Insurance and Systemic Risk

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Vienna, 22 November 2013

Solvency II Forum 2013

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II. GSIIs Framework

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IV. Macroprudential Policy and Surveillance

V. EIOPA Systemic Risk Monitoring

I. Is insurance systemic?

Definition of Systemic Risk and SIFI

The Financial Stability Board (2009) defines systemic risk "as a risk of disruption to financial services that

(i) Is caused by an impairment of all or parts of the financial system

(ii) Has the potential to have serious negative consequences for the real economy"

In 2010, FSB defines *systemically important financial institutions* (SIFIs) as those whose disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.

Is Insurance Systemic?

- The source and hence the dealing with the problem of systemic risk in the banking sector and in the insurance sector is quite different.
- The insurance industry is a good example of why it is necessary to evaluate business activities instead of whole companies when analyzing systemic risk.
- Insurance business models are usually characterized by a number of features which distinguish them from those of other financial institutions:
  - Investments funded by premium income and managed to match liabilities
  - Non life insured loss events usually uncorrelated with financial crises or economic cycles
  - Absent or low interest by policyholders in speculation in risk
  - Limited exposition to a “run” of policyholders (insurance and reinsurance obligations usually not callable)
- Largely due to these differences, insurance failures do not occur overnight; the nature of the insurance business dilutes developments that ultimately lead to economic losses for stakeholders, over a much longer time-span.

Is Insurance Systemic ? (Diekmann’s view)

- The extensive research done by the IAIS demonstrates that even the default of the largest traditional insurance groups in the world would not cause any significant spillover effects and a direct contagion of other financial institutions, i.e. a "systemic event" as defined by the FSB in 2010.
- However, a default of such an insurance group could, in a worst case scenario, affect millions of policyholders or a significant share of a country's population and that one could also label such an event as "systemic“.
- **One should note, that in this case the term "systemic" is used in a different way than it was used by the FSB originally in the context of financial institutions and financial market protection-which is a very different issue.**
- **The publication of the initial list of G-SIIs calls upon insurers to acknowledge an important change in society‘s expectation**
    - Politicians, regulators and the public have - because of the event of 2008 - changed their mind with respect to the level of security which they pursue, that this holds for all sectors of the financial services industry and that they are therefore striving to further increase the stability of the largest insurance groups.

II. G-SIIs Framework

The FSB Framework for SIFIs Supervision

- The 2008-2009 financial crisis underscored the need for public authorities to act promptly and proactively to:
  - Identify firms that are systemically important
  - Take measures to lessen the impact and reduce the moral hazard associated with public sector interventions and the distress or failure of such firms
- At the Summit meeting in Seoul, November 2010, the G20 leaders endorsed the FSB's framework for reducing the moral hazard posed by systemically important financial institutions (SIFIs). The framework recommends several policies which should combine to:
  - Apply more intensive and co-ordinated supervision of SIFIs
  - Improve the authorities' ability to resolve SIFIs without destabilising the financial system and exposing the taxpayer to the risk of loss
  - Require higher loss absorbency for SIFIs to reflect the greater risks that these institutions pose to the global financial system
  - Strengthen core financial infrastructures
  - Provide other supplementary prudential and other requirements

Extension of FSB framework to Insurance Industry

- In the FSB's October 2010 report it was announced that the framework for dealing with G-SIFIs would be extended to cover insurance companies.
- In November 2011, G20 leaders asked the International Association of Insurance Supervisors (IAIS) to develop an assessment methodology for identifying global systemically important insurers (G-SIIs).
- The results arising from IAIS's methodology may be summarized by the following:
  - Neither long experience of insurance markets nor information arising from the global financial crisis provides any evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy.
  - The potential for systemic importance is only considered to arise in any non-traditional or non-insurance activities.
- G-SIIs are different from Global Systemically Important Banks (G-SIBs):
  - The designation of banks tends to be driven by the sheer size and nature of their core activities, while size alone is less important for traditional insurers.

