



**Asia-Pacific  
Economic Cooperation**



## **Asia-Pacific Financial Forum (APFF)**

# **Insurers' Long-Term Investments to Support Sustainable Growth and Key Regulatory and Accounting Issues**

## **- Possible Impact of IFRS17 and Insurance Capital Standards (ICS)**

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**Sherpa, APFF Insurance and Retirement Income Work Stream**

**Sherpa, APFF Retirement and Long-Term Investment Working Group**

**October 2017**

# What is APFF?

- APFF is a regional platform for **collaboration among public sector, private sector and multilateral institutions** to help accelerate the development and integration of financial markets and services in the APEC region.
- APFF is an official policy initiative under the **APEC Finance Ministers' Process**. It has been tasked to support the implementation of the Ministers' **Cebu Action Plan** (a 10-year roadmap for the development and integration of financial markets in the region).
- The management of APFF has been entrusted by the Finance Ministers to the private sector through the **APEC Business Advisory Council (ABAC)**, which reports its progress to APEC senior finance officials and ministers regularly throughout the year.



Over 150 organizations



Over 300 individual experts

## A Ten-Year Roadmap for the APEC Finance Ministers' Process

# FOUR PILLARS



### FINANCIAL INTEGRATION

- **Financing MSMEs**
- **Financial inclusion and literacy**
- Facilitating remittances
- Financial services liberalization
- Capital accounts liberalization
- **Asia Region Funds Passport**



### FISCAL TRANSPARENCY

- Fiscal reforms
- Open Data Initiative
- Exchange of financial account information
- Base erosion profit shifting
- Tax and crime



### FINANCIAL RESILIENCE

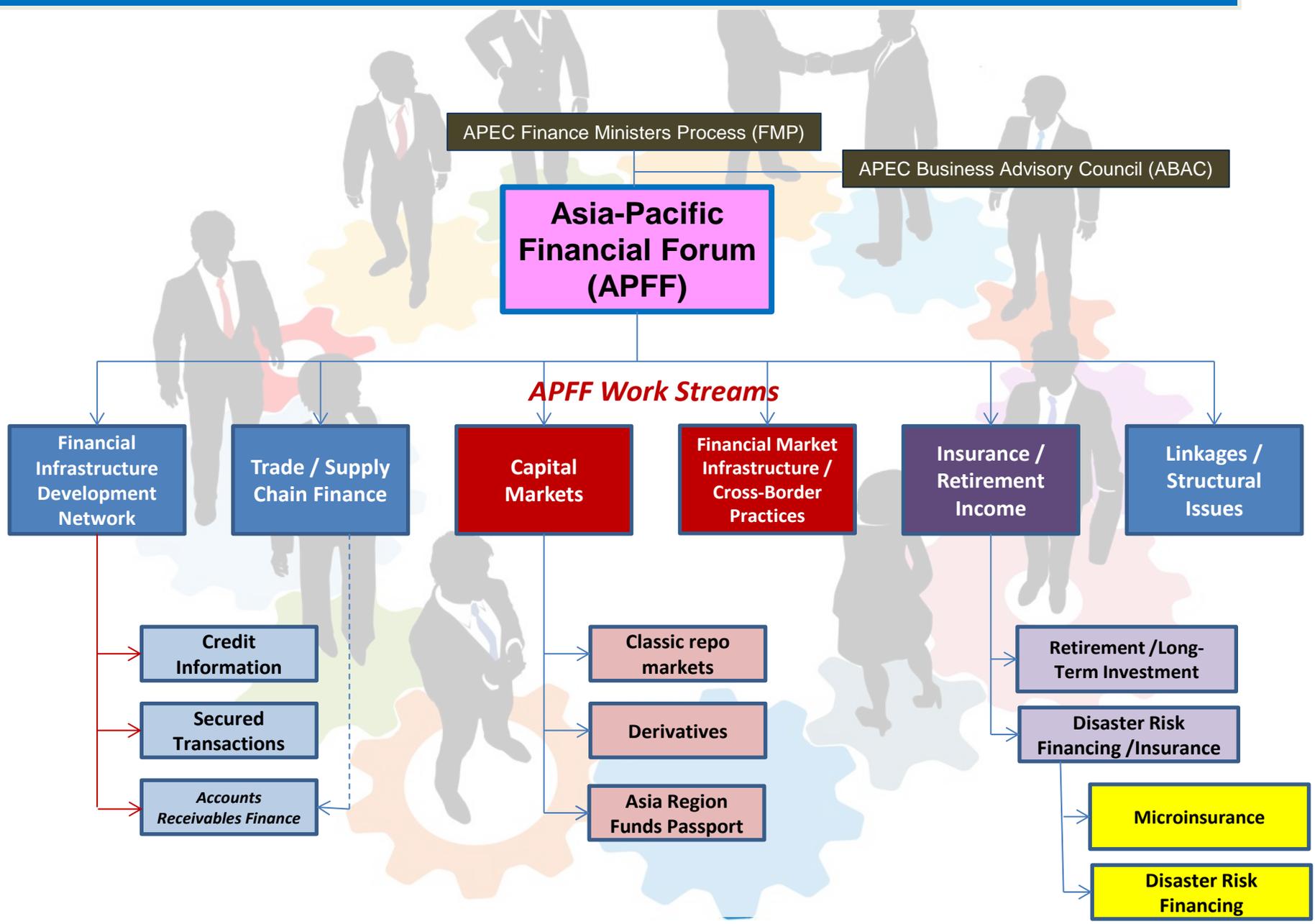
- Macroeconomic policy
- **Disaster risk financing and insurance**
- **Capital market development**



