

# International insurance regulation

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# Today's Journey

## 1. Internationalisation of the insurance sector

*(Explaining the travel budget)*



## 2. Conversion and challenges with Solvency II

*(Amsterdam -> Frankfurt)*



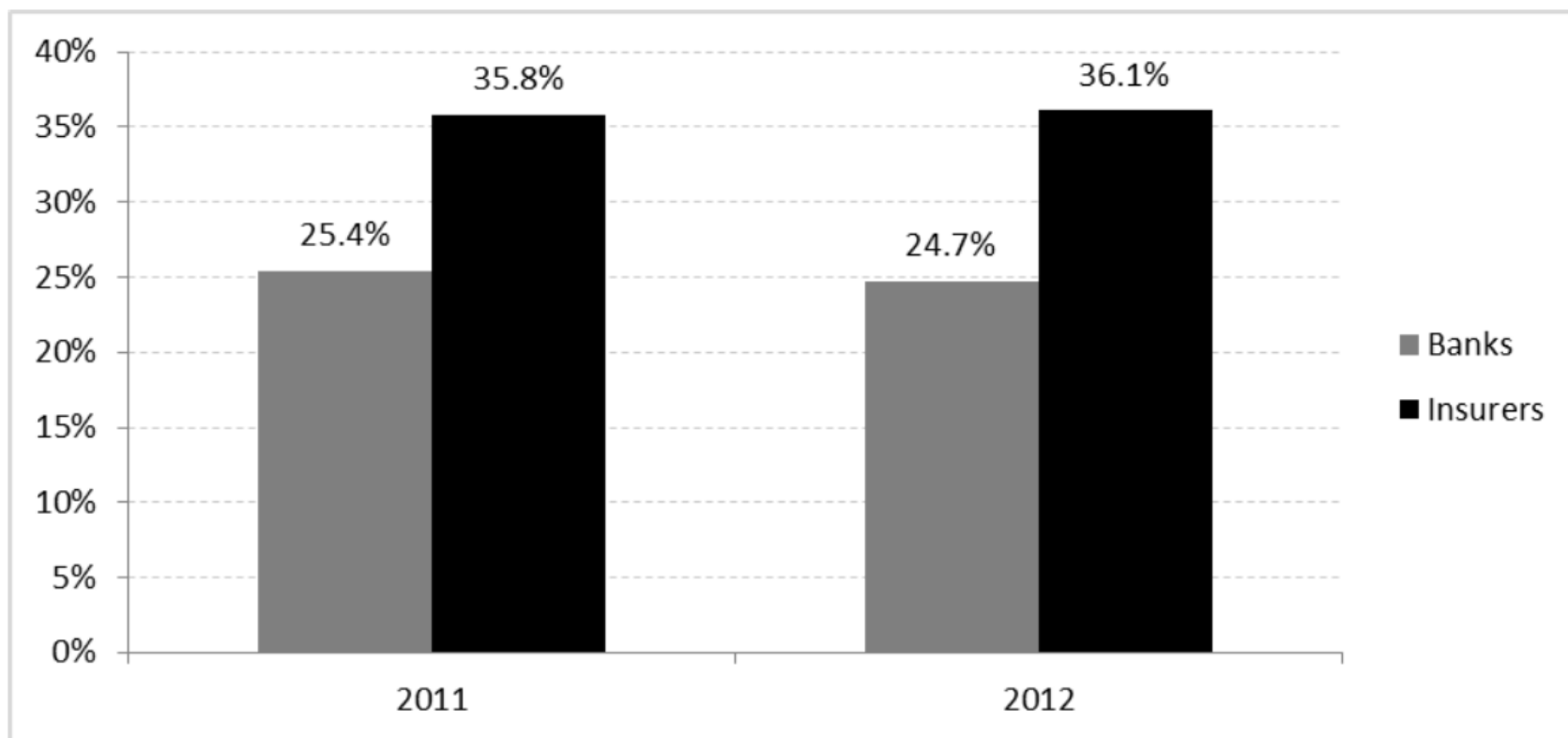
## 3. Global harmonisation of regulation and supervision