IAIS Assessment methodology for GSIIs

- Although the IAIS considers traditional insurance activities not to be a source of systemic risk, it also notes that:
    - *"As recent crisis history suggests, insurance groups tend to suffer distress as a result of an increased exposure to non-insurance activities. These activities, which at times were only lightly regulated or not regulated at all; appear to be an important source of risk that may become systemic."*
- According to the IAIS, the two most important factors for assessing the systemic importance of insurers are:
    - Non Traditional and Non Insurance (NTNI) activities
    - The degree of interconnectedness
- Main NTNI activities in recent years have caused the following effects:
    - Expansion of bancassurance
    - Expansion of insurers derivative portfolios (namely CDS)
    - Eeeper connection between insurers and banks via funding channels in capital markets

Traditional Activities vs. Non Traditional Activities (1/2)

- IAIS has developed three principles to identify NTNIs:

  - Product with credit guarantees to financial products (eg. securities, mortgages and other traded and non traded products)

  - Policies or products exposing insurers to substantial market and liquidity risk, requiring complex risk management practices and dynamic use of derivatives

  - Investing and funding activities resulting in maturity or liquidity transformation, leverage or imperfect credit risk transfer (eg. repo and securities lending not justified by traditional insurance activities)

Traditional Activities vs. Non Traditional Activities (2/2)

Traditional	Non-Traditional
Non-Life (P&C plus Heath, Disability)	Annuity: Variable Annuity - GMIB
Non-Life: Long-tail	Guaranteed minimum death benefit (GMDB) or Guaranteed minimum annuitisation rate
Life - Term - Fixed Death Benefits, Fixed Premium	Guaranteed Minimum Withdrawal Benefit (GMWB)
Life - Term - Variable Benefit, Variable Premium	Contingent Deferred Annuity
Life - Whole life with fixed death benefits	Unit-linked accounts with guaranteed account value or non-negative returns
Life - Whole Life with variable account value	Guaranteed Investment Contracts (GICs)
Life - Whole Life with some minimum accumulation rate or minimum death benefit	Synthetic GIC (insurer bears market value/return risk)
Annuity with Fixed Rate of Return	Mortgage Insurance
Annuity with Variable rate of return	Credit Guarantees - municipal debt, structured credit products
Variable Accumulation, Fixed Payout	
Insurance-linked securities (ILS) (Cat Bonds and other)	Financing or monetizing ILS (Embedded Value/Present Value of Future Profit securitisations, ILS with financial risk as material trigger condition)
Short-term trade credit insurance	

G-SIIs List and Relevant Policy Measures Framework

- On July 18th the FSB released an initial list of nine G-SIIs, identified using the IAIS assessment methodology
- Companies identified as G-SIIs will have to comply with a set of policy measures to be developed by the IAIS
- The application of the above measures may rely to a large extent upon the clear differentiation between traditional and NTNI activities
- G-SII policy measures should reduce moral hazard and internalize the costs of the negative externalities stemming from the potential failure posed by a G-SII. These policy measures should:
  - Reduce the probability and impact of distress or failure of G-SIIs and thus reduce the expected systemic impacts which failure may cause
  - Incentivise G-SIIs to become less systemically important, and give non-G-SIIs strong disincentives from becoming G-SIIs
  - Be linked to the drivers of the G-SII status of each individual insurer.

G-SIIs in *alphabetical order as of July 2013*

- Allianz SE
- American International Group, Inc.
- Assicurazioni Generali S.p.A.
- Aviva plc
- Axa S.A.
- MetLife, Inc.
- Ping An Insurance (Group) Company of China, Ltd.
- Prudential Financial, Inc.
- Prudential plc

Policy Measures Framework Components

- The IAIS framework of policy measures for G-SIIs is in line with the FSB recommendations and includes the following components:
  - Enhanced supervision
  - Effective resolution
  - Loss Absorbency (LA) and Higher loss absorption (HLA) capacity

Enhanced Supervision

- Enhanced supervision generally means:
  - Specifically tailored regulation
  - Greater supervisory resources
  - Bolder use of existing supervisory tools compared to the supervision of non-systemically important insurers
- Enhanced supervision includes
  - A direct approach to consolidated and group-wide supervision including direct supervision over the holding company
  - The development of a Systemic Risk Management Plan (SRMP), including
    - The effective separation of systemically important NTNI activities from traditional insurance business, ensuring self sufficiency of the separated entities in terms of structure and financial conditions (no capital or funding subsidies, multiple gearing or double leverage). Separated entities should be under oversight of the direct supervisory authority and the group-wide supervisor
    - Restrictions or prohibitions of specified systemically important activities
  - Enhanced liquidity planning and management

