



**SUPERINTENDENCIA**  
DE BANCA, SEGUROS Y AFP

***INSURANCE REGULATION AND  
SUPERVISION IN PERU:  
A RBS FRAMEWORK FOR THE SBS***

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*August 2005*



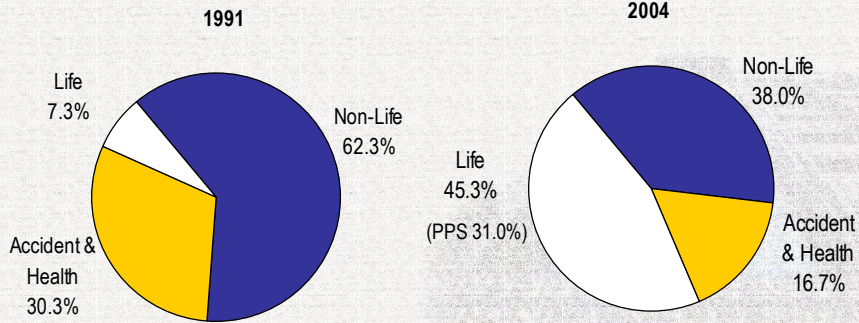
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***I. Key Indicators of the Peruvian  
Insurance System***



## Structural characteristics

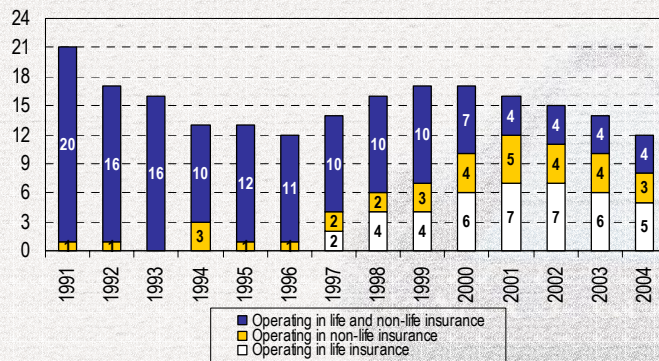
The composition of the insurance sector in Peru has changed in the last twelve years due to the grow in the life insurance market, mainly for the origin of the Private Pension System (PPS) in the early 90's. This creation promoted the market for disability and survival insurance and for annuities.



## Concentration

The insurance system has become more efficient due to the specialization into life and non-life insurance companies. In 1991, there were 21 companies, only one of them was a specialized one. On December 2004, there are 12 entities, 8 of them are specialized.

