

Abstract: Highlights of OECD Financial Outreach Activities in 2005

In the late 1980's the OECD began co-operation (*i.e.* policy dialogue with non-member economies) with the Asian Newly Industrialising Economies, and when the Berlin wall fell in 1989 it launched a programme with the Central and East European countries in transition. Today, the co-operation extends to some 100 non-members. These "Outreach" activities have of course included financial sector reform, as the financial sector is often considered one of the key sectors in assisting these economies' developments. The OECD's efforts in this area have focused on, and continue to give primary attention to, financial market reform (including corporate governance) as well as insurance and pension market policies and reform on a regional basis; they have been recently targeting Asia, as this region is the most dynamically growing among the emerging economies. This note describes the general background for the financial "Outreach" activities as well as highlighting the activities conducted in 2005 in Asia and elsewhere.

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The paragraphs below describe the general background for the financial “Outreach” activities as well as highlighting the activities conducted in 2005 in Asia and elsewhere.

All conference materials are available at: www.oecd.org/daf/financialmarkets (Non-member Activities).

I. Financial markets

Background

While Asia has shown significant economic growth over the past four decades, it continues to hold strong potential to remain the fastest-growing region in the world, indicating the continuance of very large and promising investment opportunities in this area. However, the Asian Financial Crisis in 1997-1998 swept away, albeit momentarily, this optimism that had been ubiquitous not only in the region but also in other parts of the world. Although this renewed pessimism proved to

* South Korea, Chinese Taipei, Hong Kong, China and Singapore.

be rather short-lived owing to the region's well-coordinated response and generous assistance from the international community, a consensus opinion seems to have emerged during the past several years, both in policy and academic circles, recommending Asian economies to become less reliant on bank financing that had traditionally been very dominant in Asia, while placing more emphasis on developing capital markets.

This approach is seen as a better means to mobilise regional savings for long-term financing and to spread risks and absorb the shocks of any possible future contingencies. As often mentioned, Asian countries as a whole have a large pool of savings. For example, gross savings ratios of many Asian countries are around 30 to 50 per cent, while world-wide averages have hovered at about 20 per cent. Thus it is important that domestic and regional savings should be mobilised within the territory or region, especially to reduce currency and maturity mismatches in the balance sheets, which have been pointed out as one of the "triggers" of the financial crisis. The development of Asian capital markets that are resilient to external shocks is thus critical, and to that end, it is of critical importance to pursue transparent disclosure regimes, more investor empowerment and thus better functioning capital markets for the purpose of sustainable economic growth in this region, in light of the lessons learned from the economic turmoil.

Activities

OECD-China Forum on Public Debt Management and Development and Government Securities Markets in China

Pursuant to a request from the Chinese authorities for the OECD to work with the Ministry of Finance (MOF) on key issues in public debt management and the development of Chinese debt markets, in 2004 the OECD Secretariat contacted the Treasury Department of the Chinese Ministry of Finance to successfully organise with them a multi-year program in this field under the aegis of the OECD Working Party on Debt Management.

The second event under this framework was held on September 2005 in Xian, and highlighted such topics as the role and responsibility of the Ministries of Finance in developing government bond markets, and regulation and supervision of public bond markets.

The current medium-term programme with China will enter its third year in 2006, and possible expansion of the programme to include other Asian countries will be explored to respond to the regional initiatives on bond market development.

Roundtable on Capital Market Reform in Asia

The OECD, together with the Asian Development Bank Institute (ADBI), established *the Roundtable on Capital Market Reform in Asia* in 1999 to provide a regional forum to discuss the challenges that securities market regulators and policy makers should address in the aftermath of the Asian financial crisis in 1997-1998. In particular it has met the regional demands for policy discussion to lessen reliance on bank finance and to introduce structural reform into capital markets in order to make the economies more resilient to possible external or internal shocks. High ranking representatives participate in the Roundtable, including senior officials from securities market regulators, policy makers and international organisations as well as academics and business. The Roundtable covers almost all economies from East Asia such as China, Hong Kong, Chinese Taipei, alongside with the ASEAN countries to South Asia such as India, Pakistan, Sri Lanka and Bangladesh, apart from Japan, Australia, New Zealand and South Korea and other OECD countries.