*(Amsterdam -> Basel, and further...)*



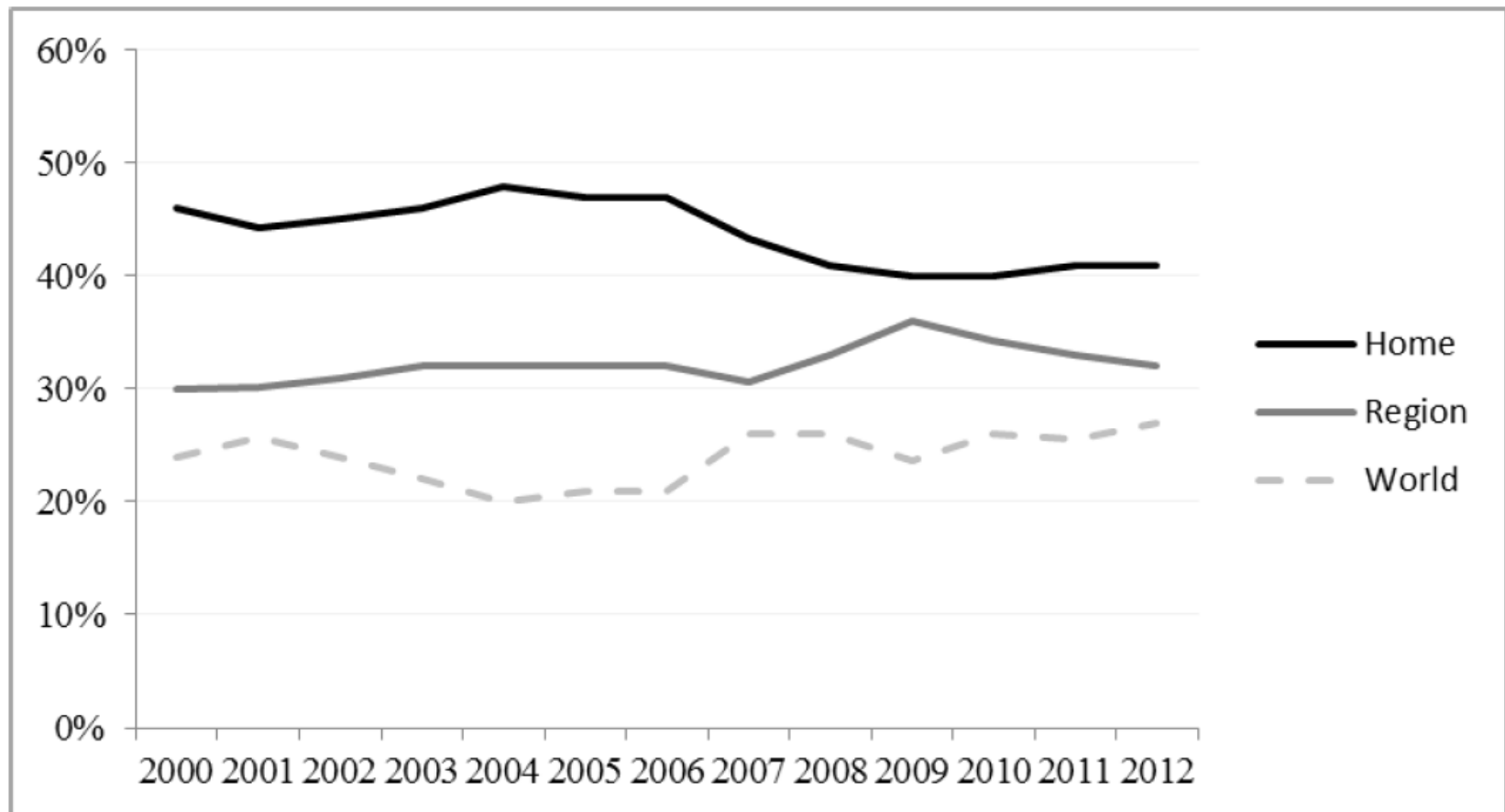
# Insurance is a cross-border business

Cross-border business for insurers larger than for banks (EU)