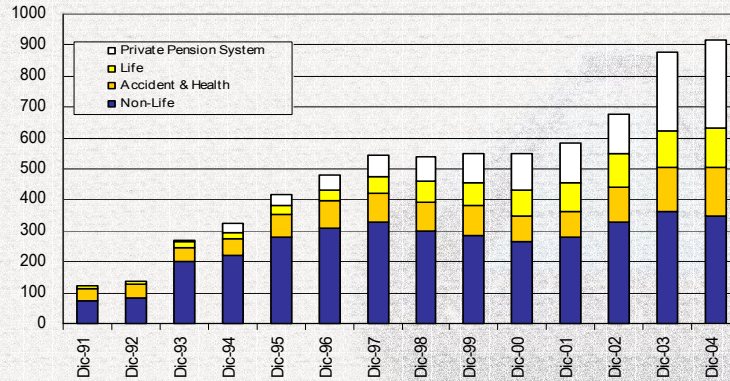
Number of Insurance Companies



## Production

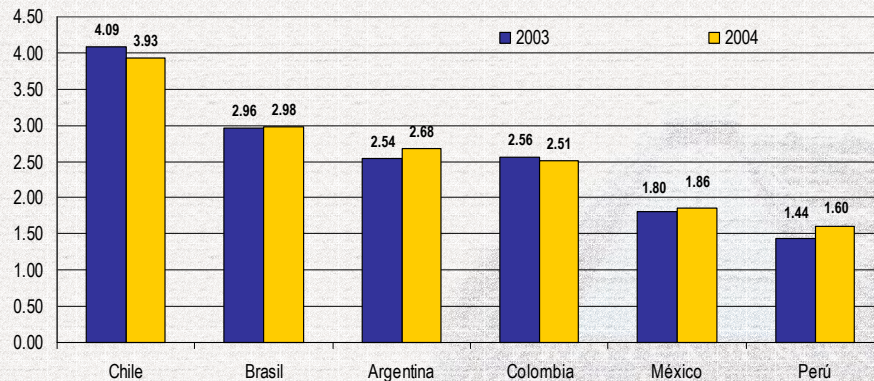
Insurance premiums have increased more than seven times in the last 12 years due to the liberalization of the insurance market in the early 90's and the entrance of foreign insurance companies.

Net Insurance Premiums  
(US\$ Mill)



## Growth

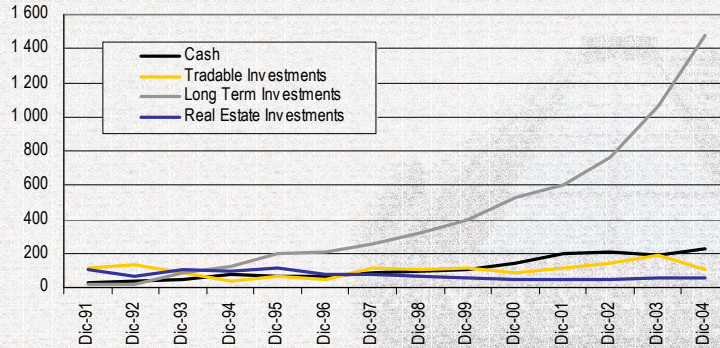
Insurance Premiums / GDP



## Impact in other economic areas

**Insurance companies contribute to the development of the capital market. The increase of the long-term investment of the insurance companies is mainly explained by the growth of the life insurance market.**

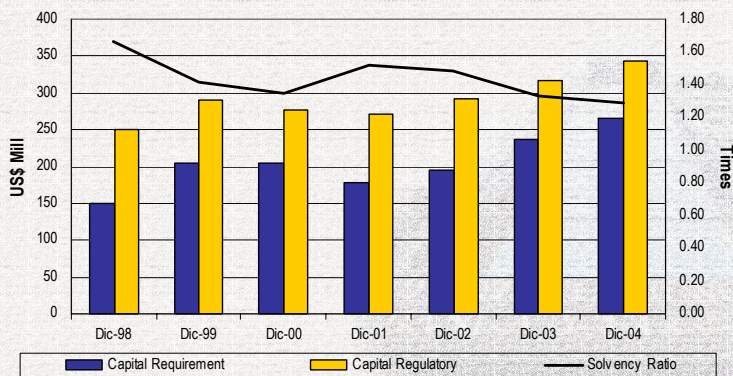
**Assets: Liquidity and Investment**  
(US\$ Mill)



## Capital adequacy

**Equity of insurance companies is allocated to cover unexpected claims (as well as their financial debts). For the current capital requirements (Margin of Solvency plus 35% of that MS), the system has been capitalized appropriately.**

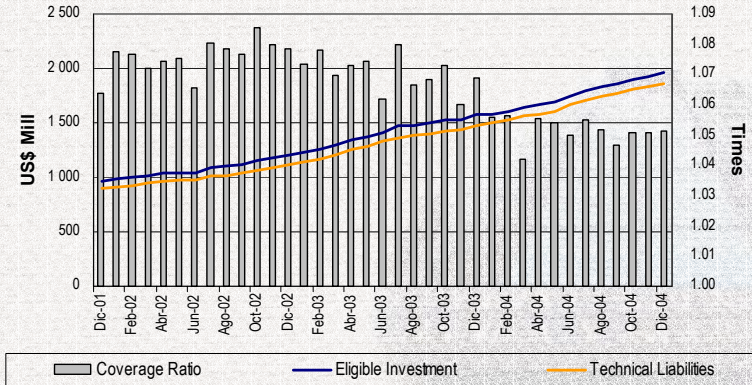
**Capital Adequacy**  
(US\$ Mill)