The Seventh Roundtable was held at the ADBI in Tokyo in October 2005. About 50 people participated in the Roundtable including senior officials from securities regulators, policy makers, capital market experts and academics from Asia and the OECD countries, and representatives from the ADB (including the ADBI), the World Bank, and the IMF. Mr. Andrew Sheng, former Chairman of the Hong Kong Securities and Futures Commission, chaired this conference.

Although considerable developments have been made in the capital markets in this region since the crisis, there remain a lot of challenges to be addressed for further developing sound and efficient markets. Against this backdrop, the 2005 Roundtable covered several topical issues with the following agenda items: 1) Financial Policy Landscape; 2) Integration of Capital Market in the Asian Region; 3) Investor Education; 4) Developments in the Venture Capital and Private Equity since the end of the "Tech Bubble", and 5) Governance Issues Related to Securities Markets.

Capital market reform will provide continuous policy challenges for the Asian region in the foreseeable future. The Eighth Roundtable is planned to be held in late 2006 with an agenda based on the discussion in the relevant OECD Committees as well as reflecting the current policy needs in the region. The Roundtable will continue to be designed and managed in a way to meet the regional demands and to attract high ranking officials and business/academic leaders in the region so as to ensure utmost policy impacts.

OECD Global Forum on Public Debt Management and Emerging Government Securities Markets

This forum was initially established 14 years ago as a programme to assist the transition economies in Central and Eastern Europe (similar to the Japanese pro-

gramme with the OECD Directorate for Financial and Enterprise Affairs in the mid-90's), but with specific focus on their public debt management and the development of their government securities markets. The Forum introduces to non-Members OECD conclusions and best (or good) practices developed through a "peer review" process in the Working Party on Public Debt Management.

The 15th Forum (the first time the Japanese voluntary contribution supported this event) was held in December 2005, highlighting such topics as cash management, performance management, and auction theory and practice. The meeting attracted about 80 delegates, consisting mostly of debt managers from OECD countries and emerging markets, including those from China, Indonesia, Turkey, Mexico, Brazil, Hungary, South Africa, and Israel. The IMF and the World Bank also participated in the discussions.

Seminar on Capital Markets in Indonesia

Following the agreement between the OECD and the BAPEPAM (Capital Market Supervisory Agency of Indonesia) the seminar for policy dialogue between the OECD and Indonesia preceding the Asian Roundtable on Corporate Governance meeting was held in Bali. Several speakers from the OECD member countries and the Secretariat attended to discuss with participants from Indonesia.

The morning session of the seminar discussed how to further develop markets for government bonds based on the OECD experiences and for corporate bonds based on Japan's experiences. The afternoon session focused on how to improve corporate governance in terms of, amongst others, the role of the board as well as the governance in groups of companies. The seminar tried to seek the applicability of best or good practices of the OECD countries to Indonesia in those policy areas.

II. Insurance

Background

As an important part of the financial sector, the insurance sector may affect overall financial stability. The financial crises which fell upon emerging economies in the late 1990's, while affecting the insurance industry in those economies to a lesser extent than would have been expected, also generated a momentum for regulatory and supervisory reforms in this sector from various angles. Thus, the development of an adequate insurance regulatory and supervisory framework has been promoted by the OECD, in co-operation with other relevant international bodies such as the International Association of Insurance Supervisors (IAIS).

Insurance markets have also been increasingly integrated globally, underpinned by market liberalisation; concomitantly, emerging economies are seeing devel-

opments, challenges and problems similar to those pertinent to OECD countries. For example, in recent years, the demographic changes and renewed economic growth have allowed for the development of new markets, such as health insurance products.

