Implementing A New Solvency Regime: The Mexican Experience

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3RD CONFERENCE ON GLOBAL INSURANCE SUPERVISION
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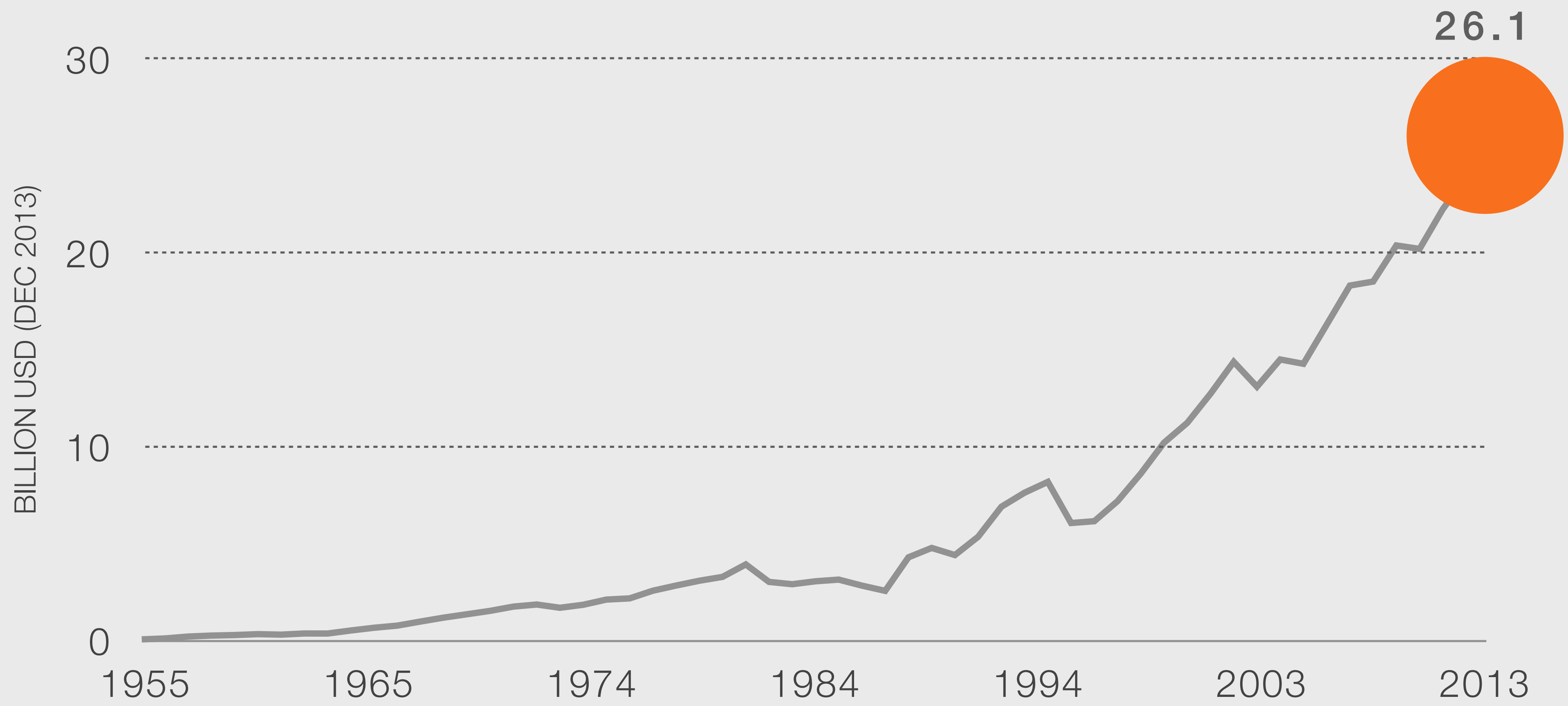
Contents