## Asset quality

**Technical liabilities (reserves and capital requirements) are backed appropriately by admitted investments. These investments are diversified according to limits and regulations imposed by SBS.**

**Technical Liabilities, Eligible Investment and Coverage Ratio**



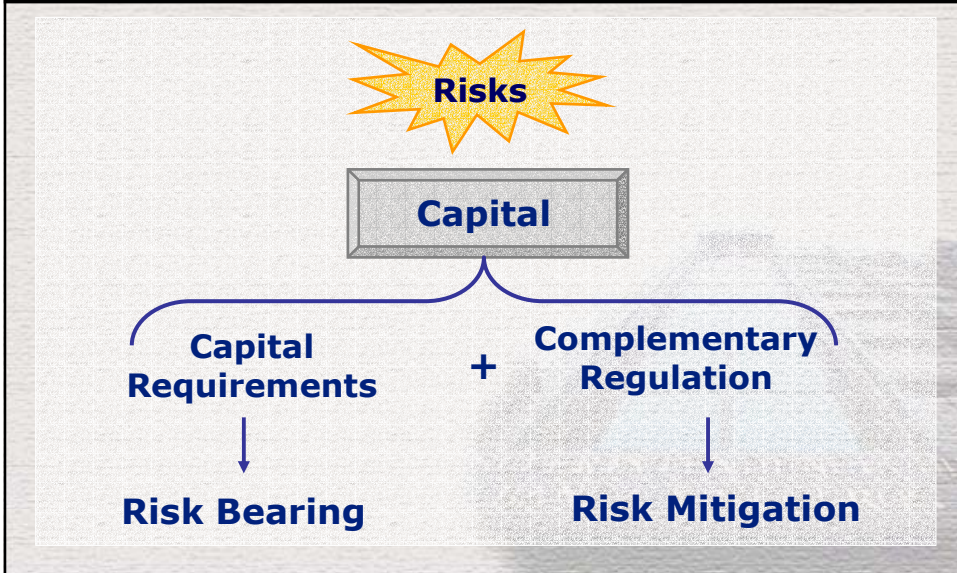


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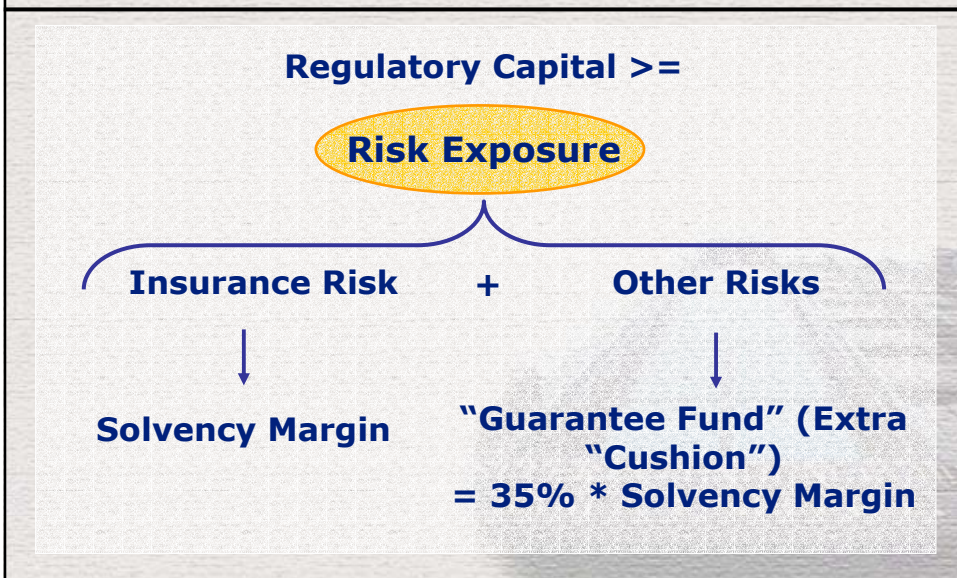
## *II. Insurance Regulation and Capital Adequacy in Peru*



