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 harmoniation 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

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

Group supervision
Supervisory Review Process

Pillar 1
Quantitative requirements
Market valuation
Own funds
Risk-based capital requirements

Pillar 2
System of governance
Key functions
Own Risk and Solvency Assessment (ORSA)

Pillar 3
Disclosure requirements
Supervisory reporting
Public disclosure
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 (provisional or full) equivalence to Non EU (third) countries

- Equivalent countries so far:
  - Full: Bermuda, Switserland
  - 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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DeNederlandscheBank
EUROSYSTEEM
International harmonisation by IAIS

- Supervisory process
- Governance
- Risk management
- International cooperation

- International Capital Standard (ICS)
- Governance of the group
- Enterprise risk management
- Cooperation between supervisors

- Capital buffer (BCR + HLA)
- Resolution plans
- Liquidity plans
- Crisis management

Additional measures for Globally Systemic Important Insurers

Common Framework (ComFrame) for Internationally Active Insurance Groups

Insurance Core Principles

All insurers of IAIS members

9 GSII

50-100 IAIGs

Supervisory process
Governance
Risk management
International cooperation
## Identification of Globally systemic important insurers: indicators

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

<table>
<thead>
<tr>
<th>Risk sensitivity</th>
<th>Valuation basis</th>
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<tbody>
<tr>
<td></td>
<td>Market based</td>
<td>Book value</td>
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<tr>
<td>Risk based</td>
<td>EU (Solvency II)</td>
<td>China</td>
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<td></td>
<td>Australia</td>
<td>United States</td>
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<td>Bermuda</td>
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<td>Canada</td>
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<td>Japan</td>
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<td>Korea</td>
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<td>Mexico</td>
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<td></td>
<td>Switszerland</td>
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<tr>
<td>Non-risk based</td>
<td></td>
<td>Brazil</td>
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<td></td>
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<td>India</td>
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<td>South Africa</td>
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International harmonisation by IAIS - Timeline

- 2016: Development ICS and G-SII policy
- 2017: Test and calibration of ICS and HLA
- 2018: Implementation ICS and HLA

- 2016:
  - Revised G-SII identification method
  - Identification G-SIIs
  - ICS Field Test
  - ICS consultation

- 2017:
  - ICS 1.0

- 2018:
  - Review G-SII identification method

- 2019:
  - Public reporting of HLAs by G-SIIs
  - ICS 2.0

- 2020:
  - ICS public reporting
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!