Effective Resolution

- Effective resolution for all SIFIs includes:
  - Establishment of Crisis Management Groups (CMGs)
  - Elaboration of recovery and resolution plans (RRPs)
  - Conduct of resolvability assessments
  - Adoption of institution-specific cross-border cooperation agreements
- For G-SIIs, the following specificities of insurance are taken into account:
  - Plans and steps needed for separating non-traditional or non-insurance (NTNI) activities from traditional insurance activities
  - The possible use of portfolio transfers and run off arrangements as part of the resolution of entities conducting traditional insurance activities
  - The existence of policyholder protection and guarantee schemes (or similar arrangements) in many jurisdictions

Loss Absorption (LA) and Higher Loss Absorption (HLA) (1/2)

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- The development of higher LA requirements will proceed in two stages
- The IAIS will develop straightforward, backstop capital requirements (BCR) that will apply to all group activities of GSIIs, to be finalised by the end of 2014; these will constitute a foundation for developing HLA requirements
- Higher Loss Absorption (HLA) capacity is intended to:
    - Reduce the probability of distress or failure and thus the expected impact of distress or failure;
    - Internalise some of the costs to the financial system and overall economy, which are otherwise externalities to the insurance group that occur as a result of a G-SIIs distress or failure by making G-SIIs more resilient to low probability, high impact events;
    - Allow for earlier supervisory intervention and more time to address emerging risks to the financial system;
    - Provide disincentives to carrying out activities that pose a threat to the financial system;
    - Offset any benefit should it arise, such as lower funding costs, associated with the G-SII status.

Loss Absorption (LA) and Higher Loss Absorption (HLA) (2/2)

- The IAIS proposes that the calculation may depend upon whether the non-traditional insurance and non-insurance financial activities have been effectively separated from the traditional insurance business.
- The IAIS also proposes that HLA should be targeted, when possible, at the entities where the systemically important activities are located.
  - When effective separation of NTNI activities from traditional insurance activities is possible, targeted HLA may be calculated based on the NTNI activities and applied to the separated entities conducting them.
  - Where NTNI activities are not effectively separated, HLA may be calculated based on the NTNI activities in the consolidated insurance group taking account of the insurance group's interconnectedness score
- HLA requirements will be announced by end 2015 and will come into effect from January 2019

Implementation Time Frame

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Key Implementation Dates	Action required
October 2013	IAIS to prepare a quantitative capital standard
July 2014	Crisis Management Groups (CMGs) established for the initial cohort of designated G-SIIs IAIS to provide the FSB with a recommendation on the G-SII status of, and appropriate risk mitigating measures for, major reinsurers
July 2014	Systemic Risk Management Plan (SRMP) to be completed
September 2014	IAIS to finalise straightforward, backstop capital requirements (loss absorbency – LA)
End 2014	Recovery and resolution plans, including liquidity risk management plans, for the initial cohort of designated G-SIIs to be developed and agreed by CMGs
End 2015	IAIS to develop implementation details for HLA that will apply to designated G-SIIs
July 2016	Implementation of SRMPs to be assessed
November 2017	The FSB to designate the cohort of G-SIIs, based on the IAIS methodology and 2016 data, for which the HLA policy measure will apply
January 2019	G-SIIs designated in November 2017 to apply the HLA requirements

III. ComFrame and other IAIS activities

Comframe

- Since 2010, the IAIS has also been developing a Common Framework (ComFrame) for the supervision of Internationally Active Insurance Groups (IAIGs), the largest, most complex insurance firms.
  - ComFrame does not directly address systemic risks.
- ComFrame is:
  - A set of international supervisory requirements built and expanding upon the high level requirements and guidance currently set out in the IAIS Insurance Core Principles (ICPs), which generally apply on both a legal entity and group-wide level
  - Concerned with the on-going supervision of large and complex internationally active insurance groups (IAIGs) and is not focused on whether an insurance group presents risk to the global financial system

Comframe: IAIG Definition

- An IAIG is a large, internationally active group that includes at least one sizeable insurance entity
- Criteria for identifying IAIGs are:
  - International Activity
    - ✓ Premiums are written in not fewer than three jurisdictions, and
    - ✓ Percentage of gross premiums written outside the home jurisdiction is not less than 10% of the group's total gross written premium;
  - Size (based on a rolling three-year average)
    - ✓ Total assets of not less than USD 50 bn, or
    - ✓ Gross written premiums of not less than USD 10 bn
- The IAIS will set out the criteria and process for identifying IAIGs. However, it will be the supervisory colleges that identify IAIGs.