### INFRASTRUCTURE

- Knowledge portal
- Standardization of terms and practices
- Maximizing PPPs in infrastructure investment
- **Long-term investors**
- Urban development
- Regional connectivity

# The APFF Structure



# Collaboration of ASEAN Insurance Council and APFF

- ASEAN Insurance Council (AIC) submitted its recommendations to the ASEAN Regulators on the 9 January 2015, along with **APFF Interim Report 2014** to the APEC Finance Ministers and **Annex H: Constraints for promoting long-term investments in the Asia Pacific**.
- AIC and APFF intends to continue our collaborations for the coming years. ASEAN Secretariat is also willing to work with APFF.



## 2017 APFF Progress Report to APEC Finance Ministers

- Expanding MSMEs' access to finance
- Creating deep, liquid and integrated capital markets
- **Expanding the region's long-term investor base**
  - Retirement income and long-term investment
  - Islamic Infrastructure Investment Platform (I3P)
- **Fostering financially resilient communities**
  - Roadmap for expanding the coverage of micro-insurance in APEC
  - Disaster risk finance and insurance
- Dialogue and research on the future of financial regulation

Strategy Session  
January 2017



Activities  
Jan-July 2017



Drafting Session  
July 2017



Continuation  
to 2018

# APFF work on retirement and long-term investment

## 2017 APFF Progress Report to APEC Finance Ministers

### Expanding the Region's Long-Term Investor Base

- **Triple wins** thru Retirement income and long-term investment
  - **Consumers** receive high and stable returns for long-term savings
  - **The financial sector** is able to access deeper capital markets for infrastructure investment.
  - **Governments** obtain relief from large contingent fiscal liabilities
- **Triple gaps** to address to achieve the above objective
  - **Pension/Protection Gap**
  - **Infrastructure/Investment Gap**
  - **Regulatory/Accounting Gap**

1. Mandatory provisions and scalable retirements systems
2. Tax incentives to promote long-term saving products
3. Product/distribution innovation and financial awareness

- The APFF intends to coordinate with global initiatives (i.e. OECD, World Economic Forum) and the pension industry (i.e., Asia Pacific Investors Cooperation) and to hold dialogues with both pension and insurance regulators
  - APFF/APIC Regional Pension Funds and Social Security Systems Summit, 5-6 December 2017, Hong Kong
- The APFF continues to study selected APEC economies and examine gaps and potential solutions on retirement income and longevity solutions. The following are some examples of the recent developments in the region:
  - Thai Government introducing a new mandatory provident fund scheme
  - Malaysia's Employees Provident Fund (EPF) receives innovation award for its retirement advisory service
  - Australian government's consultation on the Discussion Paper
  - Life Annuity Scheme in Hong Kong

1. Promotion of infrastructure as a defined asset class
2. increased fiscal spending by Asian sovereigns within macroeconomic parameters suitable for developing economies
3. adoption of various financing vehicles, with a broader public-private partnership framework to promote long-term infrastructure investment