## **Prudential Regulation for Solvency in Peru**

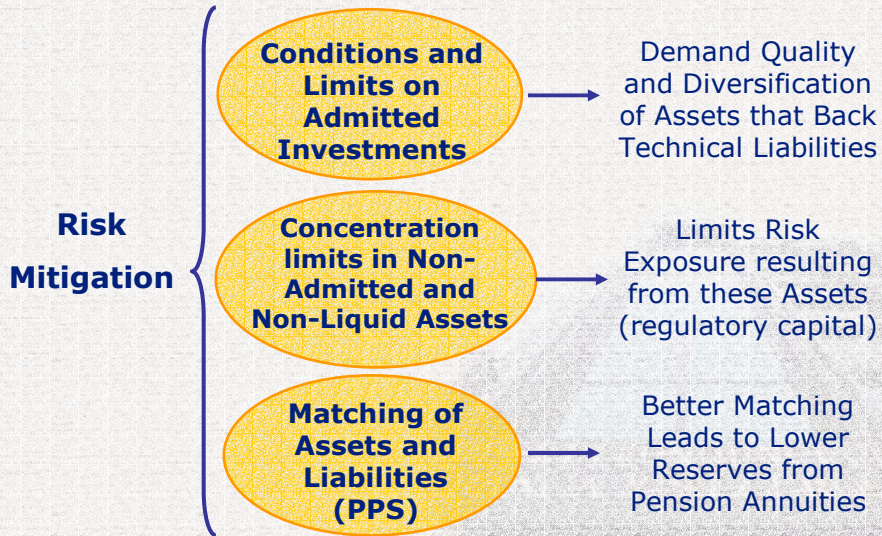


## **Capital Requirements**





## Complementary Regulation



## Pending Agenda

**Develop Models to Quantify Exposures to "Other Risks" (Credit, Market, Operational and Others)**

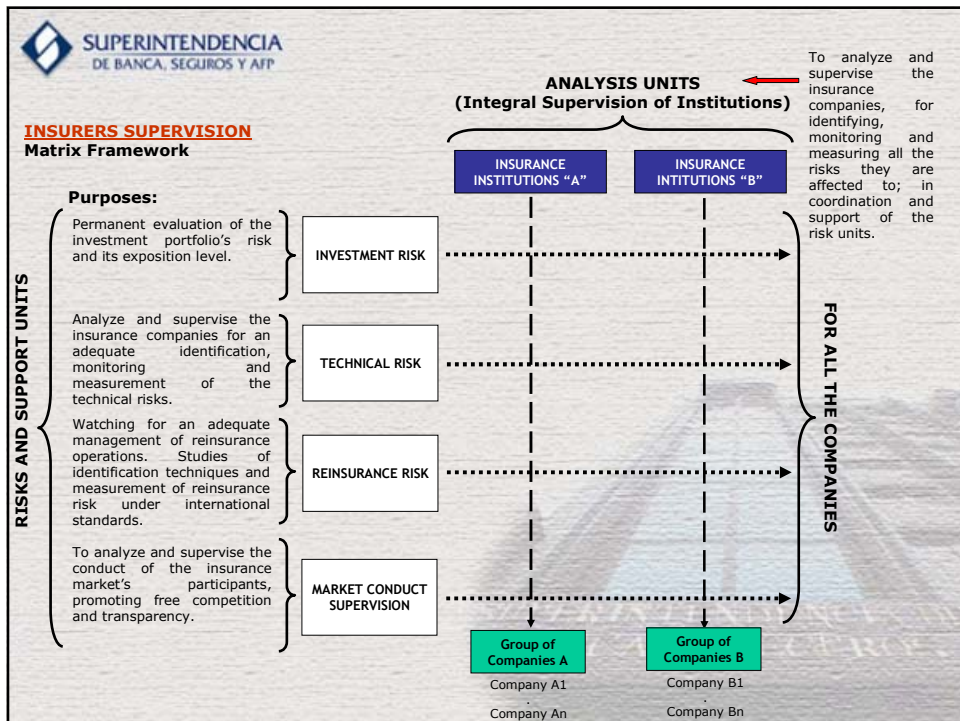
**Improve Early Warning Systems (best practices)**

