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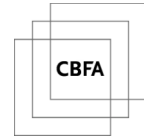
The aim of this morning's session is specifically to exchange ideas with regard to 'Prospects for New Governance of the Global Trading System'.

In the written contribution you will receive, I have explained how, particularly in the period from 2006 to 2008, when I had the privilege of serving as Chairman of the IAIS, this international association of insurance supervisors restructured itself in such a way as to enable the Chinese supervisor to assume its rightful place on this body.

In short, the IAIS is an organization that enables supervisors from all continents to consult, every quarter, on the basic rules to be applied in the supervision of insurance activities. Within the IAIS, standards are thus developed for supervisors to use, compliance with which is tested by the IMF during its FSAPs (Financial Sector Assessment Programme).

Until the end of 2005, the BRIC countries were hardly represented in the IAIS' governing body, the Exco. I made it a point of honour to grant them access to the Exco, in order that the specificities of insurance problems in an 'emerging' or 'new' market might also be accorded sufficient attention. During the same period, I strove for much closer cooperation between the IAIS and the then FSF (Financial Stability Forum), which served as a think-tank for the G20.

The crisis of 2008 gave momentum to the FSF and transformed it into the FSB (Financial Stability Board), which has now become the G20's preparatory chamber for the drafting of regulations.



I wish to begin my short presentation with a few excerpts from a recent work by Jonathan Fenby entitled *The History of Modern China: The Fall and Rise of a Great Power 1850 to the Present*.

Fenby takes a rather critical stance on a number of recent developments in contemporary China.

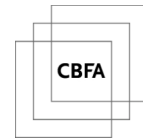
So, for instance, with regard to Chairman Hu Jintao's statement about the "need for democracy", he states unreservedly: "The essential bulwarks of democracy are still missing. China has, at most, the rule 'by law', as promulgated by the legalist First Emperor, not 'the rule of law'" (p. 677).

The analysis is undoubtedly prompted in part by the particular importance Jonathan Fenby, as a Brit, attaches to the concept of the 'rule of law'.

Yet the severity of such a statement can be taken with a pinch of salt if one considers the criticisms of someone like the Nobel Prize winner Amartya Sen in *The Idea of Justice*. Sen shows how the concept of the 'rule of law' in the United States, as understood by thinkers such as Ronald Dworkin and John Rawls, has for decades led to situations that are now being called into question by the current President of the United States, such as the refusal to develop an adequate social security system.

And yet I believe Fenby's work is relevant when it sums up in a nutshell the difficulties which the Chinese authorities face in governing that immense country. He argues: "At the top, the leadership proclaims goals which, on their own, are often well thought out answers to the problems confronting China. But implementing them is quite another matter. Contradictions abound – for example, between maintaining growth and fighting environmental destruction, or between seeking a 'harmonious society' but failing to launch a proper welfare system" (p. 680).

Moreover, China faces the problem of its age pyramid, which will give rise to particular challenges within a few decades, when large numbers of people will retire and want access to adequate pension income.



From a number of conversations I was able to engage in with top Chinese authorities, especially in 2005 with Vice Prime Minister Huang Ju and in 2006 with Prime Minister Wen Jiabao, I became aware of their knowledge and concern about these long-term problems and their efforts to find adequate solutions.

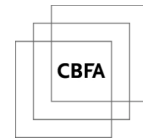
These sorts of problems are issues that I have also been able to discuss on several occasions and at length with the Chairman of the Chinese insurance supervisor, Wu Dingfu. It is remarkable that the China Insurance Regulatory Commission (CIRC), established in 1998 as a supervisory body with only 4 or 5 insurance companies to supervise, immediately set out, under the chairmanship of my colleague Wu Dingfu, to develop a set of principles that would enable the supervisor to help find solutions, within a global economic context, to the problems just mentioned.

The difficulty for China consists in the fact that in an 'emerging' or 'new' market, unlike in a mature one, the supervisor cannot limit itself to implementing a number of supervisory principles, but sees itself instead as obliged to introduce regulations that are of an indicative nature for that burgeoning market.

At the time when the market began to open up, the Chinese regulator was thus subjected to intense lobbying, by numerous market operators, to implement a regime that is in line with the competition rules developed mainly in the United States and in part also on the European continent.

Nor should it be forgotten that while, in the United States, the structure of regulation and supervision was laid down in accordance with the principles of competition, along with a series of imperfections, Europe followed a different path.