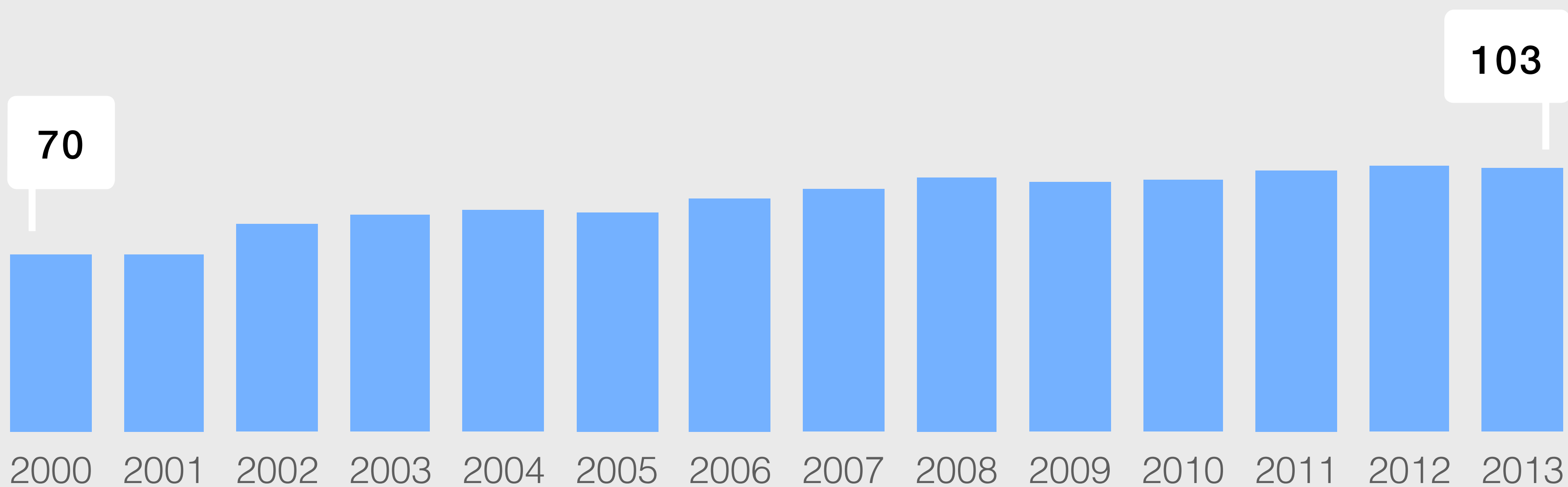
INSURANCE MARKET SIZE: DIRECT PREMIUM, 2000-2013