These issues have been the focus of intensive OECD study and work over the recent years. The policy dialogue and exchanges supported through the organisation of conferences, on the one hand, assist these emerging economies in meeting current and particular insurance risks and in appropriately regulating and supervising developing insurance markets, and on the other hand, provide OECD members with new experiences and points of view on these issues as well as ensure stability in the insurance and financial markets of these economies in general.

Activities

Conference on Insurance Regulation and Supervision in Latin America

The sixth OECD-IAIS-ASSAL Conference on Insurance Regulation and Supervision in Latin America was held in Cochabamba, Bolivia in March 2005 in co-operation with the local sponsor (Pensions, Securities, and Insurance Superintendent of Bolivia (SPVS)), the ASSAL (Association of Latin American Insurance Supervisors) and IAIS (International Association of Insurance Supervisors).

This conference was held on the occasion of the 16th Annual Meeting of ASSAL and preceded the ASSAL-IAIS Training Seminar on insurance supervision. It was held against the backdrop of ongoing changes in insurance markets in Latin America, addressing such issues as Governance of Insurers, Solvency, and Catastrophic Risk Insurance in respective panels. The conference was attended by about 60 participants consisting of ASSAL members (including senior level supervisors), as well as the private sector. Mr. Kawakami and Ms. Messy from the OECD Secretariat attended the conference and chaired as well as spoke in a session on "Catastrophic risk management and insurance" and "Governance of Insurers". Professor Monti of Bocconi University spoke on behalf of the OECD on "Catastrophic risk management and insurance".

Conference of Pan-European Insurance Supervisory Services

The 18th Conference of European Insurance Supervisory Services was held in Prague, the Czech Republic in May 2005 in co-operation with the local sponsor (Office of the State Supervision in Insurance and Pension Funds, Czech Ministry of Finance), IAIS (International Association of Insurance Supervisors), and the IIF (International Insurance Foundation), as co-sponsors along with the OECD. The conference was attended by approximately 130 participants from the supervisory side and the private sector, including approximately 40 European insurance

supervisors (some at senior level), as well as about 70 local participants. Mr. Schneider, Chair of the OECD's Insurance Committee, represented the OECD, while Mr. Kawakami from the OECD Secretariat also attended the conference as one of the organisers. Professor Monti of Bocconi University spoke again on behalf of the OECD on "Catastrophic risk management and insurance".

The first day discussed such issues as: 1) developments in the Czech insurance system; 2) changes in the European insurance market subsequent to the new members' accession in May 2004; 3) risk-based supervision, and 4) role of professional entities. On the second day, a "Workshop on International Developments of Prudential Supervision and Insurance Core Principles" was held, addressing issues as how to coordinate international accounting rules with prudential regulation and solvency.

OECD-ASEAN Reinsurance Seminar

The OECD co-sponsored this event with the AITRI (ASEAN Insurance Training and Research Institute) in November 2005 in Kuala Lumpur, Malaysia, with the cooperation also of the IAIS. The OECD was responsible for organising the second day of discussions, which focused on catastrophe risk management and insurance.

About 30 participants from eight ASEAN countries as well as Macao SAR, Australia, and Canada attended. While the participants remained in general rather quiet and passive, seven participating ASEAN countries (except Singapore that was self-financed) did make presentations on their respective CatRisk management systems. AITRI was generally pleased with the co-operation and assistance that the OECD was able to provide for this seminar, and requested follow-up on possible future co-operation in 2006.

III. Private pensions

Background

Private pension provision is generally at an early stage in the Asian-Pacific region. However, many of these countries have well developed funded, publicly managed saving and retirement systems, and family support networks have also traditionally provided an important source of retirement income for the elderly. Private sector involvement in the management of pension assets is already permitted or envisioned in some of these countries, while opportunities for individual choice are being introduced. Hence, private pensions are likely to become an important component of the retirement system of these countries.