# Infrastructure/Investment

- The APFF is coordinating with global (i.e. Global Infrastructure Hub, OECD, WEF) and ASEAN initiatives (i.e. AIC) and the securities industry (i.e. ASIFMA), and undertakes dialogues with selected APEC economies (i.e. Indonesia, Vietnam, Philippines, Thailand)
  - APFF/APIP Dialogue with Indonesian Government on PPPs in Waste Management on 14 March in Jakarta
  - APEC Finance Ministers Process Seminar on Long-Term Investment in PPP on 17 May in Ninh Binh
  - APFF Roundtable on Long-Term Investment on 25 July in Toronto
- The APFF continues to study selected APEC economies and examine possible improvements to attract long-term investors, including financing vehicles, green finance, and survey on infrastructure investments:
  - Rethinking risk allocation in PPPs
  - The IFC/WBG's PPPs in infrastructure

1. Bank-centric regulations
2. Short-term oriented economic regime
3. “One-size-fits-all” model

## *Remaining key accounting issues*

- *Unit of account*
- *Scope for “variable fee approach”*
- *Transition*

- The APFF participates in global and regional conferences and meetings to discuss relevant regulatory and accounting issues.
- The APFF has engaged in continuous outreach and dialogue with policymakers, regulatory authorities and accounting standard setters, international (i.e. IAIS, IASB, OECD, World Bank) and regional institutions (i.e. ADB, ASEAN, NAIC, ASSAL)
  - IAIS Work on risk-based global ICS and Dialogue with IAIS
  - IFRS17 and Dialogue with IASB
  - Dialogue with regulatory authorities in the region
  - Coordination with AIC, Geneva Association and IIF
- The APFF continues to study selected APEC economies and examine regulatory and accounting issues and consider possible implementation support:
  - APFF Roundtable on Insurance Regulations and Accounting on 31 October in Hong Kong

# IAIS work on risk-based global ICS

- On July 21 2017, the IAIS released the risk-based global insurance capital standard (ICS) Version 1.0 for extended field testing.
- This represents a significant step towards the development of ICS Version 2.0 in late 2019 (Public consultation 2018).
- Topics for further discussions:
  - How to reflect long-term nature (i.e. discount rate)
  - MAV (Market adjusted valuation) and GAAP Plus
  - Eligibility of capital
  - Measurement of risks in the capital requirements
  - Interaction between ICS and Local regimes
- The IAIS also works on systemic risk assessment framework:
  - Updating G-SII Assessment Methodology
  - Activities-based approach
  - Cross-sector consistency assessment
  - Adoption in 2022 of HLA based on ICS Version 2.0 to be applied to G-SII identified in 2020 based on the Methodology updated in 2019 (ICS + HLA)

## Regulatory issues **Bank-centric regulations**

- **Bank-centric regulations** should be avoided, and the ICS should take into account **the specific nature of the insurance sector**
  - Should capture **all material risks across the sectors**
  - but **avoid bank-centric capital weighted rules**
  - And consider characteristics of **long-term assets supporting long-term liabilities**, as well as the **effect of asset diversification**
  - **High risk charges for long-term investment**, including infrastructure projects and equities, may discourage insurers to provide such investments
  - Regulations should be designed in a way to promote and incentivize the insurers' role to **stabilize the financial system/market** and its ability to **manage risk efficiently**



(Photo – Sydney, Australia)

## Regulatory issues Short-term oriented economic regime

- **Short-term oriented economic regime should be avoided, and the ICS should take into account the long-term nature of insurance**
  - An economic based regime should have a long-term vision
  - Short-term oriented economic valuation may produce significant volatility for long-term business
  - Economic information may be a useful indicator in determining a future long-term direction
  - But the ICS should avoid the introduction of a regulatory regime which would require immediate regulatory actions in response to short-term market fluctuations
  - Insurers should be allowed to invest in assets with long-term growth opportunities, such as infrastructure investments



(Photo – Silk Market, Beijing, China)

## Regulatory issues “One-size-fits-all” models

- **“One-size-fits-all” models should be avoided, and the ICS should reflect the diversity in different jurisdictions**
- International standards should be **principle-based** and aim to **achieve comparable outcome by taking into account the diversity** in the region
- Due to the difference in business models and existing regulatory framework, the **application of prescriptive international standards would not ensure the overall comparability or level playing field** and might produce unexpected negative consequences for insurance and capital markets and social security system



(Photo: New York, United States)



(Source: Tour of Babel)