Even though the principle of free competition was introduced after the Second World War via the EC treaties, it cannot be denied that even then, the European tradition of dirigiste State intervention continued to operate for many decades after 1950. It is true that after the adoption of the



EC treaties, the European Commission increasingly based its decisions, as an administrative body, on legal principles that 50 years later have given rise to a body of case-law of a true administrative court; ultimately, in most areas of competition, this practice has resulted just a few years ago in a situation in which this administrative body surrendered its own operations by transferring its duties to the national courts.

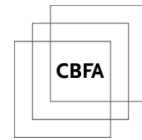
This does not detract from the fact that in its start-up phase, the Commission, as an eminent political body, was responsible for decisions regarding exemptions.

This development took 50 years. We cannot, therefore, blame the Chinese authorities if, when developing their own regulations in this context, they are not prepared immediately to introduce an entire arsenal of regulations with which they have not yet had sufficient time to gain experience.

This is not to say that the introduction of more general rules, by which the government restricts its own discretionary powers and which at any rate tend to exclude arbitrary decisions, will not soon see or have not already seen the light of day within the Chinese regulatory system. Already in 2002, the CIRC worked on introducing a risk approach that was in line with international models and, in fact, very close to the European model of insurance supervision. The Chinese supervisors were, of course, approached by supporters of both the American and the European supervisory models.

In the context of the so-called Solvency II Directive, the European model is currently undergoing significant evolution and may, therefore, be attractive to our Chinese colleagues when elaborating their own regulatory framework.

The model being developed in the European Union under Solvency II must allow for an adequate supervision of highly diversified and complex insurance and bancassurance groups. Insofar as the European supervisory model is a 'federal model', suited to a very large and diverse population, it undoubtedly displays characteristics that arouse the interest of the Chinese insurance supervisor.



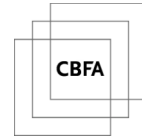
The way in which prudential supervision of financial groups is carried out, and the way in which regulation of complex financial groups must be structured and applied, is at the moment the subject of study and discussion in the EU context, whereas other regions of the world still take a very local approach to insurance supervision.

It should therefore come as no surprise that the Chinese regulators follow attentively the developments taking place in the EU. Although they will not take over wholesale either the American or the European system, the time is ripe for them to let their voices be heard, at an international level, within the IAIS and its Exco, with regard to the work that is currently under way.

Under the impetus of the G20 and the aforementioned FSB, work is currently being done within the IAIS structure on a so-called 'Comframe' that is meant to set out the basic rules to be applied to complex, multinational financial groups within the insurance sector. At the last annual meeting of the IAIS in Rio, Mr. Wu Dingfu, the Chairman of the CIRC expressed very clear views on the work being done, as well as with regard to the position taken by the IAIS concerning problems of 'global financial stability'; these views were highly valued in the Exco and its workgroups in which I myself took part.

By way of conclusion, I would like to draw your attention to a particular feature of the European insurance world. Insurers have proven to be long-term investors, who thus make valuable contributions to the so-called 'real economy' (a concept that, incidentally, has sometimes been highly criticized).

In the European context, the dialogue between regulators and the industry can in many cases lead to a public-private win-win situation. This characteristic finds its expression in the way in which the Solvency II rules were drawn up and in the way in which insurers are supervised, e.g., as regards workers' compensation products. As is well known, this issue, like that of health



insurance, is the subject of constant negotiation between the authorities and the private sector. And last but not least, the second and third pillar products offered by insurers to supplement the shrinking first pillar pensions are familiar throughout these parts, and give rise to close negotiations between the authorities and insurance companies via their professional associations.

The difficulty that still exists in the European context at the moment is that the diversity of regulatory systems in some cases hampers the more efficient allocation of funding for such financial activities.

The Chinese regulators are examining some of the products available in certain EU countries, since the developments in China exhibit some of the same historical characteristics as those in Europe.

Indeed quite a few insurance products trace their origins to a largely agricultural society in which organizations such as our Belgian Farmers' Union (Belgische Boerenbond), which initially offered simple insurance products, gradually expanded their activities into what they are today. That is to say owners of rather strong Bancinsurance groups. Such examples are being studied by our Chinese colleagues.

I have no doubt that as soon as Solvency II and the new European regulatory architecture are put in place in 2011, there will be room for the development of regulatory regimes that are EU-wide and independent of the national authorities.

For various insurance products, there will doubtless be room for a so-called 31st regime, one that will overstep the regimes applicable within individual EU and EEA Member States. If such a development does occur, it will most certainly be the subject of particularly fruitful exchange with our Chinese colleagues.

I can but attest to the fact that they share our concern to provide a sustainable response to the social needs of our time, in the interests of our respective populations.

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