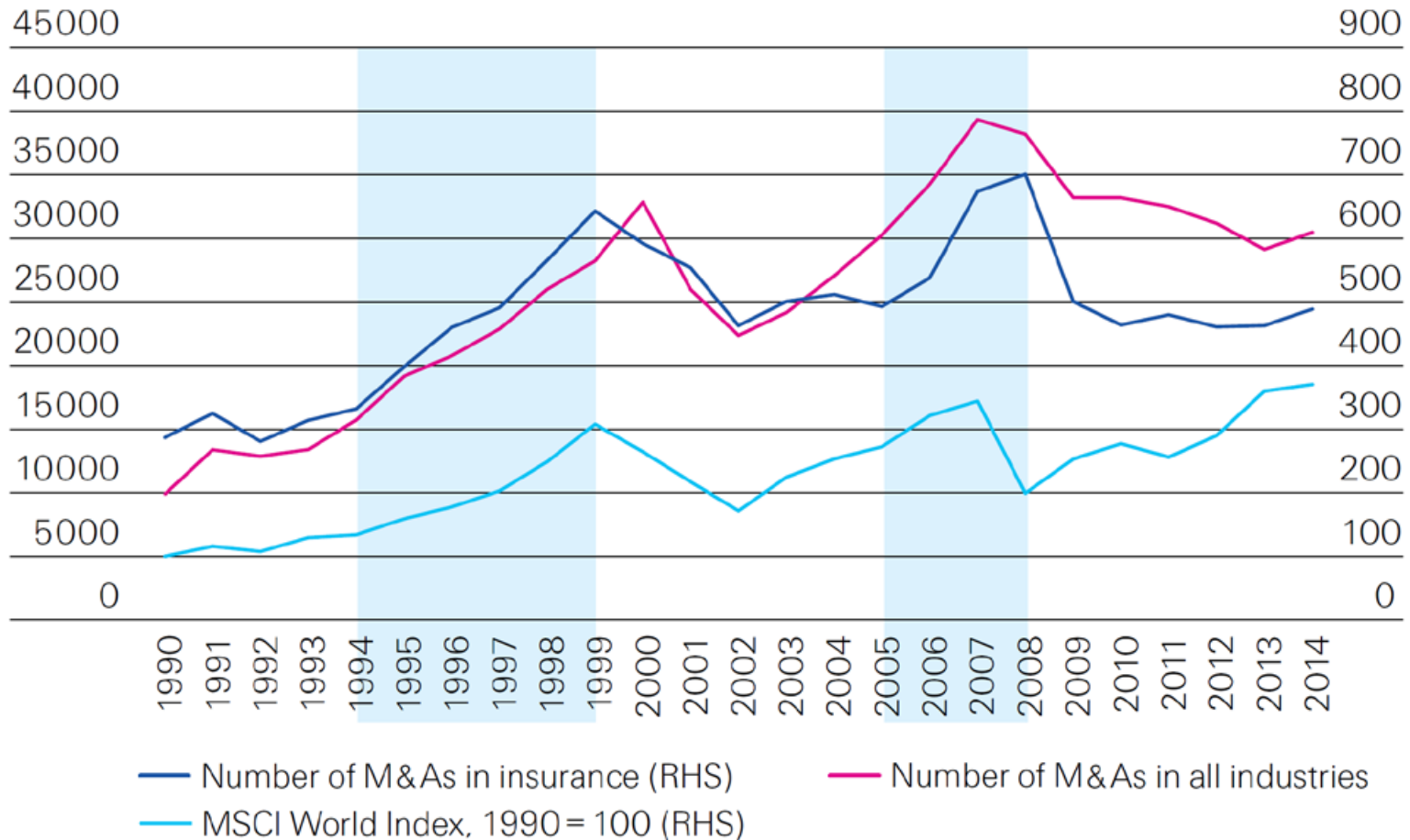
Source: Sass and Schoenmaker, Cross-border insurance in Europe: challenges for supervision, 24 November 2015

# Top 25 European insurers write more than half of their business abroad



Source: Sass and Schoenmaker, Cross-border insurance in Europe: challenges for supervision, 24 November 2015

