

REGULATORY ISSUES IN SIX ASIAN REGIMES

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Abstract

Strict accounting rules and supervisory regulation are of fundamental importance in the field of insurance, to protect claimants' right to financial reimbursement, and to maintain confidence in the reputation of the insurance industry. This article reviews developments in six regulatory regimes in East Asia: Hong Kong, Indonesia, Malaysia, Singapore, Taiwan, and Thailand. The review is preceded by an overview of the necessity for insurance regulation, and some of its features. The conclusion is that from diverse, inadequate regulation principles and practice have emerged more convergence and sophisticated improvements. The process continues.

Introduction

The peculiar nature of the insurance product, a conditional promise to pay in the future, and the drawn out settlement of some claims, makes insurance accounting so different from that of ordinary trading firms, and needs great care and professionalism to make it accurately reflect the future liability and ability to pay claimants. This is why insurers are subject to special regulations, to ensure accounting discipline, thus protecting the interests of policyholders and claimants.

A policyholder is expected to trust an insurer to fulfill its contractual obligations. That trust, in a world of fallible human insurance owners and executives, has to be bolstered and ensured, by a legally constituted supervisory body which issues mandatory regulations and is empowered to check that these are followed. Where trust is weakened by even one insurer, it spreads to all and triggers reputation risk. Many national insurance associations, and regulators, are increasingly concerned with this risk, having seen the run on banks in Europe by depositors anxiously trying to withdraw their money for fear the banks will collapse.

Insurers are required to maintain an excess of assets over liabilities, not less than a solvency margin set by the regulator, which represents a safety margin of the insurer's capacity to pay claims, and is related to their capital and reserve funds. One worry is that in the face of the

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