2013

SOURCE: CNSF

INSURANCE UNDERTAKINGS, 2000-2013

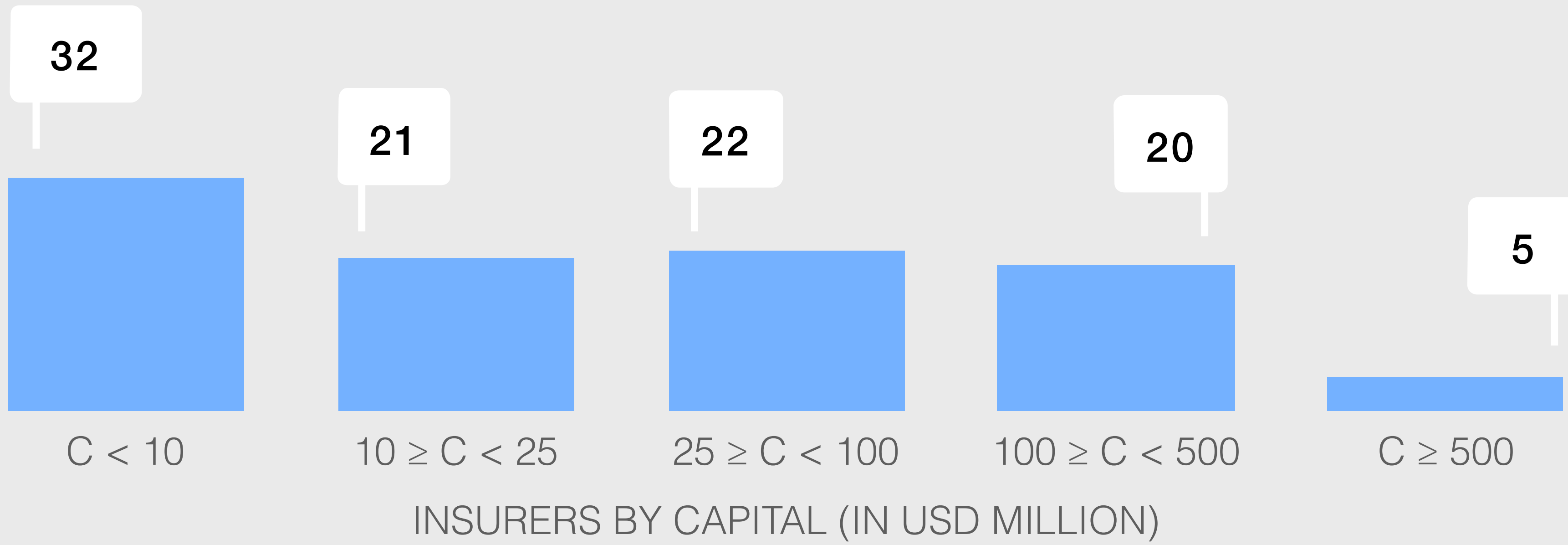


103 INSURANCE UNDERTAKINGS IN 2013

45	40%	MEXICAN OWNED INSURERS — MARKET SHARE
58	60%	FOREIGN SUBSIDIARIES — MARKET SHARE

SOURCE: CNSF

INSURANCE UNDERTAKINGS BY SIZE, 2013



104 MILLION USD — AVERAGE CAPITAL BY INSURER

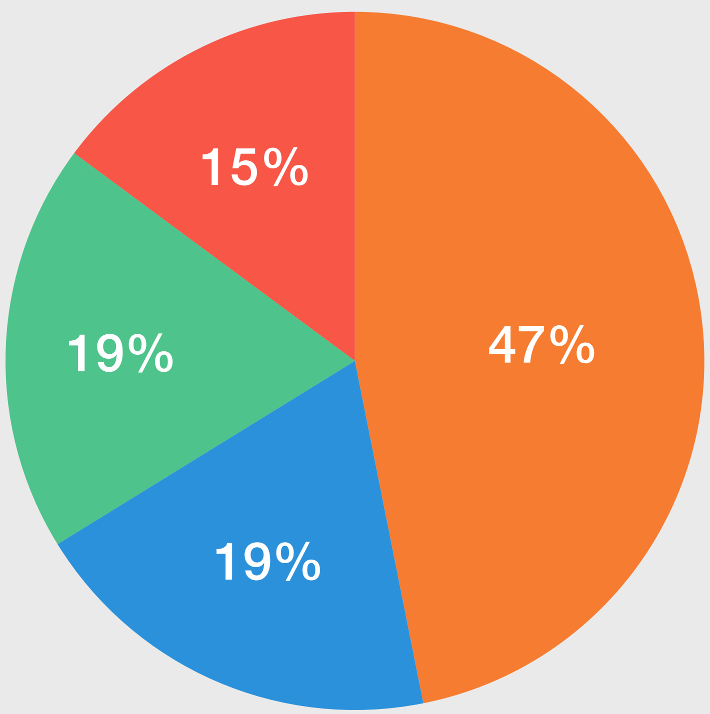
CAPITAL CONCENTRATION

44.4%	TOP-5
62.9%	TOP-10
80.4%	TOP-20

SOURCE: CNSF

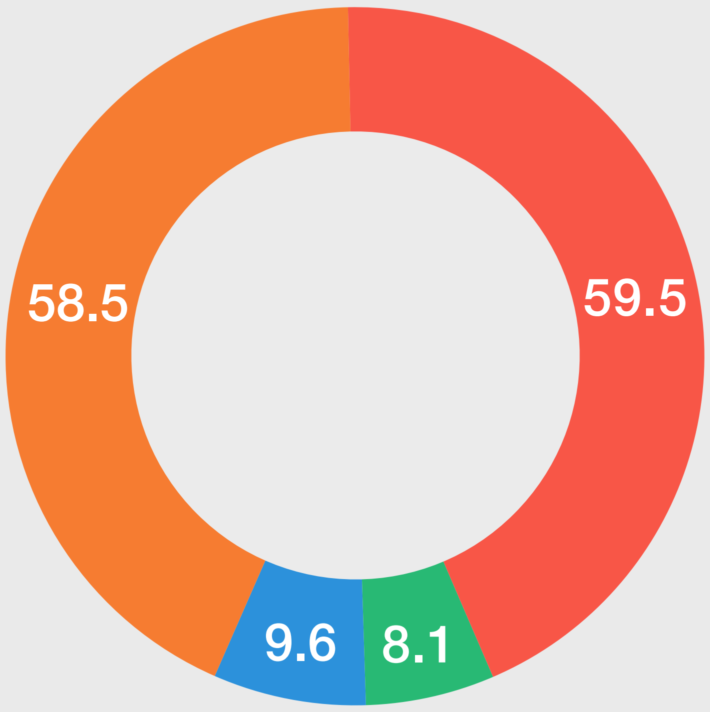
MARKET PORTFOLIO, 2013

DIRECT PREMIUM



135.7
million insurance policies in 2013

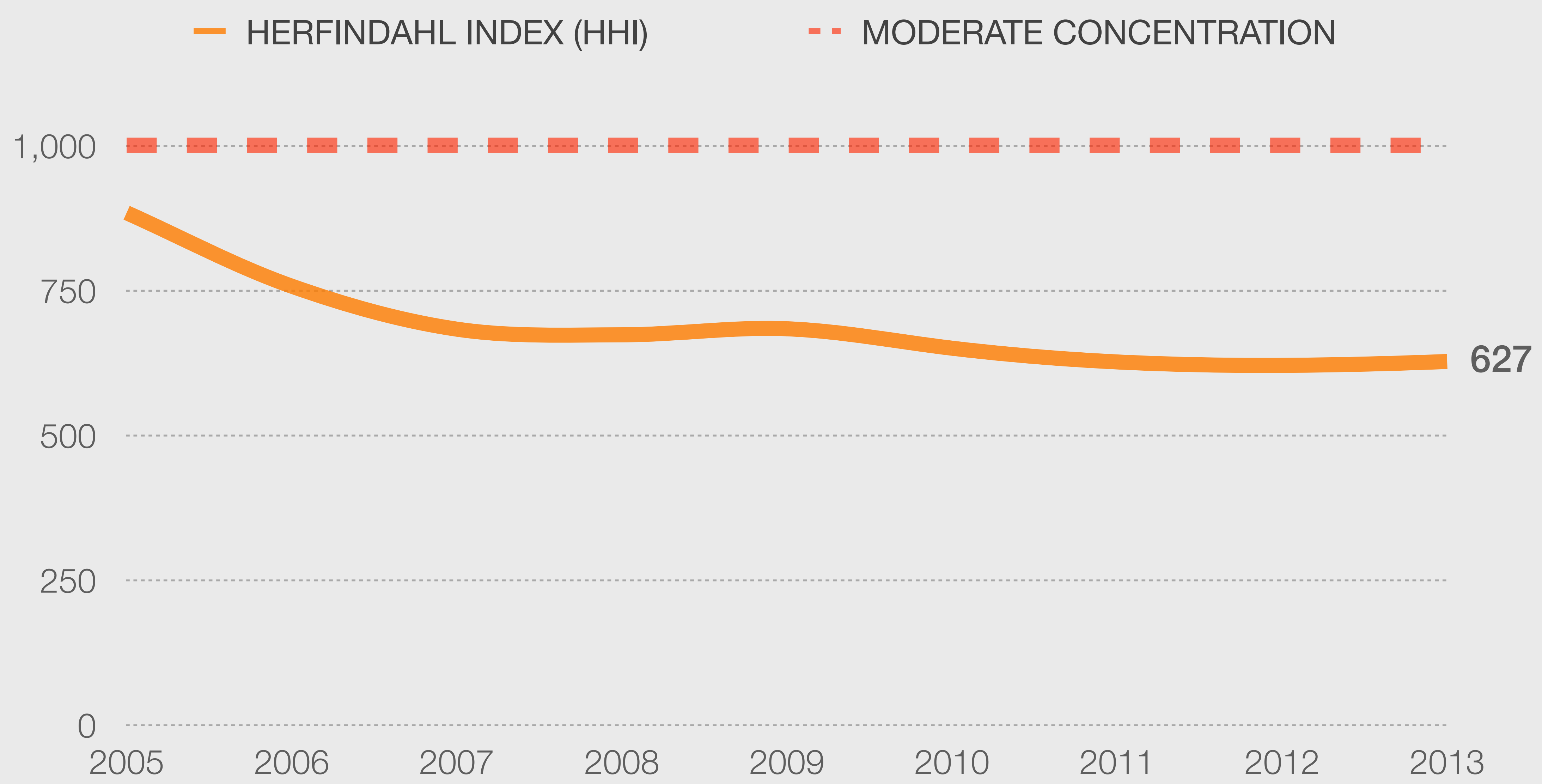
NUMBER OF POLICIES



- LIFE & ANNUITIES
- AUTOMOBILE
- PROPERTY & CASUALTY (W/O AUTO)
- ACCIDENTS & HEALTH

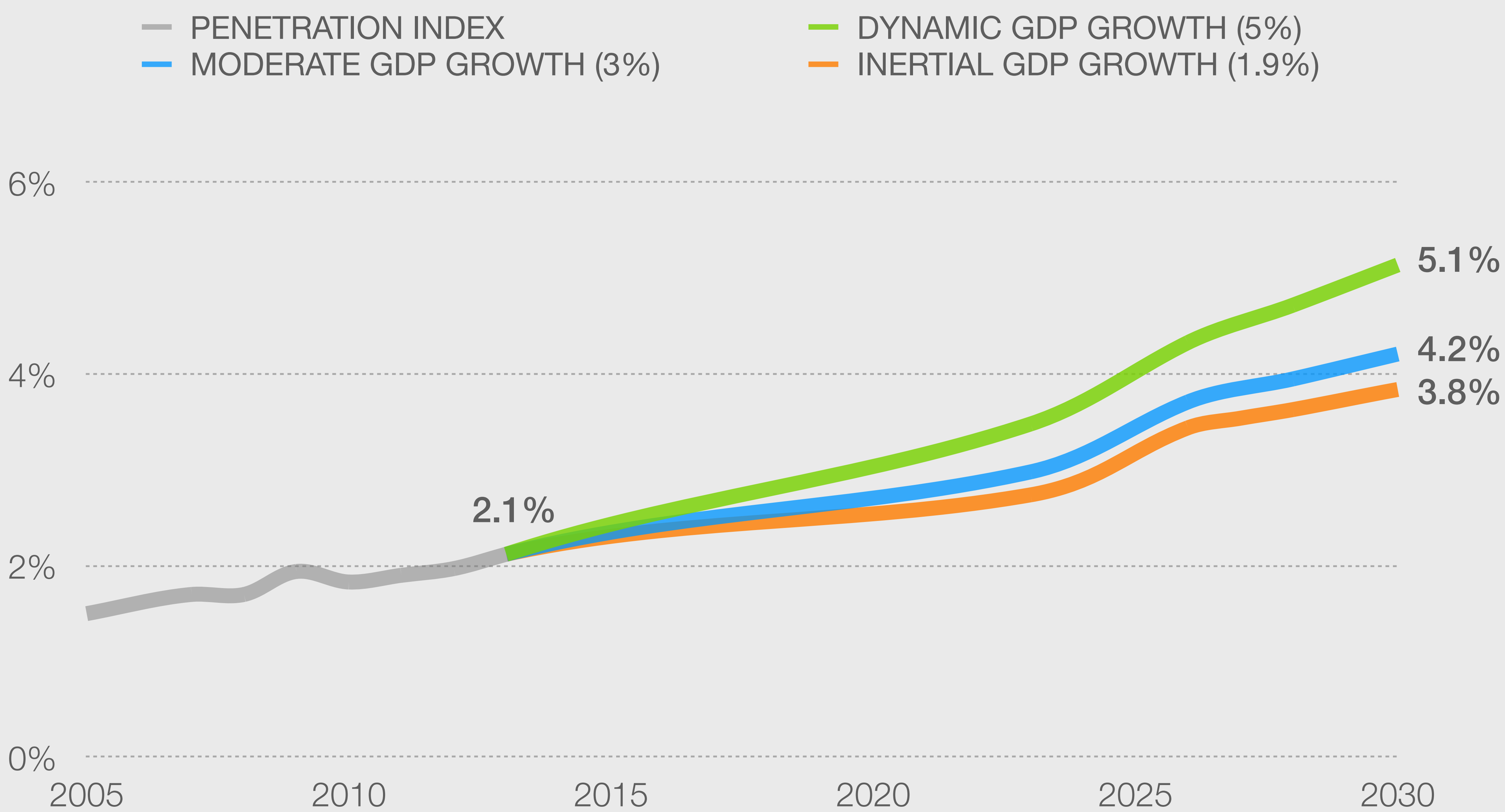
SOURCE: CNSF

MARKET CONCENTRATION (HHI), 2005- 2013



SOURCE: CNSF

MARKET GROWTH: PENETRATION INDEX, 2005-2013



SOURCE: CNSF

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NEW MEXICAN INSURANCE LAW - SOLVENCY II TYPE