# M&A activities continue to rise



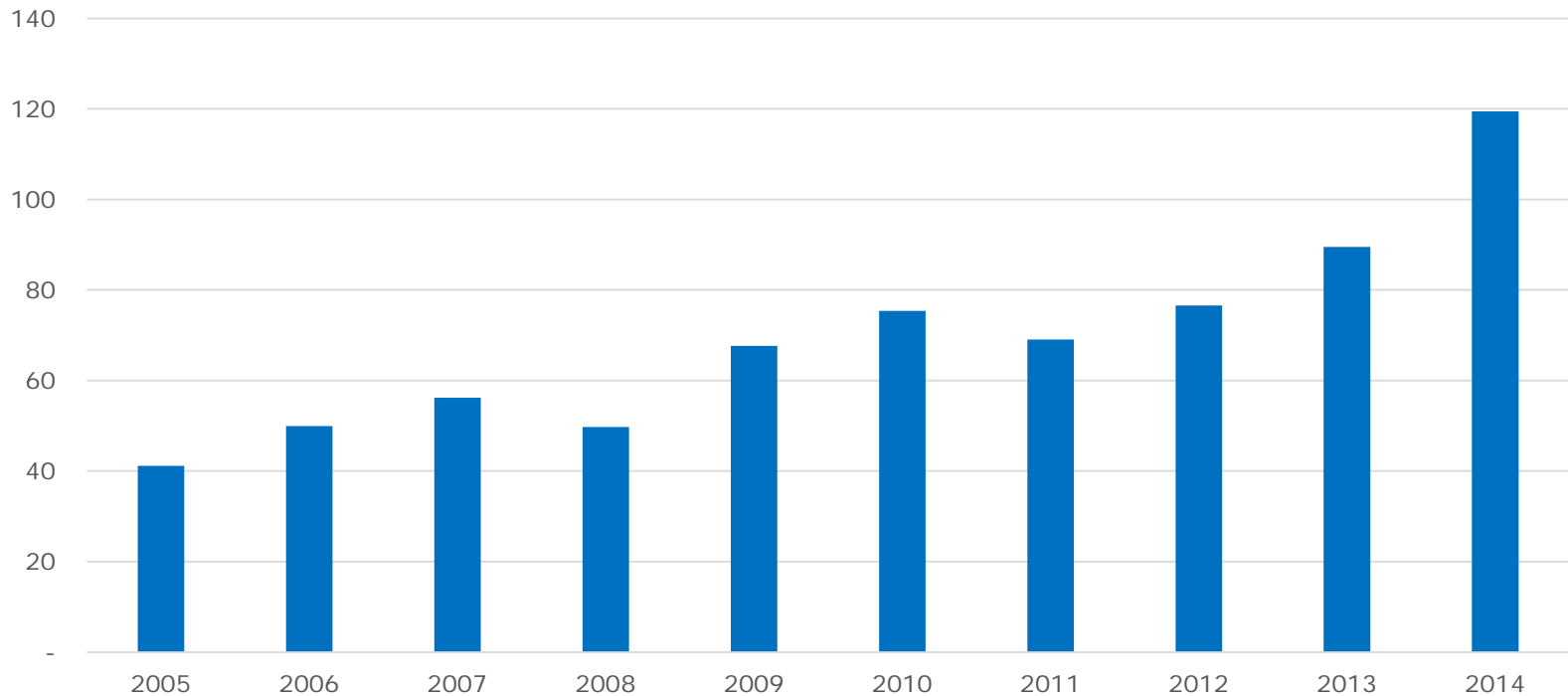
— Number of M&As in insurance (RHS)      — Number of M&As in all industries  
— MSCI World Index, 1990 = 100 (RHS)

Shaded regions represent approximate periods of previous M&A upswings in insurance

Source: IAIS/Sigma

# Within the EU increased use of the internal market

International activity of EU insurers through branches and the freedom to provide services (Premiums)



