively in our own hemisphere.

To meet the challenges of a globalizing financial services sector and to enhance efforts to assist emerging market economies, the NAIC is working to raise the level of international cooperation among regulators as well as the industries we regulate. If we are to successfully meet the growing needs of insurance consumers in today’s world, international cooperation must become an essential function for both the private and public sectors. On one hand, regulators must understand how international markets work, how they affect local markets and how they are supervised. On the other hand, industry must understand how countries supervise markets, how that supervision can affect competition and how they can operate profitably within the regulatory framework. As more cross border commerce takes place, it is critical that insurance supervisors keep apprised of the regulatory practices in their neighboring jurisdictions. With increasing economic integration and the

growing interdependence of markets, regulators and industry cannot afford to function in a vacuum or focus solely on their domestic agenda.

Today, I will share with you some measures that the NAIC has taken to demonstrate its commitment to greater international collaboration by exploring some of our various initiatives to work more effectively with the Latin American region as a whole.

NAIC-SUSEP MOU

Since 1999, the NAIC has sought to develop bilateral relationships with countries around the world. Just yesterday, I had the pleasure of formally signing a Memorandum of Understanding with SUSEP on behalf of the NAIC. Brazil is a significant market for US insurers and by signing the MOU, we now have a framework for our respective regulators to exchange information and provide technical assistance to facilitate a fair, safe and stable insurance market for the benefit and protection of policyholders. I look forward to the first official meeting between the NAIC and SUSEP to develop a formal work plan to educate members of SUSEP and the NAIC on the insurance regulatory practices in our respective countries. The goal of this MOU and others is to foster open communication and to encourage cooperation among supervisors on matters of common interest.

Latin American Market (Brazil)

As the largest insurance market in Latin America with a vibrant economy, Brazil can play a vital leadership role in Latin America. For well over the past decade, insurance in Brazil has undergone a period of growth, diversification and liberalization. While the business of insurance is concentrated in just a few countries – Brazil, Argentina, Chile, Colombia, Mexico and Venezuela - Brazil is

consistently the biggest market and provides the greatest growth opportunities. Last year, it became the 11th largest economy in the world, yet it only ranks as the 21st insurance market globally. With more than 30 foreign firms already with a significant presence in Brazil, this reflects foreign investors' assessment of growth opportunity and profitability in the country. The influx of foreign insurers should encourage local insurers to become more responsive, customer-oriented, competitive and more adept at using advanced technology to gain a larger part of the market.

The NAIC would like to commend SUSEP for its plans to reduce the volume of existing regulation, and instead encourage internal systems of control with greater emphasis on internal and external audits and compliance. This direction is demonstrative of SUSEP's efforts to comply with IAIS Core Principles, which provide a globally accepted framework for the regulation and supervision of insurers and reinsurers. The NAIC is optimistic and supportive of these efforts. Redefining one's institutional structure to move from a compliance-based to a risk-based regulatory system is a substantial change. Nor is it limited to Brazil. In the US, we too, are moving towards more principles based supervision so we know how difficult that transition can be. To make that transition less stressful to the market, we encourage the development of international best practices in an open and transparent environment. We also look forward to sharing our respective experiences during these developments.

Technical Assistance

With 135 years of experience in insurance regulation, the members of the NAIC are well equipped to offer technical assistance to emerging market countries seeks to establish regulatory systems.

According to a recent USAID Report, evidence shows that there is a link between strengthening the insurance industry and economic growth and development in developing countries. In this context,

the importance of technical assistance is compelling in terms of both the role that insurance plays in economic growth and the need for technical assistance in emerging markets. The NAIC's focus on assistance is not one designed to impose our system of regulation on other jurisdictions but to help to devise a base line of regulation that assists countries to open their markets, establish a market for foreign capital, and to allow the establishment of insurance firms.