# IASB Issued IFRS17

- On May 18 2017, the IASB published a new standard, IFRS17 (Insurance Contracts), which would require fulfillment value and provide consistent and principle-based accounting requirements for insurance contracts.
- IFRS17 supersedes IFRS4 and its effective for periods beginning on and after 1 January 2021, with earlier adoption permitted if both IFRS15 (Revenue from contracts with customers) and IFRS9 (financial instruments) have also been applied.
- APFF held meetings and dialogues and as a result observed some improvements in the final IFRS17 from the 2013 exposure draft including:
  - [Permission of optional OCI](#)
  - [Introduction of so-called “variable fee approach”](#)
  - [Alternative approach for CSM at transition](#)
- There are some technical and practical aspects yet to be addressed (i.e. level of aggregation, scope for variable fee approach, transition). APFF intends to be involved in the interpretation and implementation process in collaboration with other bodies (i.e. Technical Resource Group)
- Also a number of jurisdictions may use IFRS17 as basis for solvency assessments and in such cases impact of IFRS17 would go beyond financial reporting.

# Accounting issues

## ■ Volatility in the balance sheet

- Assets-liabilities interaction should be reflected for a wide range of products sold in the region
- Discount rate should reflect the business model
- Short-term fluctuation should be avoided



(Photo – Buenos Aires, Argentina)

## ■ Volatility in the income statement

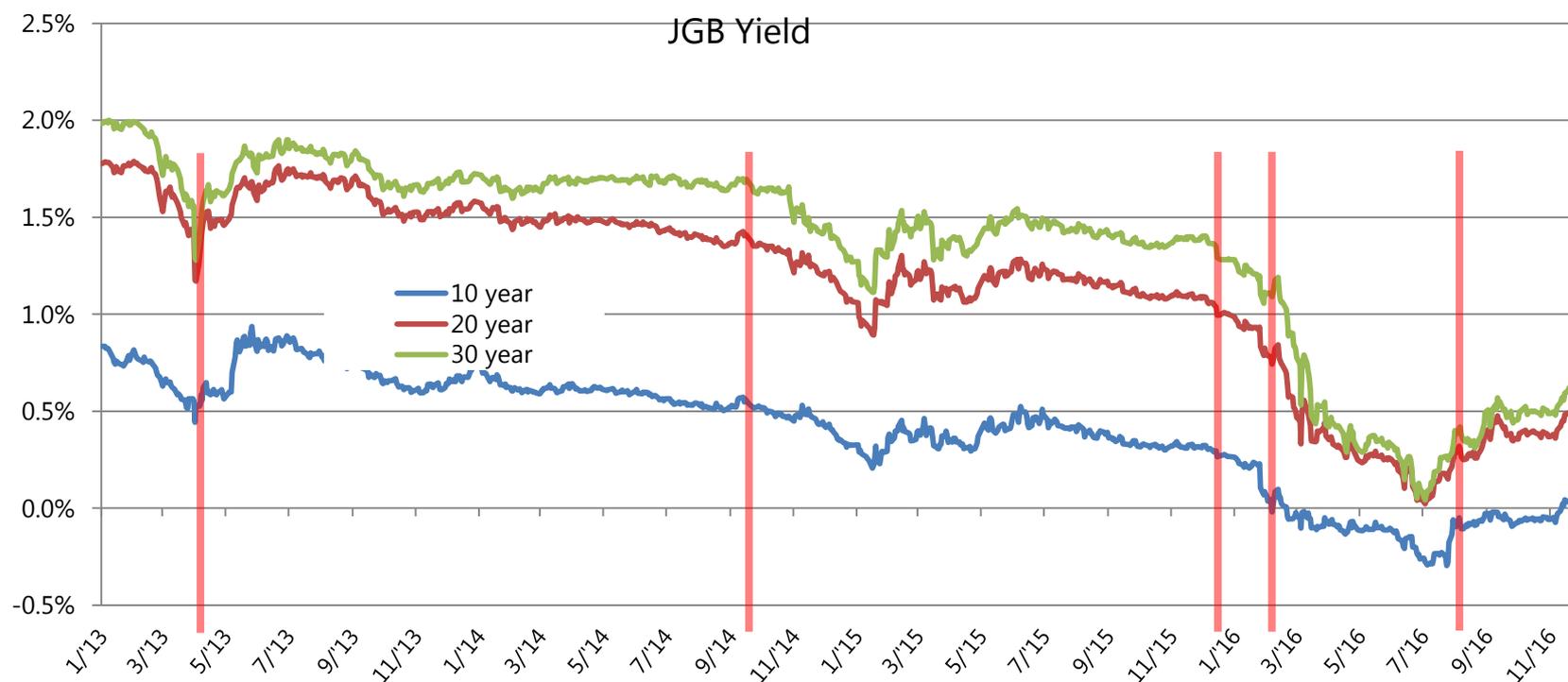
- The optional use of OCI for insurance liabilities and corresponding assets, and items of income and expenses presented in OCI should be permitted to be recycled
- The treatment of changes in estimated cash flows and that of discount rates should be consistent