Source: EIOPA

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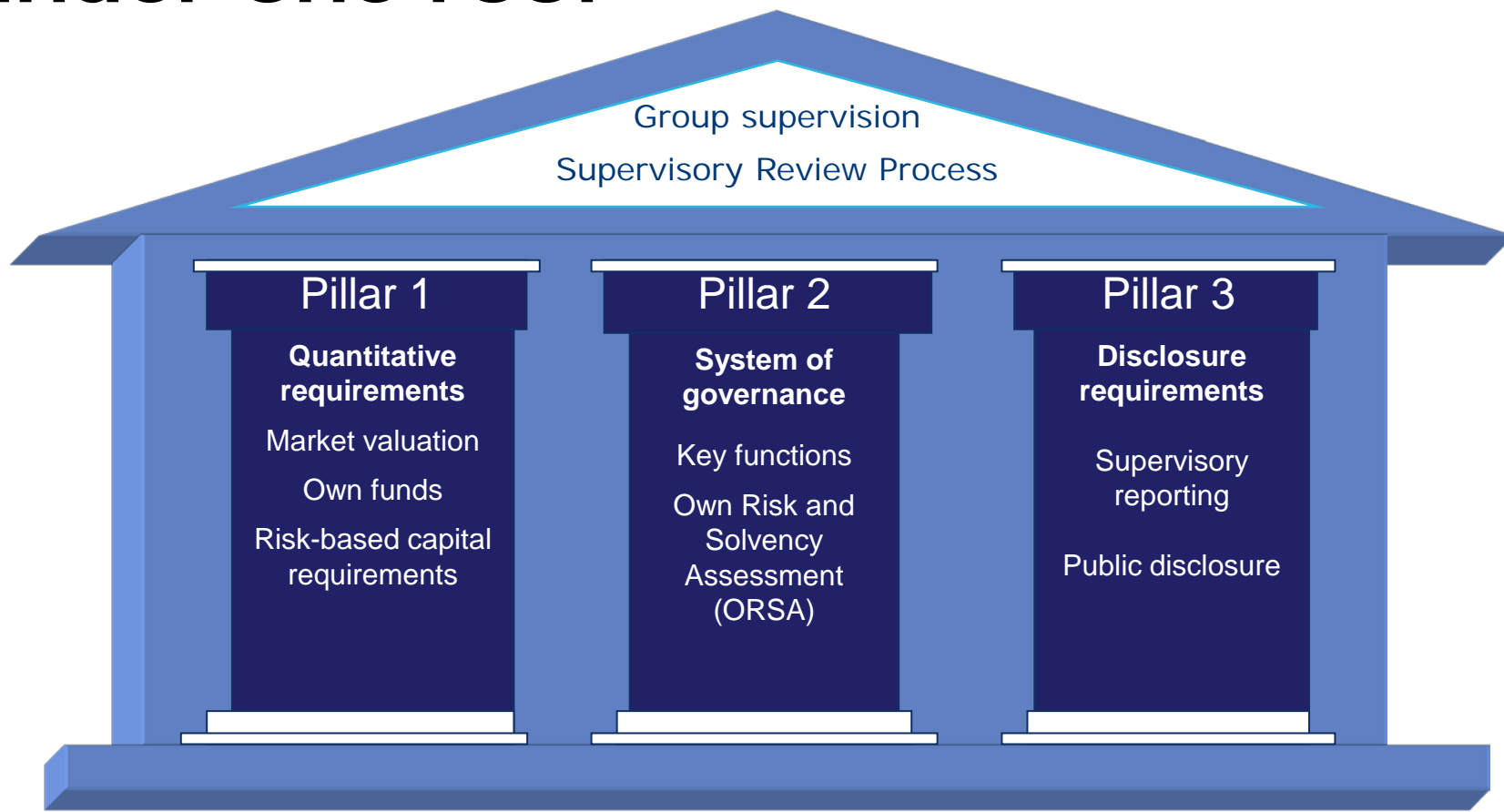


## 3. Global harmoniation of regulation and supervision

*(Amsterdam -> Basel, and further...)*



# All EU Insurers are living happily together (and being supervised) under one roof





# Group supervision under Solvency II

- Specific risks relevant for groups
  - Intragroup transactions and risk concentrations
  - Reputation
  - Contagion
  - Operational risks
  - Strategic risks
  - Currency risks
- Do we understand the risks of foreign businesses?
  - Assessment of risks at group level next to solo supervision
  - Co-operation between supervisors
  - Equivalence of third countries