PROCESS STARTED IN 2007

IN FORCE: APRIL, 2015

QUANTITATIVE ELEMENTS	REVISION AND CONTROL	MARKET DISCIPLINE
PILAR I	PILAR 2	PILAR 3
• Technical provisions based on BEL methods and risk margin concept. • Standard model and internal models for the capital requirements calculation. • Risk aggregation and mitigation. • Own funds to cover solvency capital requirement. • Economic balance sheet.	• Strengthening of corporate governance practices. • Own Risk and Solvency Assessment (ORSA). • Supervisory review process: strengthening of CNSF's risk based supervision.	• Regulatory reporting. • Transparency and public disclosure as a mechanism to enhance market discipline.

	SOLVENCY I	MEXICO: CURRENT SOLVENCY REGIME	MEXICO: NEW SOLVENCY REGIME
VALUATION	STATUTORY	MARKET CONSISTENT	MARKET CONSISTENT
UNDERWRITING RISK	YES	YES	YES
FINANCIAL RISK	NO	YES	YES
ALM RISK	NO	YES	YES
OPERATING RISK	NO	YES	YES
RISK MODELING	NO	RISK FACTORS	STOCHASTIC MODELS
RISK AGGREGATION	NO	NO	YES
RISK MEASURE	NO	≈ VaR (97.5%)	VaR (99.5%)
STRESS TESTING	NO	YES	YES
TECHNICAL PROVISIONS	UNEARNED PREMIUM	SUFFICIENCY METHODS	BEL + RISK MARGIN
INVESTMENTS	QUANTITATIVE LIMITS	QUANTITATIVE LIMITS	INVESTMENT POLICY
REINSURANCE	NO	CREDIT RISK	CREDIT RISK
CORPORATE GOVERNANCE	NO	YES	YES
INFORMATION DISCLOSURE	NO	YES	YES

FINAL IMPLEMENTATION PROCESS

APRIL 2013 - APRIL 2015

IMPLEMENTATION MEASURES (CUSF)

SECONDARY REGULATION

- Secondary regulation derived from the new Insurance Law.
- It comprises all the regulatory mesures that will be in force on April 4, 2015.
- A comprehensive consultation process was introduced.

QUALITATIVE IMPACT STUDIES (EIC)

GAP ANALYSIS

- Gap analysis with respect to the corporate governance and disclosure requirements considered in the new Insurance Law.
- A total of 3 studies complemented the secondary regulation's consultation process.

