

“Adapting the Supervisory Structure to New Developments”

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High-level meeting on Global Insurance Standards and Supervisory Priorities in the Americas

Context: Development of insurance sector in Chile

- In the last decades, the **financial market in Chile has experienced a substantial development.**
- In particular, Chile's **insurance sector** has been steadily growing, with particular features:
 - large presence of foreign-owned insurance companies;
 - high efficiency and active product development

Main global players are present in Chile:

75%

Non-life insurance companies

32%

Life insurance companies

Premium:

130%

Increase in 10 years

US\$13,400 million in 2017

(US\$6.800 million in 2007)

Premium per cápita: 4,6% of Chile'S GDP

**US\$ 731 in 2017
(US\$290 in 2006)**

Context: Development of insurance sector in Chile

- The Chilean insurance industry plays a **leading role at the regional level** and there are still wide opportunities for expansion and development.
- In 2017, 2 new insurance companies licenses were granted and 2 companies experienced changes in their ownership structure.

**580,000 annuities paid
monthly by life
insurance companies**

**US\$63.800 millones
Investments managed
by insurance companies**

Current challenges for the insurance sector

- Broad technical, political and social debate regarding **global trends that are generating important transformations in the insurance activity** and, consequently, in the agenda of regulators.
 - Impacts of **demographic change (longevity)**, development of **new technologies (Insurtech)**, **changing environment (climate change)**, among others.
 - **International regulatory convergence** towards capital requirements based on risks and implementation of regulatory measures related to **systemic risk and financial stability**.
- This scenario poses **relevant challenges for financial supervisors**. Having a **solid legal framework** and **ample and flexible powers** is necessary in order to be able to adopt regulation and changes in supervision that take into account those challenges.

- However, the **framework for regulation and supervision in Chile was based on the model of Superintendencies** focused on specific industries of the financial sector – like the SVS – designed in the 1980’s.
 - Such institutional model evidenced several **weaknesses, considering the current dynamism and level of development, complexity and international integration of the financial markets.**
 - International organizations like WB, IMF, OECD highlighted the importance of **improving and strengthening the independence and legal powers of the financial supervisors**, providing adequate checks and balances.
 - *International standards and best practices, including **IAIS Core Principles.***

New institutional framework for financial regulation and supervision



- Chilean authorities recognized the **importance of the regulator's independence in fostering market certainty, transparency and stability.**
- **Law 21,000** in place as of January 2018 creates a **new institutional framework for the securities and insurance regulator**, transforming the current SVS into the **Financial Market Commission.**
 - ✓ **Improvements in governance:** collegiate body-aimed at fostering technical nature and independence.
 - ✓ Providing the supervisor with **additional investigative and enforcement tools.**
 - ✓ Enhancement of **regulatory transparency and accountability standards.**

Legal Mandate and Perimeter of CMF

- **CMF maintains the role of regulation and supervision of the securities and insurance sector, with an ample mandate to promote market development and oversee financial stability.**
 - **At a later stage**, through an *extensive reform to the General Banking Law pending in Congress*, the supervision and regulation of **banks and other financial institutions** would also be incorporated under the CMF's oversight.
 - The latter will allow laying the foundations to have a **consolidated supervision policy, with a special focus on financial conglomerates.**



Strengthening independence and governance

- The sole authority of the Superintendent in charge of the SVS (appointed at will by the President of the Republic), is replaced by **a Commission led by a collegiate body.**
- A collegiate governance shall allow **technical debate and long term view among members of the Board to adopt strategic decisions at CMF, approve policies, issue regulations and apply sanctions in enforcement procedures.**
- *New governance structure aimed at **fostering technical nature and independence of the CMF from political cycles.***

Strengthening independence and governance

- **Board of CMF comprised by 5 members**, chosen among candidates that have professional or academic backgrounds in the financial sector, under **fixed term mandates, which may only be removed by legal cause.**

Appointment	<ul style="list-style-type: none"> • Chairman: Appointed by the President of the Republic, fixed 4-year term • Commissioners: Appointed by the President with the agreement of 4/7 of the Senate, for fixed 6 year term, with staggered renewal
Removal by cause	<ul style="list-style-type: none"> • Infringement of the inability or incompatibility clauses. • Gross infringement of functions or duties.

Strengthening independence and governance

- **Legal protection** is provided for all members and employees of the CMF in case of legal actions filed against them as to actions adopted in the performance of their official duties.
- **Regulation on conflicts of interest:**
 - Commissioners may not engage in other activities in public or private sector during the term.
 - To prevent the “revolving door”, abstention and information duties apply to Commissioners and employees for the following year after they leave the CMF.
- **Duty of confidentiality.** Members of the CMF are not allowed to disclose in any way the information they receive on the performance of their official duties.

Additional tools for enforcement procedures and international cooperation

- Investigation procedures are regulated by the law in order to ensure an efficient and transparent enforcement process and strengthen due process guarantees.
- In the context of investigative proceedings, the Law also grants additional investigative tools to the CMF, with prior judicial approval:
 - access information protected under bank secrecy,
 - intercept communications,
 - access restricted information held by other public agencies, amongst other investigative powers.
- In order to foster international cooperation, the CMF will be allowed to collaborate with foreign supervisors in the prosecution of infractions under MoUs for exchange of information.

Regulatory transparency

- Enhanced standards for regulations issued by the CMF, introducing the requirement to **conduct regulatory impact assessments and public consultation process.**
- **Mandate of regulatory coordination** among public agencies before issuing regulation that may have impact on several markets.
- CMF shall have **authority to issue recommendations to the President of the Republic, on legal or regulatory amendments** required to promoted sound performance and development of the markets.
- ***The above shall allow Congress to progressively extend the regulatory authorities of CMF, to be able to react promptly to the market dynamism.***

Accountability

- CMF shall elaborate an **annual report**, to disclose and explain the activities carried out by the CMF during the previous year, the execution of the granted budget, etc.
- Board of the CMF must **appear before the Senate** annually, to present the annual report, and answer questions regarding the activities of the prior year, and provide a general assessment of the financial market.
- The **CMF shall independently prepare a budget proposal**, to be submitted directly to the Budget Office and to be considered during the discussion of the Annual Budget Law in Congress.

Final remarks

- The creation of the Financial Markets Commission introduces substantial improvements and reforms to financial regulation and supervision landscape in Chile.
- Improvements on governance structure, regulatory transparency and accountability shall strengthen the technical character and independence of the CMF, giving greater stability and continuity to its management, allowing a more comprehensive and long-term institutional outlook of the financial markets.
- This is particularly relevant considering the future incorporation of banks and other financial institutions to the oversight of CMF; once the reform to General Banking law is approved.
- This new institutional design shall give confidence to Congress to support an extensive reform to Insurance law in order to incorporate risk-based capital requirements, granting the CMF wider regulatory and supervisory authorities.

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