# Cooperation in colleges of supervisors

- In place for 94 EU insurance groups
- Information exchange and cooperation (coordination arrangement)
- College work plan
- Joint risk assessment and joint decision on group internal model
- Joint on-site inspections

# Equivalence assessment

- Balance between two goals:
- Comparability of risks and capital across borders
- No duplication of supervision/reliance on foreign supervision
  
- The European Commission can grant (provisonal or full) equivalence to Non EU (third) countries
  
- Equivalent countries so far:
- Full: Bermuda, Switzerland
- Provisional: Australia, Brazil, Canada, Japan, Mexico, US

# Convergence: still a long road ahead..

- Improving harmonisation in practice:
  - *EIOPA guidelines*
  - *EIOPA Handbook*
  - *Q&As*
  - *EIOPA Peer reviews*
- Improving transparency and comparisons (transitional measures, long term guarantee measures and internal models)
- Also need for harmonisation of Recovery and Resolution frameworks

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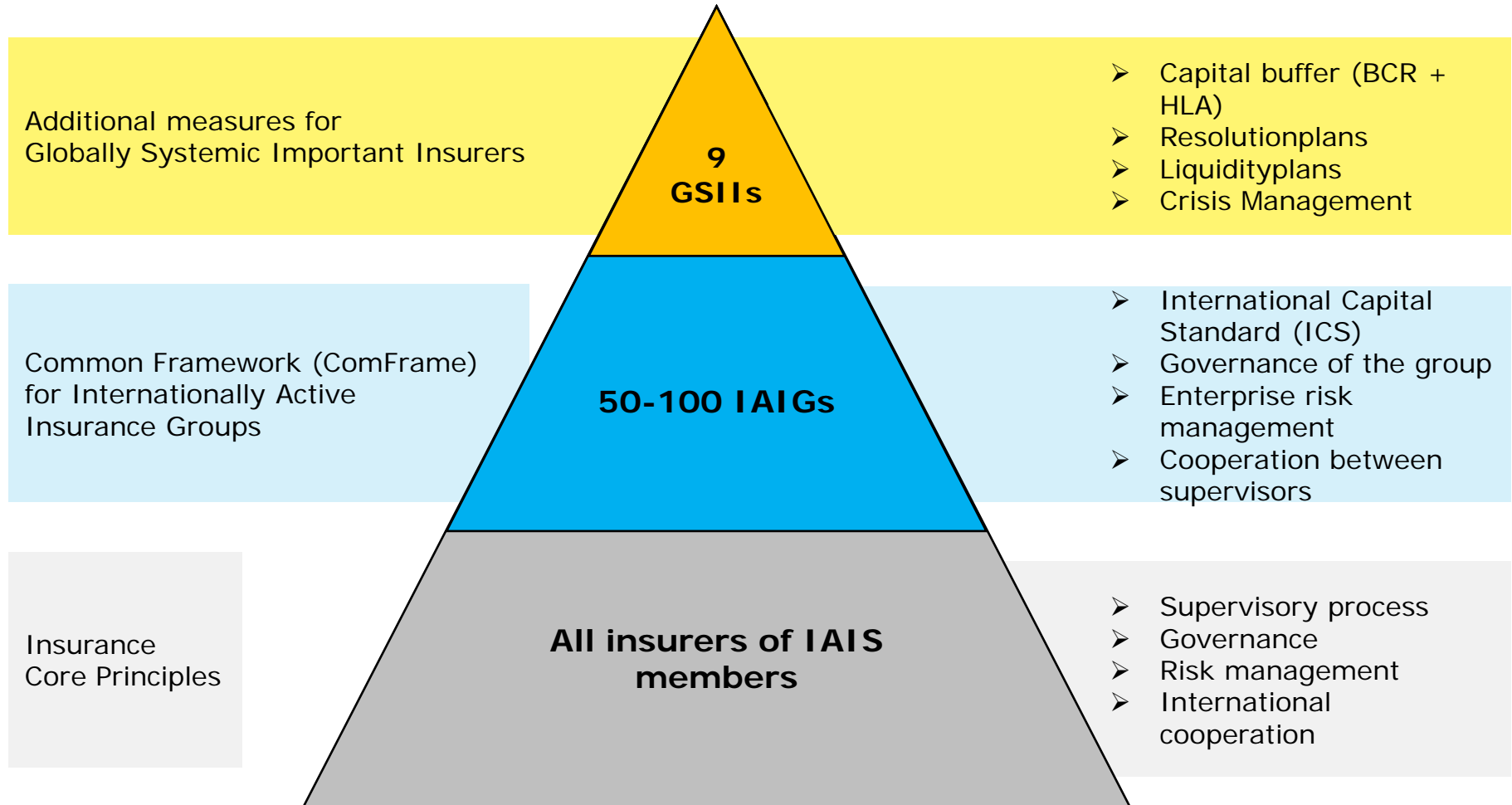