ComFrame vs. G-SIIs

Type of entity	Legal Entity	Group	IAIGs	G-SIIs
1st tier **ICPs**	ICPs that apply only to legal entities	ICPs that apply to legal entities and groups		
2nd tier **ComFrame**			ComFrame	
3rd tier **G-SIIs Package**				G-SIIs package

Comframe Structure

- ComFrame is structured in three Modules:
  - **Module 1** includes:
    - The criteria and process for the identification of IAIGs by supervisors
    - The breadth of supervision of IAIGs (which legal entities are included)
    - The identification of the group-wide supervisor
  - **Module 2** contains:
    - The requirements that an IAIG will need to meet
  - **Module 3** covers:
    - The process of supervision, highlighting the role of the group-wide supervisor and other relevant supervisors’ responsibilities within the process.
    - The supervisory process, enforcement, cooperation and interaction requirements.

Insurance Capital Standards Announcment

- On October 9th, 2013, the IAIS has announced its plan to develop a risk based global insurance capital standard (ICS) by 2016 and to include it within ComFrame, which has always included a capital component within its solvency assessment.
  - This component, which is being finalised in concept, will be used as a starting point for development of the ICS
- IAIS announced also the development of BCRs to be applied to G-SIIs by late-2014
- This leaves a number of important questions unanswered
  - Given the BCR will likely be implemented well before HLA comes into effect, what is its purpose? Will it be a new reporting requirement or will some groups be required to hold additional capital as a result?
  - What is the relationship between the ICS and BCR? Is the BCR just a 'quick-fix' to be replaced in the future by the ICS when it is finalised or will the BCR remain as a separate capital standard even beyond 2019 when the ICS is set to be implemented?
  - How will these new quantitative standards interact with local capital requirements already in place or shortly to be finalised such as Solvency II?

IV. Macroprudential Policy and Surveillance

The IAIS Framework for Insurance Macroprudential Policy and Surveillance (MPS)

- The financial crisis has shown, in some cases, the inadequacy of past supervisory practices that relied exclusively on microprudential, individual firm-level policies
- In response, the IAIS created the Macroprudential Policy and Surveillance (MPS) Subcommittee to develop a framework for implementing macroprudential policies and surveillance in the insurance sector
- The MPS complements the work on G-SIIs
  - MPS is focused on the system-wide impact of shocks via broad transmission channels
  - SIFI policy measures framework aims at reducing the impact of failure of individual firms
- In addition to the framework, which will lead to a practical toolkit or handbook for supervisors, the IAIS activities will include:
  - Frequent monitoring of the macroeconomic and financial market environment
  - A periodic survey of key insurance risks and trends
  - The monitoring of broad developments in the global insurance market.

The IAIS Framework for Insurance Macroprudential Policy and Surveillance (MPS)

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- In terms of structural hierarchy, any G-SII approach is subordinated to MPS
- The comprehensive assessment of systemic risk is an integral element in the design and implementation of MPS, which should guide the choice of indicators of causes of material financial sector distress and suitable supervisory responses
- Some G-SII indicators form a sub-set of sector-specific indicators within the MPS framework

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V. EIOPA Systemic Risk Monitoring

EIOPA Indicators from the Risk Dashboard (1/5)

- Macro Risks
- Credit Risks
- Market Risks
- Liquidity and Funding
- Profitability and Solvency
- Interlinkages and Imbalances
- Insurance Risks

EIOPA Indicators from the Risk Dashboard (2/5)