Training Program in Puerto Rico

The NAIC is also working with the Puerto Rico Insurance Department to develop a training program in Puerto Rico as a way to increase access to regulatory know-how in the region. Due to the proximity to Latin America and the Spanish speaking staff, not to mention it is a beautiful island, Puerto Rico can work to accommodate the needs of the Spanish speaking insurance regulatory community. They have already translated a number of NAIC technical publications, including NAIC Model Laws and the catalogue of IAIS principles. The program would appeal to those seeking technical training but the material would be provided in both Spanish and English.

ASSAL

In November 2005, Commissioner and then-NAIC President Diane Koken of Pennsylvania participated in an ASSAL seminar in Buenos Aires by giving a presentation on risk based supervision and investment risk management. And just last week, the NAIC was represented by the Puerto Rico Insurance Department who delivered a presentation on Finite Reinsurance at the IAIS-ASSAL-OECD Training Seminar & VII Conference on Insurance Regulation and Supervision in Latin America in Portugal. The NAIC was able to leverage this opportunity to take part in the training conference, while also working on securing an MOU with the Association of Latin America Insurance Supervisors (ASSAL). Drawing on cultural and economic ties with the region, the NAIC

hopes to finalize an MOU with ASSAL by the end of this year. Last summer the president of the Inter-American Development Bank (IDB) and the past President of ASSAL (Guillermo Aponte Reyes-Ortiz), signed an MOU illustrating their commitment to enhance and strengthen the supervision of the insurance sector in Latin America. Like the MOU signed between ASSAL and the IDB, the NAIC hopes to optimize our respective resources by working with our colleagues in Latin America. And, perhaps most important is the recent selection of Superintendent Rene Garcia as the new president of ASSAL, which will allow us to move our efforts forward.

Internship Program

To provide a first-hand view of how insurance regulation works in the United State and to meet the growing requests for assistance, the NAIC created a formal internship program in 2004 for non-U.S. regulators. This program emphasizes an exchange of regulatory experience and is designed for professional staff members, who meet a number of specific qualifications. The interns participate in a 4-day training session at the NAIC headquarters in KC and then are posted to a state insurance department for 5-6 weeks. The program seeks to promote the transfer of applied regulatory knowledge to practical applications in their home country. Last fall, we hosted interns from 5 countries including two from SUSEP, Paula Dornelles and Gloria Moura who stayed in Texas. The development of the international internship program has drawn even more attention to the NAIC's valuable resources. The fall internship program will start in October 2006.

Mexico

The NAIC has worked with Mexico over the years through NAFTA (North American Free Trade Agreement) to address regulatory differences, which also includes a technical assistance component. One specific objective of the Agreement was the elimination of barriers to trade, and

the facilitation of cross-border movement of goods and services between the territories of the US, Canada and Mexico. The NAIC continues to participate in ongoing discussions of an ad hoc working group of insurance associations, transportation officials and regulators from the three countries. The mission is to resolve potential insurance issues arising as a result of the cross-border movement of goods.

Information Hub

Over the years, the NAIC has served as an information hub for interested non-US regulators. We have had requests from Latin American countries such as Peru, Chile, Panama, Mexico, and Brazil. NAIC staff also frequently responds to inquiries regarding the solvency and legitimacy of American companies operating abroad. In addition, the NAIC answers questions about the US insurance system ranging from minimum capital and surplus requirements to RBC control levels and how foreign companies can begin doing business in the United States.

Conclusion

I hope I have been successful in conveying the importance of international cooperation and highlighted some of the NAIC's key activities with Latin America. The development and success of global financial markets is no longer feasible without international collaboration. As you have heard, working with regulators from around the world is a key function of the NAIC. We hope to increase our activities with Latin America significantly in the future and urge supervisors to encourage sensible regulatory practices in financial services, which is critical for markets to flourish and in the end offering the policyholder the most competitive products. Next year, the NAIC will hold the 2007 IAIS Conference in Miami, Florida in early October. Due to the close proximity of

Latin America to Miami, we look forward to record participation from the region. I encourage all of you to take part in the conference and look forward to seeing you there.

Thank you.