## ■ Other issues

- Standards should reflect how an entity conducts its business in terms of (a) the unit of account, (b) the selection of a measurement basis, (c) presentation and disclosure
- Flexibility should be given in adopting transition requirements (i.e. prospective approach)

# Low interest rate environment in Japan

- In Jan. 2016, the BOJ (Bank of Japan) introduced a negative interest rate policy to achieve the target inflation rate of 2%, prompting significant decline in interest rates over a wide range of durations.
- In Sept. 2016, the BOJ made a slight modification to the policy, aimed at steepening yield curves, but the ultra-low interest rate environment is continuing.
- Nippon Life's strategy is built upon the perspective of long-term growth of the company, based on the assumption that the ultra-low interest rate environment will continue and focus on how to earn investment profits, given the increasing difficulty with investments in yen-denominated interest-bearing assets.



(Source – Nippon Life Insurance Company)

# Nippon Life's ESG Investments

- Investment in green bonds and other ESG bonds fits in with the fund management philosophy of the life insurance business, which is highly social and public
- Cumulative investment is approximately 170 billion yen (\$1.4 billion)
- Signed the PRI (Principles for Responsible Investment) and set a quantitative target for investment of JPY 200 billion

## Green bonds by Paris



It contributes to the Green Project promoted by the city and funds are utilized to introduce high-energy efficient streetcars and to plant trees.

## Sustainable Development bonds by the World Bank



© Gerardo Pesantez / World Bank

The funds raised are used to finance an array of sustainable development projects in developing countries focusing on poverty reduction and inclusive growth.

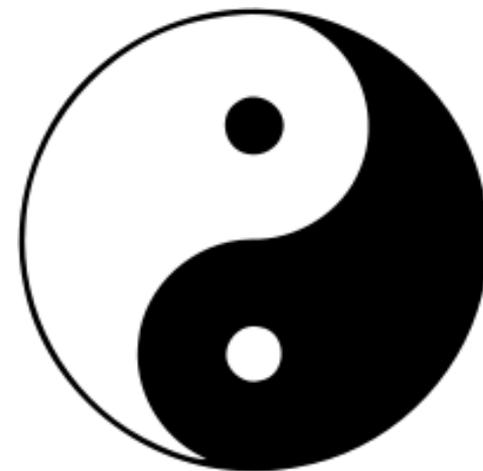
## Women bonds by Banco del Estado de Chile



The bank launched its Crece Mujer Emprendedora Program for women and uses funds to support the program, provide financial services for women and offer loans to female entrepreneurs in Chile.

# Some words from Taoism - yin and yang

- **Have a holistic vision**
- **Be aware that the world is cyclical**
- **Don't go to the extreme, otherwise you will fall**
  - Bring the balance of yin and yang to the universe
- **In order to manage the world, you should control yourself**
  - In order to implement international standards, you should first know your own country



(Photo – Tao Garden, Chang Mai, Thailand)

# Asia Pacific Financial Forum (APFF)

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ASIA-PACIFIC

## ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016

September 5, 2016

ABAC submitted the 2016 Progress Report of the APFF (Asia Pacific Financial Forum) to APEC Finance Ministers. This Progress Report covers the following areas to provide information and high-level recommendations to support Cebu Action Plan in the Asia Pacific: Advancing...

[Read more →](#)

### Recent Posts

- ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016 September 5, 2016
- Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26 August 29, 2016
- Mack participated in the APFF Roundtable and the ABAC meetings in Shenzhen, August 1-4, 2016 August 28, 2016

ASIA-PACIFIC

## Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26

August 29, 2016

The National Association of Insurance Commissioners (NAIC) hosted the Third Annual Asia-Pacific International Forum on August 24-25.

[NAIC NEWS RELEASE: NAIC HOSTS THIRD ANNUAL ASIA-PACIFIC INTERNATIONAL FORUM](#)

Mack made remarks to share the APFF activities, issues and recommendations during the panels on Retirement Security, FinTech, and Cyber Security.

### Members Only

- APFF Insurance and Retirement Income Workstream

### Resources

- APEC Business Advisory Council(ABAC)
  - APFF Page
- National Center for APEC (NCAPEC)

For more details on the APFF, visit [mackglobe.com](http://mackglobe.com) or email

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