QUANTITATIVE IMPACT STUDIES (EIQ)

MODELS VALIDATION AND CALIBRATION

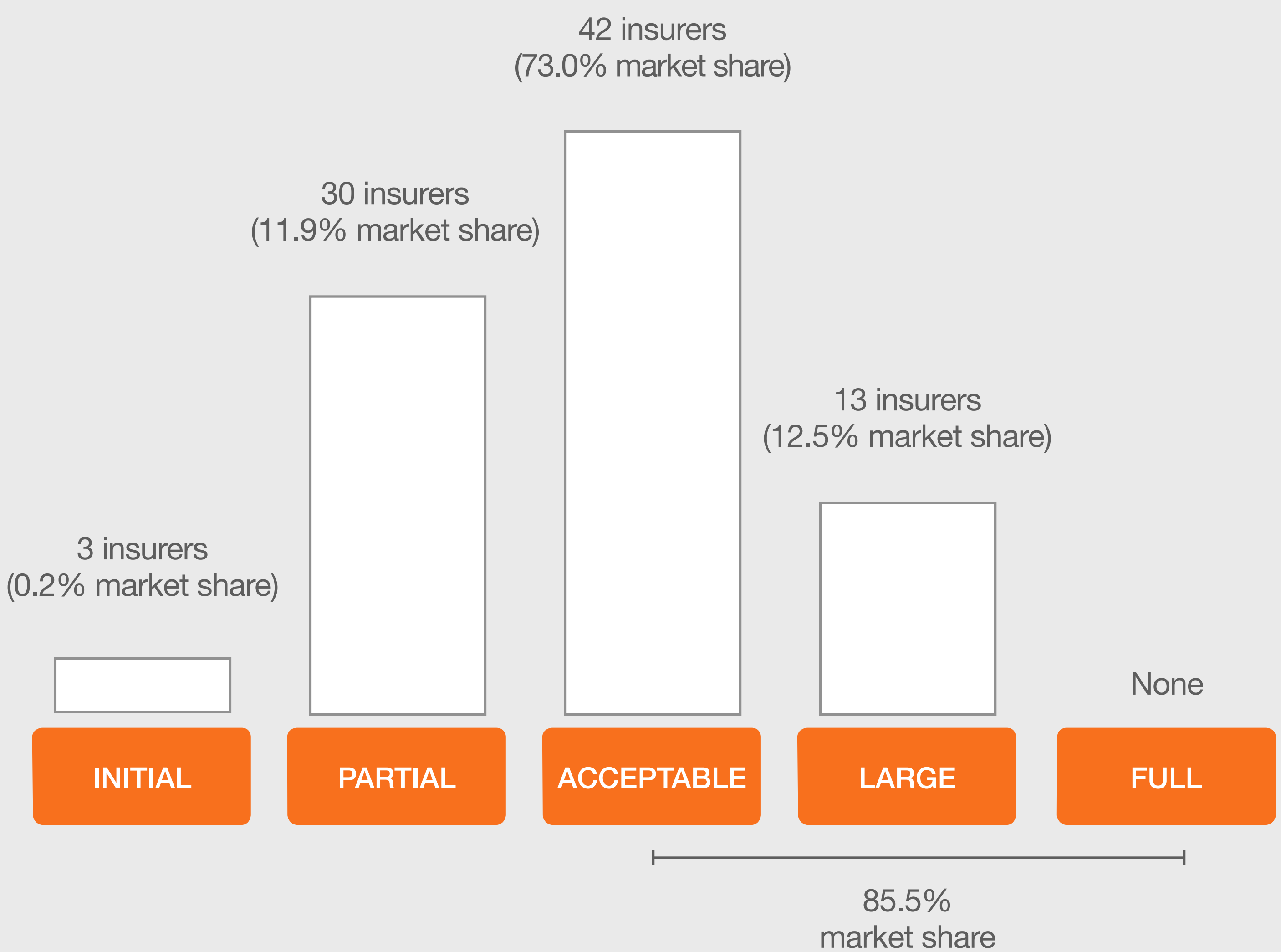
- Validation and calibration of the models used as part of the Standard Model for the SCR calculation.
- A total of 5 studies (3 already completed) complement the secondary regulation's consultation process.

QUALITATIVE IMPACT STUDIES (EIC)

	EIC-1 JUL-2013	EIC-2 FEB-2013	EIC-3 JUL-2014	TO COMPLETE FULL IMPLEMENTATION
CORPORATE GOVERNANCE	64.5%	67.5%	72.4%	6.8 months
RISK MANAGEMENT	58.5%	60.1%	62.0%	8.8 months
INTERNAL CONTROL	54.9%	56.5%	60.4%	7.0 months
INTERNAL AUDIT	63.1%	67.7%	71.8%	5.1 months
ACTUARIAL FUNCTION	62.5%	65.5%	68.5%	7.0 months
FIT & PROPER	67.3%	71.9%	77.5%	6.0 months
BOARD COMMITTEES	46.9%	51.0%	57.6%	6.6 months
OUTSOURCING	55.7%	57.8%	62.8%	5.8 months
INFORMATION DISCLOSURE	57.8%	60.5%	66.6%	6.6 months
TOTAL	57.8%	60.6%	64.9%	6.8 months

SOURCE: CNSF, EIC-3

QUALITATIVE IMPACT STUDIES (EIC)