The objectives of policymakers in the majority of countries in the region include expanding coverage of pension plans, raising the relatively low retirement

age, increasing rates of return to pension funds and, most importantly, securing the benefits by proper regulation and supervision. In order to secure the benefits, funding and investment regulations are critical to ensure that pension schemes are well managed. Moreover, these policies must be coupled with reforms to improve the financial infrastructure, including custody and depository services, risk rating and pension fund corporate governance.

The OECD Working Party on Private Pensions has been working in this field, focusing its efforts on regulatory and policy issues related to private pension systems. Private pensions have appeared as a key issue for some time in the OECD countries, and recently in emerging economies as well. Given the growing importance of private pension funds from both social as well as economic policy perspectives, this Working Party has concentrated its efforts on assisting countries to developing effective infrastructures and policies for supervision and regulation of private pensions, by means of regular policy dialogue between policy makers, as well as standard-setting, analytical and statistical activities.

Activities

Conference on Private Pensions in Asia

The OECD/IOPS Conference on Private Pensions in Asia took place in April 2005 in Bangkok, Thailand. The Conference was held under the auspices of the OECD Insurance and Private Pensions Committee and was organised in co-operation with the International Organisation of Pension Supervisors (IOPS).

The conference was hosted by the Securities and Exchange Commission of Thailand (SEC) with additional sponsorship provided by the Government of Japan and the IOPS. The conference brought together 120 experts in the private pension area from 11 OECD member countries (Australia, Germany, Ireland, Italy, Japan, Korea, the Netherlands, Spain, Turkey, the United Kingdom and the United States); 10 Asian-Pacific economies (Bhutan; China; Hong Kong, China; Indonesia; Kazakhstan; Malaysia; Singapore; Sri Lanka; and Thailand); as well as experts from Bulgaria, Croatia, Kenya, South Africa and Jordan. In addition, the representatives of several international organisations, namely the World Bank Institute and the Asian Development Bank (ADB), also participated in the conference.

The key objective of the conference was to provide an international forum for a discussion on specific policy issues and challenges in the implementation of pension reforms in Asia. Particular focus was laid on the reform process in Thailand and on “best practice” regulatory mechanisms used in the OECD countries to ensure efficient and appropriate pension provision under diversified approaches in the design of the retirement schemes. The issue of financial education of investors and fiduciaries was another crucial policy concern for the Asian-Pacific region that was addressed during the conference.

Résumé : Le point sur les activités d'ouverture de l'OCDE en 2005 dans le domaine financier

A la fin des années 80, l'OCDE a entamé une coopération (c'est-à-dire un dialogue sur les politiques à suivre avec des économies non membres) avec les nouvelles économies asiatiques en voie d'industrialisation, et à la suite de la chute du mur de Berlin en 1989, avec les pays en transition d'Europe centrale et orientale. Actuellement, cette coopération concerne une centaine d'économies non membres. Ces activités dites « d'ouverture » se sont bien entendu intéressées à la réforme du secteur financier, car ce secteur passe souvent pour l'une des branches essentielles si l'on veut favoriser le développement de ces économies. Les efforts de l'OCDE dans ce domaine se sont attachés et continuent d'accorder une attention prioritaire à la réforme du marché des capitaux (y compris le gouvernement d'entreprise). Mais ils portent aussi sur l'action des pouvoirs publics sur les marchés de l'assurance et des retraites ainsi que sur les réformes menées à l'échelle régionale ; ces efforts ont récemment ciblé l'Asie car cette région connaît la croissance la plus dynamique parmi les économies émergentes. Cet article décrit le contexte général des activités « d'ouverture » dans le domaine financier en mettant plus particulièrement l'accent sur les activités réalisées en 2005 en Asie et ailleurs.

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The cut-off date was 30 March 2006

Conventional signs:

.. Not available \$ US dollar

– Nil

Discrepancies in totals are due to rounding

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