**Change the Formula of the "Guarantee Fund" (capital adequacy)**



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### III. Current Supervisory Framework in Peru



## ***Supervisory Framework***

- ❖ The SBS has divided up its staff into 2 Analysis units and 4 Risk/Support units following a matrix framework.
- ❖ All the staff, whether in Analysis or Risk/Support units, are theoretically assigned to both off-site analysis on site examinations, following the same supervisory framework than banking supervision.
- ❖ The supervision process is carried out with the support of the Deputy Superintendency of Risks and the Economics and Statistics Division.
- ❖ The on site inspection to insurance companies which belong to domestic financial conglomerates were coordinated with the banking supervision division. Also, the off site supervision of investments of banking and private pension institutions of the same economic group were run.

## ***Integral financial sector supervision***

- ❖ One of the relevant aspects to discuss about the supervisory framework in an emerging market is how good works the partial integration of banking, private pension system, and insurance supervision, as it is the case of SBS supervision.
- ❖ Despite the benefits of the convergence resulted in an integrated supervision, a cost to take into account is when the supervisory authority imposes regulatory requirements on insurance companies as if they were banking institutions.
- ❖ In the desire to have uniform standards, it might be failing to adequately modify the regulatory requirements that come from the banking side so that they fit well in the insurance industry.

## ***Peru's self-assessment of ICP***

**In preparation for an insurance sector FSAP, the SBS carried out a self-assessment of the fulfillment degree of IAIS's Insurance Core Principles (ICP) in the 2004, with the following results:**

- ❖ Eight (8) ICP were qualified as observed.
- ❖ Eighteen (18) ICP were qualified as largely observed.
- ❖ The ICP 22 referred to the "investment in financial derivatives and similar" qualified as not observe.
- ❖ The ICP 27 referred to "fraud" qualified as partly observed.

Peru's self-assessment has been an honest, tough evaluation of where it is and needs to go with respect to core principle compliance. The main objective is to fully comply with these international standards in the next three to four years.

## ***TA project for SBS***

- ❖ In the 2004 an international consulting firm was hired by SBS in order to conduct an evaluation of Peru's supervisory strengths and weaknesses with regard to on and off-site examinations.
- ❖ Objective of TA project was to assist Peru in the implementation of new supervisory and regulatory practices.
- ❖ According to the self-assessment Peru's supervisory process showed a good degree of compliance of international standards.
- ❖ As a finding, however, it was stated that SBS supervision is focused on a compliance approach since it relies more on the verification of transactions with little or less attention in the assessment of companies risk-management practices, the quality of management and controls in place.



## ***Proposed RBS model for Peru***

- ⦿ The main recommendation was to move towards a Risk Based Supervision (RBS) approach. The objective: to provide a more effective process to monitor and assess the solvency of insurers on a continuing basis.
- ⦿ Under RBS different companies will have different levels of control quality. If insurers can show they possess the adequate system of risk management and control, they can be allowed to take different levels of risk.
- ⦿ RBS will also allow the SBS to have a more heterogeneous form of supervision. Transactions testing would be primarily done only to the extent necessary to validate the competence of management and the integrity of systems.



## ***Effective implementation of RBS requires attention to detail***

- ⦿ There are several aspects an emerging market country should have in mind when designing the Action Plan for implementing RBS:
  1. **A careful analysis of the risks arising from the laws, practices, and market conditions in the country has to be done.**
  2. **Sufficient resources and legislated powers for supervisory staff should be provided.**
  3. **The RBS framework to be implemented should be suitable to the country's kinds of organizations and economic conditions.**
  4. **Finally, implementing international capital standards (i.e. any proposed harmonized capital requirements) and best practices (i.e. early warning ratios) are fruitless if integrity of reported financial data is not achieved first.**



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