#	Indicator	Methodology	Risk metric (if applicable)
Macro Risks			
1.1	GDP consensus forecast	Forecasted YoY growth for Eurozone, US, UK, Switzerland, BRICS (average of next 4 quarters); source: Bloomberg	--
1.2	CPI consensus forecast	Forecasted YoY growth for Eurozone, US, UK, Switzerland, BRICS (average of next 4 quarters) ; source: Bloomberg	--
1.3	Unemployment rate	Current rate in EU-27; source: Eurostat	--
1.4	Outperformance insurance stocks	3-months-performance of Stoxx insurance index minus 3-months-performance of Stoxx 600	--
1.5	Price/earnings ratio insurance stocks	Median and 90th percentile for a sample of 26 European insurers; source: Bloomberg	--
1.6	Price/book value ratio insurance stocks	Median and 90th percentile for a sample of 26 European insurers; source: Bloomberg	--
1.7	Ratings insurance companies	Median and 90th percentile for a sample of 29 European insurers; source: Standard&Poor's, Bloomberg	--
1.8	Rating outlooks insurance companies	(Number of negative outlooks – number of positive outlooks) / number of all outlooks for a sample of 29 European insurers; source: Standard&Poor's, Bloomberg	--
1.9	CDS spreads insurance companies	Median and 90th percentile for a sample of 16 European insurers; source: Bloomberg	--
Credit Risks			
2.1	Government bonds	Government bonds to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	Sovereign CDS spreads Western Europe (SovX); 20-day average; source: Bloomberg
2.2	Financial bonds – unsecured	Financial bonds (unsecured) to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	European financials CDS spreads (itraxx Financials); 20-day average; source: Datastream
2.3	Financial bonds – secured	Financial bonds (secured) to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	European financials covered bond spreads (iboxx Covered, 7-10Y); 20-day average; source: Datastream
2.4	Corporate bonds	Non-financial corporate bonds to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	European corporate bond spreads; 20-day average; source: Datastream
Market Risks			
3.1	Long-term interest rates	10-year swap rates for EUR, GBP and CHF	--
3.2	Equity exposure	Equity investments to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	Implied volatility (VSTOXX); price/book value ratio of Stoxx 600; source: Bloomberg
3.3	Property exposure	Property investments to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	Rental yield of European commercial real estate (offices and retail); source: IPD, Bloomberg
3.4	Duration mismatch	Duration of bond portfolio (incl. derivatives) to duration of technical provisions; median, 10th percentile, 90th percentile; source: EIOPA Quarterly Fast-track Reporting	--
3.5	Guaranteed interest rate (life business)	Difference between guaranteed interest rates and investment returns; median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
Liquidity and Funding			
4.1	Lapses/surrenders (life business)	Median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	--
4.2	Cash holdings	Cash&deposits to total assets (each excluding unit-linked business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
4.3	Liquid assets to less liquid assets	(Cash&deposits) to (property + alternative funds + loans& mortgages + structured finance) (each excluding unit-linked business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
4.4	Issuance of CAT bonds	Issued volume in current quarter to 4-quarter average; issued volume to announced volume; spread at issuance in current quarter to 4-quarter average; source: Bloomberg, artemis.bm, Standard&Poor's	--
Profitability and Solvency			
5.1	Solvency ratio (life business)	Available solvency capital to required solvency capital (life business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--

EIOPA Indicators from the Risk Dashboard (3/5)

5.2	Return on assets (life business)	Median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
5.3	Solvency ratio (non-life business)	Available solvency capital to required solvency capital (non-life business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
5.4	Return to premiums (non-life business)	Median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	
5.5	Combined ratio (non-life business)	Median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	--
5.6	Solvency ratio	Available solvency capital to required solvency capital (all business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	
5.7	Return on equity	Median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
5.8	Investment returns	Median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
5.9	Change in capital&reserves	YoY change, median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	
Interlinkages and Imbalances			
6.1	Financial bonds – unsecured	Financial bonds (unsecured) to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	European financials CDS spreads (itraxx Financials); 20-day average; source: Datastream
6.2	Financial bonds – secured	Financial bonds (secured) to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	European financials covered bond spreads (iboxx Covered, 7-10Y); 20-day average; source: Datastream
6.3	Derivative holdings	Derivatives to total assets (each excluding unit-linked business); median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	--
6.4	Retention rate	Net written premiums to gross written premiums; median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
6.5	Insurers' indebtedness	Capital&reserves to total assets (excluding unit-linked business); median and 10th percentile; source: EIOPA Quarterly Fast-track Reporting	--
Insurance Risks			
7.1	Premium growth (life business)	Median YoY growth of gross written premiums (life business); source: EIOPA Quarterly Fast-track Reporting	--
7.2	Premium growth (non-life business)	Median YoY growth of gross written premiums (non-life business); source: EIOPA Quarterly Fast-track Reporting	--
7.3	Insurance leverage	Net premiums written to capital&reserves; median and 90th percentile; source: EIOPA Quarterly Fast-track Reporting	--
7.4	Natural catastrophe losses	Loss rates due to natural catastrophes; source: Munich Re	--

EIOPA Indicators from the Risk Dashboard (4/5)

