

# Global Trends in Risk-based Supervision

## Industry View

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# Outline

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- Liberty Mutual Insurance – global company; local insurer
- Trends in Risk-based Supervision
  - U.S. – group focus, harmonization, cooperation, capital assessment
  - IAIS – group supervision, convergence, comparability, capital standard
- IAIGS...the new SIFIs?

# Liberty Mutual: Global Company – Local Insurer

2013 Revenue: \$38.5 billion

## Europe

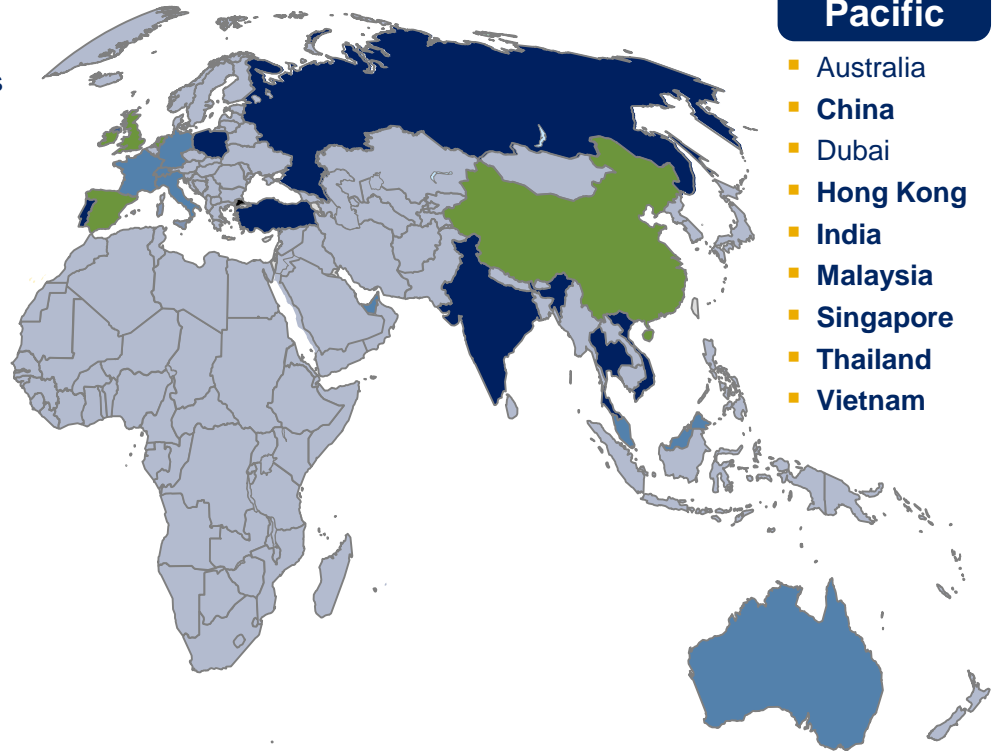
- France
- Germany
- Ireland
- Italy
- Netherlands
- Poland
- Portugal
- Russia
- Spain
- Switzerland
- Turkey
- U.K.

## Asia Pacific

- Australia
- China
- Dubai
- Hong Kong
- India
- Malaysia
- Singapore
- Thailand
- Vietnam