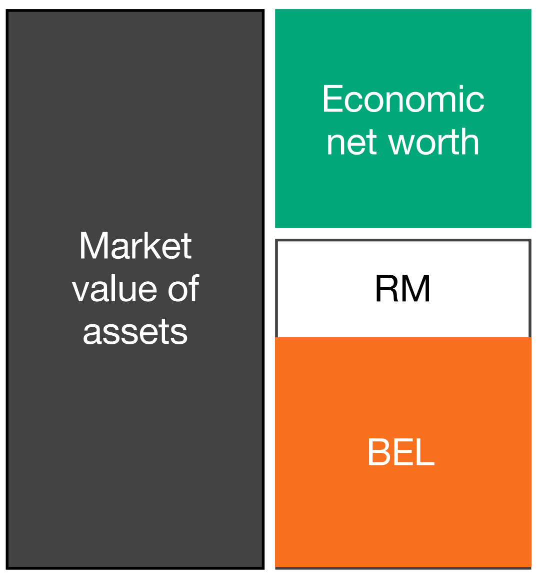
EIC-3 (Total)	
OVERALL PROGRESS	64.9%
AVERAGE IMPLEMENTATION TERM	6.8 months

EIC-3 (Top-10)	
OVERALL PROGRESS	72.4%
AVERAGE IMPLEMENTATION TERM	6.0 months

SOURCE: CNSF, EIC-3

QUANTITATIVE IMPACT STUDIES (EIQ)

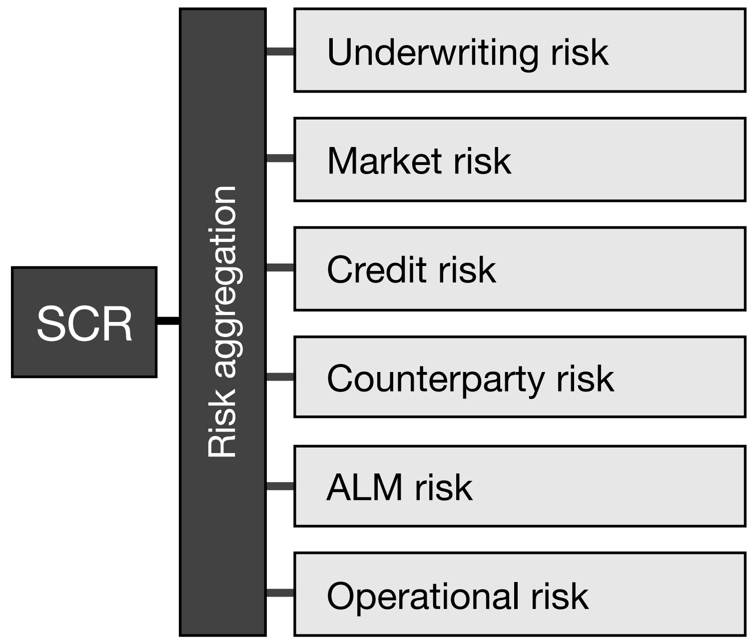
ECONOMIC BALANCE SHEET



Market consistent valuation of the different items considered in the balance sheet.

An appropriate asset-liability matching reduces possible volatility in the balance sheet.

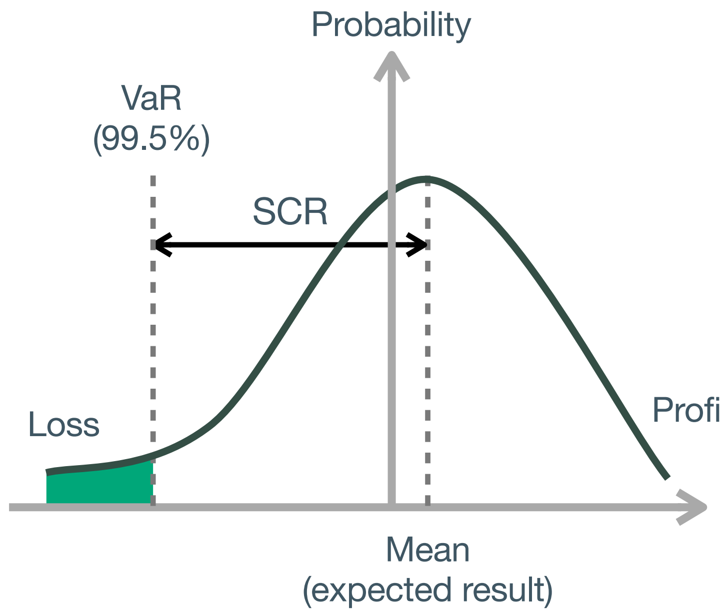
RISK CATEGORIES



It considers all the risks an insurer is exposed as part of its operation.

There is risk aggregation (underwriting and financial risks) in order to reflect the benefits from diversification, mitigation and compensation of risks.

PROBABILISTIC MEASURE



Risk measure based on a VaR level of 99.5%.

A 0.5% default probability in a one year time horizon.