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# International harmonisation by IAIS



# Identification of Globally systemic important insurers: indicators

Category	Subcategory	Indicator	Weight
Size		Total Assets	2.5%
		Total Revenues	2.5%
Global activity		Revenues derived outside of home country	2.5%
		Number of Countries	2.5%
Interconnectedness	Counterparty exposure	Intra-financial assets	6.7%
		Intra-financial liabilities	6.7%
		Reinsurance	6.7%*
		Derivatives	6.7%
	Macroeconomic exposure	Derivatives Trading (CDS or similar derivatives instrument protection sold)	7.5%*
		Financial guarantees	7.5%*
Minimum guarantees on variable products		7.5%	
Asset liquidation		Non-policy holder liabilities and noninsurance revenues	7.5%
		Short term funding	7.5%
		Level 3 assets	6.7%
		Turnover	6.7%
		Liability liquidity	7.5%
Substitutability		Premiums for specific business lines	5%

# 2016 List of G-SIIs

## G-SIIs identified as a result of the 2016 G-SII assessment exercise

Aegon N.V.

Allianz SE

American International Group, Inc.

Aviva plc

Axa S.A.

MetLife, Inc.

Ping An Insurance (Group) Company of China, Ltd.

Prudential Financial, Inc.

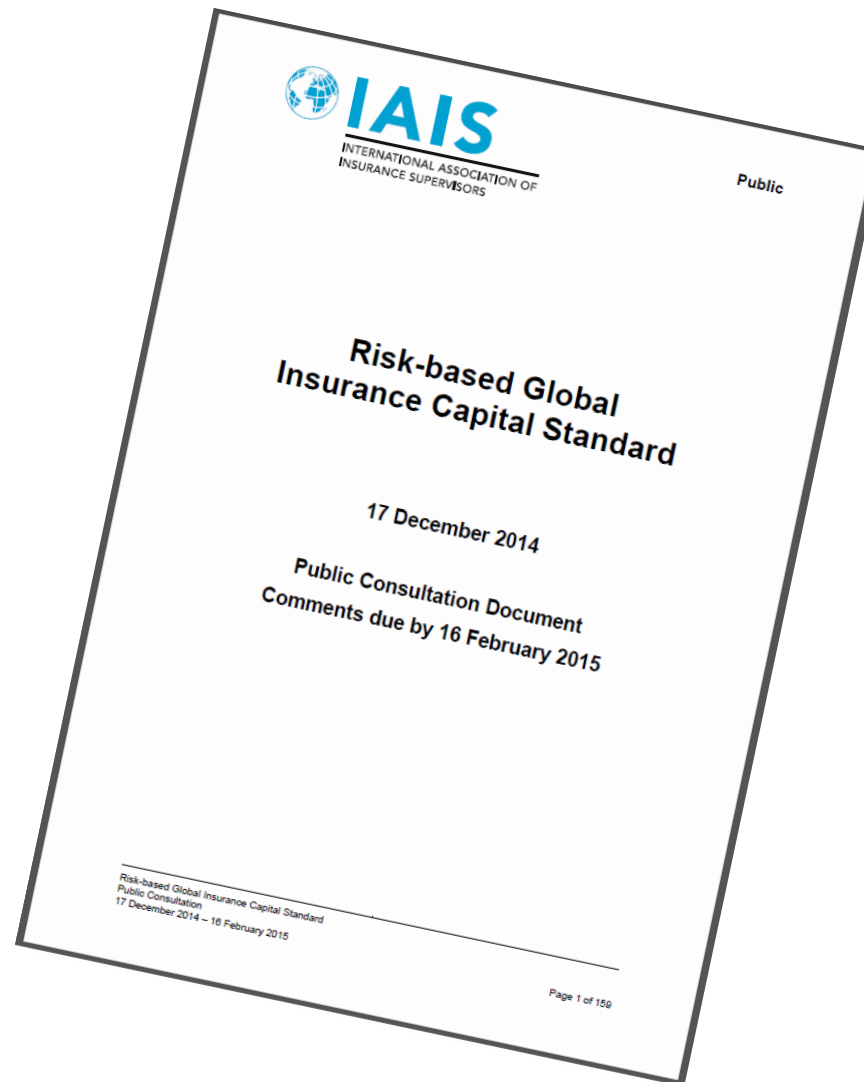
Prudential plc



# Identification of Globally systemic important insurers: challenges

- Data quality given differences in (valuation) regimes
- Allignment of microprudential incentives with macroprudential incentives (e.g.: derivatives to hedge exposures)
- Consistency and comparability with other sectors (G-SIBs):  
Activity-based approach?

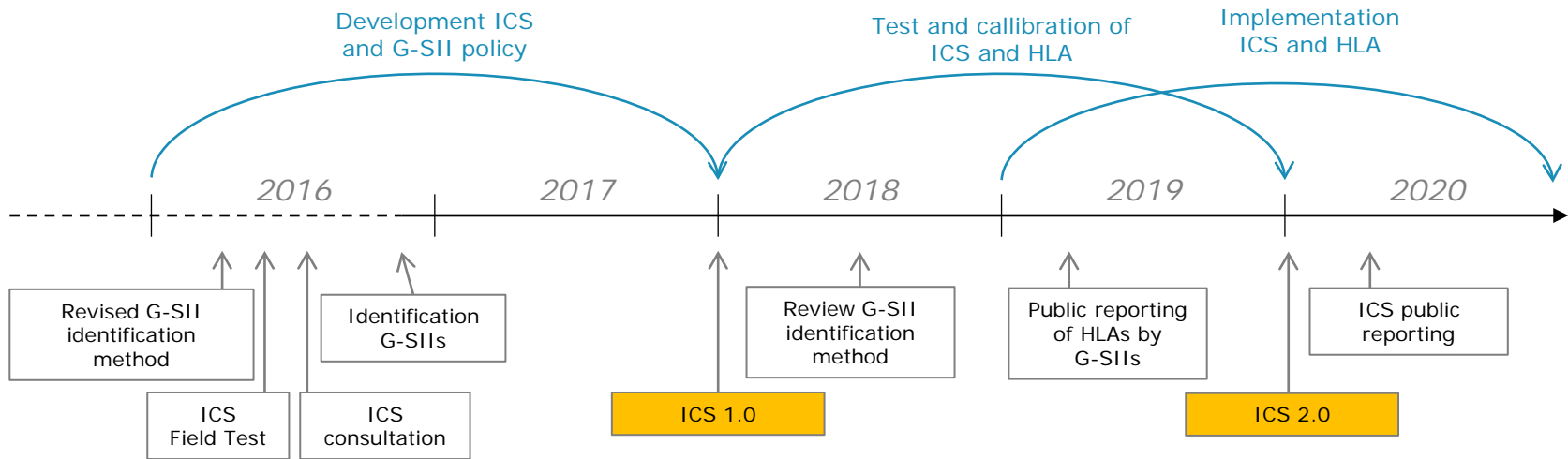
# ICS: The challenge of convergence



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		<i>Valuation basis</i>	
		Market based	Book value
Risk sensitivity	Risk based	EU (Solvency II) Australia Bermuda Canada Japan Korea Mexico Switserland	China United States
	Non-risk based		Brazil India South Africa

# International harmonisation by IAIS - Timeline



# Conclusions

- There is a strong argument for international regulation
- Solvency II is a big step forward but we are not there yet...
- On a global scale the ambition level is very high
- But nothing wrong with that!