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International Association of Insurance Supervisors

Addendum to Annual Report 2007-08

In the 2007-08 Annual Report, the IAIS recognises the need for increased supervisory cooperation within the context of global financial stability and describes ways in which insurance supervisors are addressing this critical issue through the IAIS.

Shortly after this year's report had gone to print, the critical need for regulatory cooperation was reinforced by the financial troubles of the American International Group (AIG) in mid-September. The AIG group experienced a liquidity shortfall in respect of cash calls on credit default swaps issued by its financial products division – a situation which, given the size and global reach of AIG, presented significant financial stability implications both in the US and globally. This resulted in a rescue package in which the Federal Reserve Bank of New York provided AIG with a two year \$85 billion (USD) revolving credit facility in return for a substantial shareholding.

The AIG situation has given rise to a valuable case study for the IAIS to examine the benefits of strong cooperation among supervisors. In addition, while AIG's problems did not originate from its insurance activities, they demonstrate that regulated entities operating within a group structure – although sound themselves – may nevertheless be vulnerable to the fortunes of other parts of the group.

In recognition of the significance of AIG in insurance markets around the world, the IAIS has taken an active role in coordinating communications among supervisors with oversight responsibilities for AIG's insurance enterprises. On 22 September 2008, the IAIS documented this initiative in the following press release:

IAIS steps up supervisory coordination efforts

The International Association of Insurance Supervisors (IAIS) has today announced intensified coordination efforts in response to the current turmoil in financial markets. Key insurance supervisors from around the globe were recently updated on matters relating to American International Group (AIG) and agreed that they would hold regular conference calls in the coming weeks to monitor solutions to supervisory issues.

In describing the recent events, Eric Dinallo, New York Insurance Superintendent, stressed: "While AIG has many large insurance operations within its corporate structure, it is a financial services conglomerate. The current crisis is a result of AIG's non-insurance related business." Superintendent Dinallo added: "The Federal Reserve's rescue offer would likely not have been made if it were not for the core value of AIG's insurance subsidiaries, which exists due to sound solvency regulation and oversight provided by IAIS members worldwide."

Michel Flamée, IAIS Chairman of the Executive Committee, noted: "Since the financial community is so inter-linked, financial supervisors must continue to cooperate closely in order to protect policyholders around the world."