

INSURANCE SUPERVISION IN A GLOBALIZING FINANCIAL WORLD

Address by Drs. K.A.H. Polvliet, Executive Director of the Centrale Bank van Aruba, at a luncheon meeting on the occasion of the official opening of the branch office of Atradius Credit Insurance N.V., Oranjestad, April 23, 2004.

1. Introduction

Excellency, board and management of Atradius, ladies and gentlemen,

It is with pleasure that I have accepted the invitation to be a guest speaker on this memorable occasion of the official inauguration of the branch office of Atradius Credit Insurance N.V. in Aruba. As Atradius is the world's second largest credit insurance company, we feel contented to have such a global market player among us, committed to serve the Aruban community in the best way possible. Therefore, on behalf of the Centrale Bank van Aruba, I wish to welcome Atradius to our happy island and sincerely hope that they will swiftly find their way into the insurance and business market of Aruba.

Today, I will make some brief remarks on insurance supervision in a globalizing financial world, by first, highlighting some effects of the globalization of financial markets on insurance supervision, subsequently, reviewing the status of insurance supervision in Aruba and concluding by indicating some recent developments in the insurance sector of Aruba.

2. Globalization of financial markets

Let me first highlight some effects of the globalization of financial markets on insurance supervision.

The rapid movement towards globalization of the financial markets creates new opportunities as well as new challenges. While globalization leads to institutional and product innovations, it also generates new risks and may lead to destabilizing effects. These adverse factors originate partly from market imperfections, insufficient risk assessments and loopholes in the regulatory system.

Financial globalization requires strengthening of international cooperation and coordination between insurance supervisors. A study conducted by the International Association of Insurance Supervisors, of which the Central Bank is a member, emphasizes that cooperation is essential in order to, inter alia, develop uniform accounting standards, actuarial valuation methods and capital adequacy and solvency requirements. The Central Bank closely monitors these developments in order to be able to adhere to the relevant standards and to safeguard the financial sector's reputation. In this respect the 2002 International Monetary Fund Financial Sector Assessment Report made some valuable recommendations to further strengthen the supervisory framework in Aruba, which in the meantime have been or are being implemented.

3. Insurance supervision in Aruba

Turning now to insurance supervision in Aruba, I will first briefly review the regulatory framework and then some aspects of prudential or micro supervision.

3.1 The regulatory framework

The State Ordinance Supervision of the Insurance Business was enacted on September 29, 2000 and became effective as of July 1, 2001. The Central Bank is charged with the prudential supervision of both life and non-life insurance companies conducting insurance business in or from Aruba.

This State Ordinance aims at protecting the interests of the policyholders by safeguarding the solvency and integrity of the insurance sector. It primarily focuses on the monitoring of financial solvency, while allowing the competitive forces to determine market structure, rate setting, design of insurance contracts, and other business-related matters (the so called normative supervisory system).

According to the 2002 International Monetary Fund Financial Sector Assessment Report Aruba's legal and regulatory framework on insurance supervision is largely observant with the Core Principles on Insurance Supervision issued by the International Association of Insurance Supervisors. These Core Principles represent the basic elements of an effective supervisory system, and are intended to serve as a reference for supervisory authorities.

3.2 Prudential or micro Supervision

Insurance implies "buying security". People insure themselves against the risks of fire, theft, liability, accidents, illness, disability, death, long life, etc. The financial impact of not having insurance and ending up without protection may be significant. Therefore, policyholders must be confident that the insurer will always be in a position to honor the claims. Reason why the supervisor must be vigilant that the insurer remains in a position to continuously meet its liabilities. This long-term viability requirement imposed on insurance companies demands a particular approach. This approach aims at minimizing risks of failure of insurance companies by requiring them to:

1. Establish adequate technical provisions;
2. Meet the minimum required solvency margin. This margin represents a buffer against possible adverse developments in, for instance, the insurer's incurred claims.
3. Aim at 100 percent coverage ratio by proper matching between liabilities and assets.
4. Have an adequate framework of corporate governance that clearly sets out the responsibilities of the board and management, and ensures that sound internal controls exist and are operating properly.

Compliance with the provisions of the State Ordinance Supervision of the Insurance Business is tested through off-site surveillance, consisting of analyses of financial statements to primarily detect early signs of financial weakness, and on-site examinations at the insurance companies. During the on-site examinations, the administrative organization and the internal controls are reviewed and the underlying figures of the company's financial statements are reconciled with the company's records. The latter is done to assess the completeness and the integrity of the financial records of the company. Furthermore, regular meetings are held with the management of the supervised insurance companies to discuss supervisory issues.

4. Recent developments in the insurance sector of Aruba

Let me now briefly indicate some recent developments in the insurance sector of Aruba.

The insurance sector consists of 8 life insurance companies, 14 non-life insurance companies and 2 insurance captives. The insurance sector is financially sound. All companies within the sector comply with the solvency requirements set by the Central Bank. In this respect, it can be noted that the aggregate coverage ratio, which is an important indicator of the financial soundness of an insurance company, of both the life and non-life insurance sectors, lies well above the required minimum of 100 percent. Furthermore, both the life and the non-life insurance sectors are profitable. For more detailed information on the financial developments in the insurance sector I refer to the Central Bank's forthcoming quarterly bulletin 2003-IV.

With the recent addition of Atradius to the list of insurance companies operating in Aruba, the number of market players has reached 24. Some critics would suggest that this is excessive for a small economy like Aruba, while others would advocate for a free-enterprise system where market forces should be able to create new opportunities that will enhance effectiveness and efficiency in the market place. In this regard, the Central Bank confines itself to create a level-playing field to promote a sound development in the insurance sector geared towards safeguarding the interests of the policyholders.

More insurance companies have found their way into the Aruban market by bringing innovative products, such as international health insurance plans with world-wide coverage, jewelers block-all risk policies, and since January 2004, credit insurance. So far this tendency has proven to be beneficial to the local consumers. Atradius has also managed to offer its services to the community and as we understand, will be more actively involved in the trade promotion for Aruba by organizing trade fairs and support.

5. Concluding remarks

In conclusion I would like to mention that in recent years a number of measures were taken to enhance the supervision of the financial institutions in Aruba. According to

the 2002 International Monetary Fund Financial Sector Assessment Report, the regulatory framework of the banking and the insurance sectors are both largely compliant with the Core Principles issued by the Bank of International Settlements' Basle Committee on Banking Supervision and the International Association of Insurance Supervisors. It was furthermore concluded that Aruba's anti-money-laundering framework is also largely compliant with the recommendations of the Organization for Economic Cooperation and Development's Financial Action Task Force.

The rapidly changing global financial environment requires however a dynamic approach from policymakers and supervisors in order not to be caught off-guarded. Aruba should at all times have effective supervisory instruments at its disposal and be able to adapt, enhance and modernize its legislation and its supervisory framework to effectively cope with new challenges.

Fortunately, there is a good cooperation between the Central Bank and the Insurance Association of Aruba. Joint meetings are held to support the policy measures that are mutually beneficial. The Central Bank believes that through this cooperation, the ensuing benefits will be for the community as a whole.

Finally, I would like again to extend my best wishes to Atradius and may this mark as a splendid beginning of a lasting stay in our "dushi" Aruba. "Masha pabien y tur exito".

Thank you for your attention.