## Americas

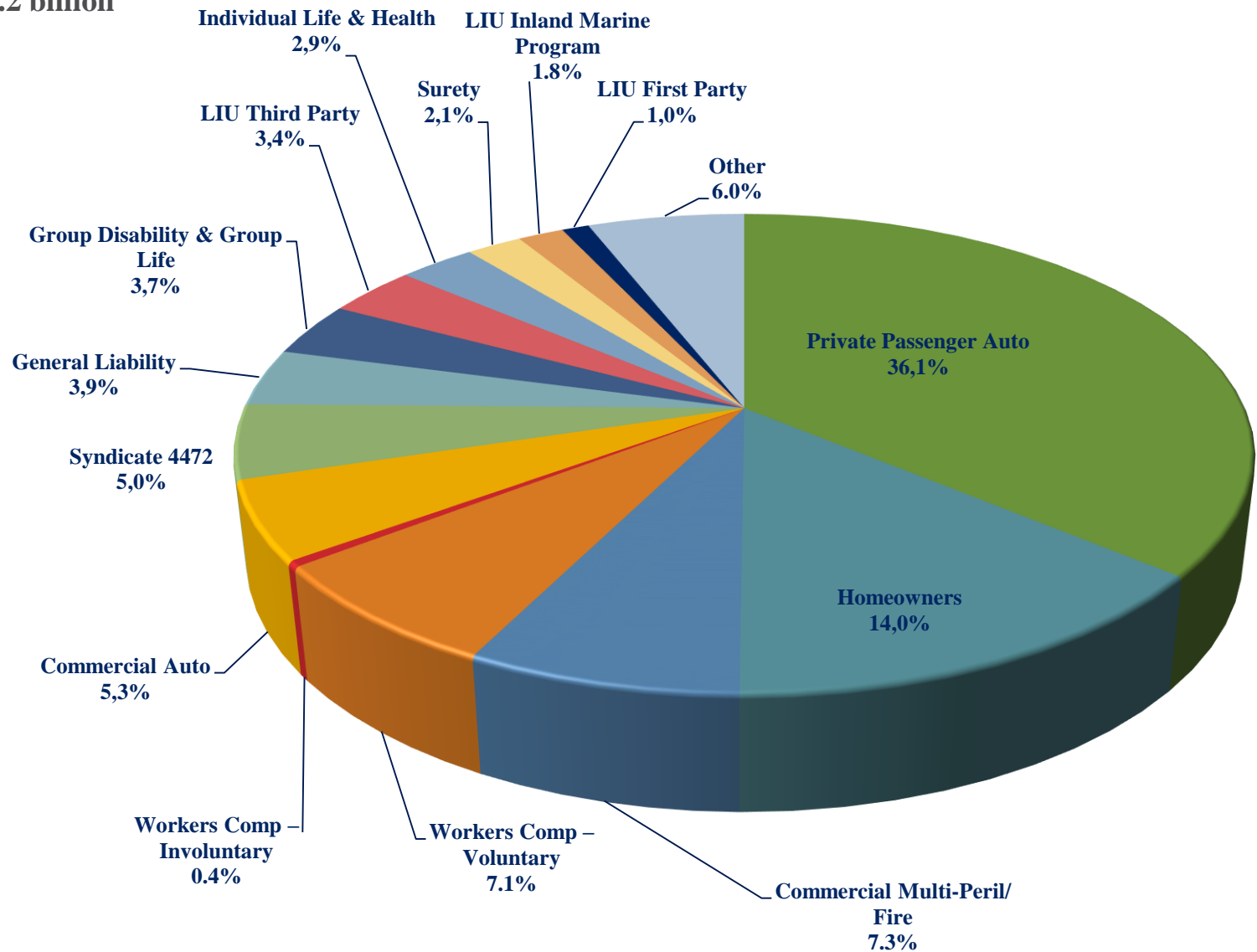
- United States (HQ)
- Argentina
- Brazil
- Canada
- Chile
- Colombia
- Ecuador
- Puerto Rico
- Venezuela



- Headquarters
- Liberty International (Local Operations)
- Global Specialty (LIU & Specialty Markets)
- Liberty International & Global Specialty

# Liberty Mutual: Diversified P&C Insurer

2013 NWP: \$35.2 billion



# Trends in Risk-based Supervision: United States

## State Regulation

All

Policy holder Protection

- RBC
- ORSA
- Coordinated Financial Exams
- Supervisory College
- Rating Agencies
- Guaranty Funds

## Twin Peaks Regulation

SIFIs

Economic System Protection

- State regulation, as above, plus...
- Dodd-Frank
  - “enhanced prudential regulation” by Federal Reserve
  - resolution authority by FDIC

## Dual Regulation

SLHCs

Turf Protection

- State regulation, as above, plus...
- Dodd-Frank
  - Collins amendment
  - Brown-Johannes amendment

# Trends in Risk-based Supervision: IAIS

More Questions than Answers

Policyholder  
or  
Financial  
System  
Protection?



## Group Supervision...Purposeful or Pipedream?

- Coordination or Control?
- Authority of Local Regulators?
- Financial Regulation and Market Regulation?

## Capital Standard or Double Standard?

- Target Capital or Capital Assessment?
- Risk-based or Check the Box?
- Use of Internal Model?
- Comparability or Consistency?
- Competitive Effects in Local Markets?

# IAIGs...the new SIFIs?

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## **SIFI/G-SII**

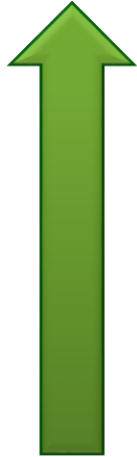
- Explicit enhanced prudential measures; risk to larger economy...DFA, FSB
- Policyholder protection not enough
- However, concerns about designation process (FSOC/FSB) remain

## **IAIG**

- No legislative justification
- No consultative justification (only metrics are size and footprint)
- Confuses geographic diversity with systemic risk
- Potential to disrupt local markets
- Risk of Twin Peaks/Dual Regulation

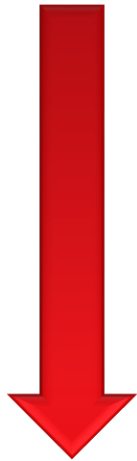
# Conclusions

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## **Global, group-focused supervision is important, positive trend**

- ComFrame
- MHCA – Model Holding Company Act
- Supervisory College
- ORSA
- Risk-based capital assessment



## **Trend becomes negative if...**

- Group-focused leads to group capital
- Legal entity regulation weakened
- Capital standards don't respect national differences
- “Risk-based” means “check the box”