Explanatory notes - EIOPA

Level of Risk		Very high
		High
		Medium
		Low
Trend (change over the past three months)		Substantial increase
		Increase
		Unchanged
		Decrease
		Substantial decrease
Impact on the insurance industry	Very high	Severe impact (most undertakings affected or very sizeable exposure amount of the sector)
	High	Serious impact (large number of undertakings affected or sizeable exposure amount of the sector)
	Medium	Medium impact
	Low	Low or negligible impact (limited number of undertakings affected or limited exposure amount of the sector)

EIOPA Indicators from the Risk Dashboard (5/5)

EIOPA Risk summary – Risk Description

Risk	Level & Trend	Impact	Risks Description
Macro		High	• Uncertain worldwide growth outlook with slight positive hints in the EU • Political risk • High sovereign debt to GDP
Market*		High	• Uncertainty about future interest rates development • Relatively stable equity and property investment shares
Credit*		Very High	• Difficult global environment with sovereign and corporate spreads somewhat declining (which could be the result of accommodating liquidity policies) • Possible reassessment of risk premia
Profitability/ Solvency		Medium	• ROI declining, but overall return ROE and ROA relatively robust • Favourable underwriting results (low CR) but nat cat losses expected • Comfortable solvency I ratios
Interlinkages/ Imbalances		High	• Contagion risks from banks • Decreasing leverage • Somewhat increased interlinkages with reinsurance
Liquidity/Funding*		Medium	• Not a major concern but is monitored
Insurance		Medium	• A series of nat cat events but high loss absorbance capacity for reinsurers

12 September 2013 – EIOPA Risk Dashboard

* Expert judgment applied.

Comment and Conclusion (1/3)

- Just before the finalization of Solvency II (after 12+ years of hard work will be in place on January 1, 2016) ….
- …. nine insurers have been named as G-SIIs; for G-SIIs, a "straightforward backstop capital requirement", on which higher loss absorbency (HLA) will be based, is required to be created by November 2014;
- Worldwide regulators agreed - for all internationally active insurance groups (IAIGs) - to develop within Comframe a risk based global insurance capital standard (ICS) by <u>2016</u>.
- It is evidence of the shift in the attitude of the regulators (Dieckmann’S view). Is this coherent with what observed during these years ?
- My perception is that there is an evident overreaction to the AIG case
- I don’t have time to discuss the failure of the supervision, but I want mention the Bernanke comment *“AIG exploited a huge gap in the regulatory system. There was no oversight of the financial-products division. This was a hedge fund, basically, that was attached to a large and stable insurance company”*

Comment and Conclusion (2/3)

- I any case, AIG paid back the U.S with a 22.7 million profit for the taxpayer, according to the Treasury Department statement of Dec 2012

	Max Combined Commitment	Repayments, Canceled/Reduced Commitments, Interest/Fees/Gains	Positive Return
Federal Reserve	**$112.5 billion**	**$130.2 billion**	**+$17.7 billion**
Fed Loans to AIG[1]	$35.0 billion	$41.8 billion	+$6.8 billion
AIA/ALICO SPV, Preferred Interests	$25.0 billion	$26.4 billion	+$1.4 billion
Maiden Lane II & III	$52.5 billion	$62.0 billion	+$9.5 billion
Treasury	**$69.8 billion**	**$74.8 billion**	**+$5.0 billion**
Common Stock	$47.5 billion	$51.6 billion	+$4.1 billion
Preferred Stock	$22.3 billion	$23.2 billion	+$0.9 billion
Total	**$182.3 billion**	**$205.0 billion**	**+$22.7 billion**

Comment and Conclusion (3/3)

- But we should acknowledge that we are going toward the development of international insurance regulation, even if there is no clear evidence that local capital standards failed in protecting policyholders
- What a long, strange trip It's going to be
  - *By any measure, this collection of proposals is a prodigious pile of policy far insurers, and their regulators, to consider. The next time you see an insurance regulator or company CFO or CRO, express some sympathy for them as they attempt to manage this considerable agenda, in addition to their day jobs* **John H. Fitzpatrick (Geneva Asociation)**.
- Having in mind the difficulties we experienced (and are still experiencing) for both Solvency II and the IASB project “Insurance contracts Phase II”, I really doubt that ICS can be delivered and tested in 2-3 years
- In any case, I am confident that Solvency II might serve as a leading benchmark at worldwide level