ELEMENTS OF PROPORTIONALITY

NATURE, SCALE AND COMPLEXITY

QUANTITATIVE ELEMENTS

PILAR I

- Choice of BEL method for calculation of technical provisions (or the use of the statutory/ simplified method).
- Choice of the Standard Model or an internal model for the calculation of the solvency capital requirement (SCR).

REVISION AND CONTROL

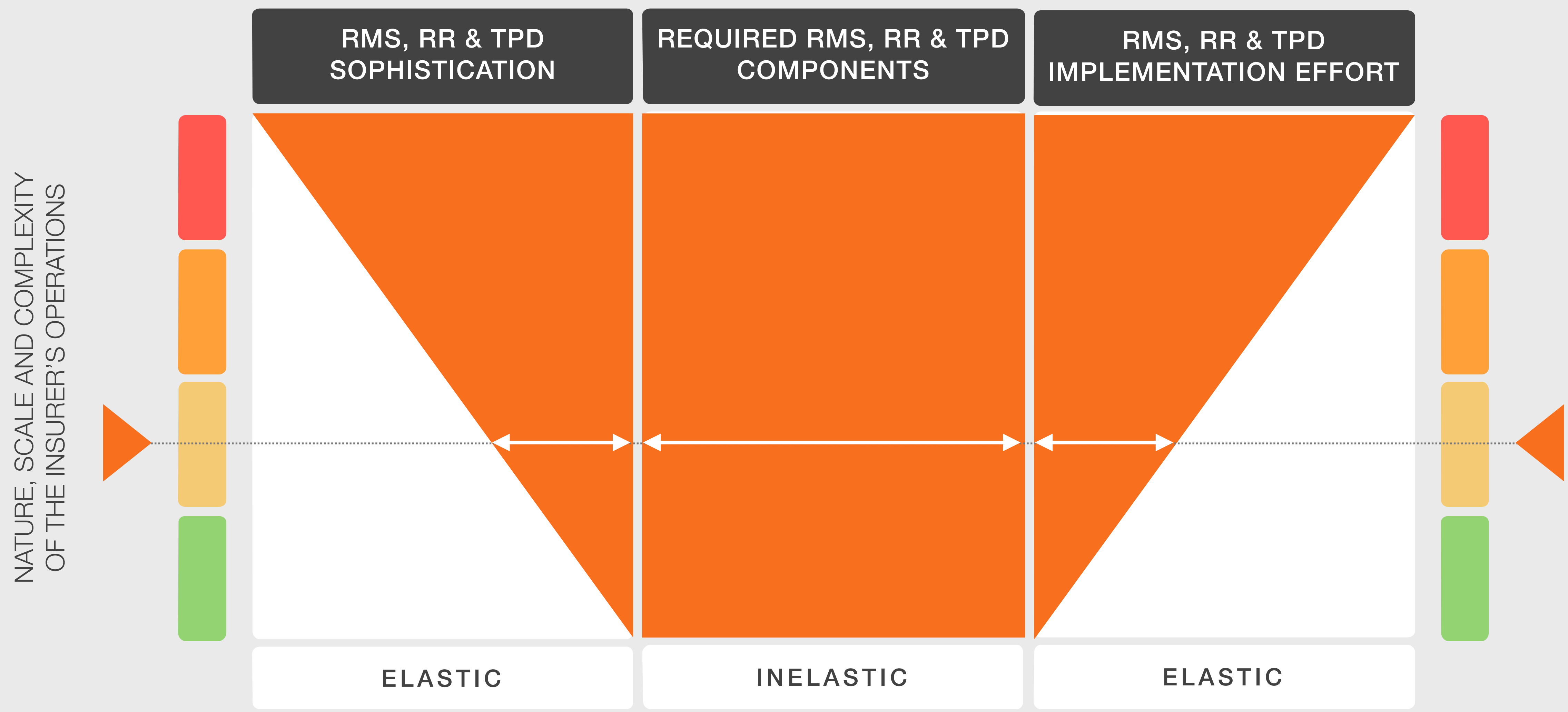
PILAR 2

- Non-prescriptive definition of the specific features of the corporate government system.
- Implementing measures focused on functions to be performed and not on the size of the organisational structures.
- Risk management system (RMS) based on the nature, scale and complexity of the insurer's operations.

MARKET DISCIPLINE

PILAR 3

- Regulatory reporting (RR) and transparency and public disclosure requirements (TPD), according to the nature, scale and complexity of the insurer's operations.


RMS, RR & TPD SOPHISTICATION
REQUIRED RMS, RR & TPD COMPONENTS
RMS, RR & TPD IMPLEMENTATION EFFORT
NATURE, SCALE AND COMPLEXITY OF THE INSURER'S OPERATIONS
ELASTIC
INELASTIC
ELASTIC

SOURCE: EY-UK

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A dynamic insurance market that is gaining momentum with the estructural reforms of the Mexican economy.

B

A new solvency regime that will be the foundation for the sound and efficient long-term growth of the Mexican insurance industry.

C

A challenge to introduce an internationally-aligned solvency regime without creating unnecessary operating stress in the market place.

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