Global Trends in Risk-based Supervision: MAPFRE's view

Esteban Tejera
First Vice-Chairman and
General Manager, MAPFRE S.A.

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MAPFRE

1. MAPFRE: IAIG

2. LOOKING IN THE MIRROR

3. SUPERVISORY GOALS: OUR PERSPECTIVE

4. CONCLUSIONS

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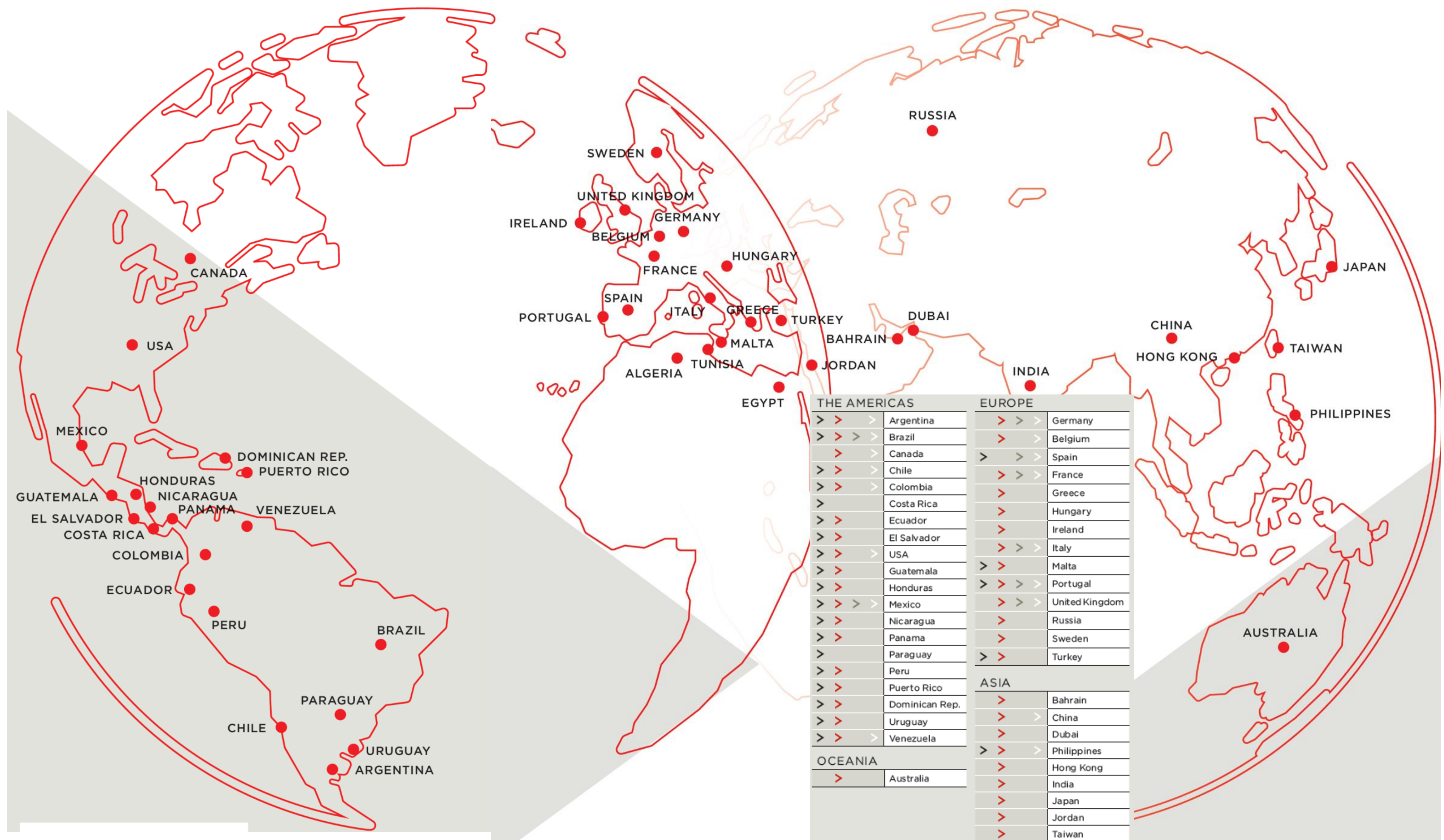

THE AMERICAS

Direct Insurance	Asistencia	Global Risks	Reinsurance	Country
>	>		>	Argentina
>	>	>	>	Brazil
	>		>	Canada
>	>		>	Chile
>	>		>	Colombia
>				Costa Rica
>	>			Ecuador
>	>			El Salvador
>	>		>	USA
>	>			Guatemala
>	>			Honduras
>	>	>	>	Mexico
>	>			Nicaragua
>	>			Panama
>				Paraguay
>	>			Peru
>	>			Puerto Rico
>	>			Dominican Rep.
>	>			Uruguay
>	>		>	Venezuela

OCEANIA

Direct Insurance	Asistencia	Global Risks	Reinsurance	Country
	>			Australia

EUROPE

Direct Insurance	Asistencia	Global Risks	Reinsurance	Country
	>	>	>	Germany
	>		>	Belgium
>		>	>	Spain
	>	>	>	France
	>			Greece
	>			Hungary
	>			Ireland
	>	>	>	Italy
>	>			Malta
>	>	>	>	Portugal
	>	>	>	United Kingdom
	>			Russia
	>			Sweden
>	>			Turkey

ASIA

Direct Insurance	Asistencia	Global Risks	Reinsurance	Country
	>			Bahrain
	>		>	China
	>			Dubai
>	>		>	Philippines
	>			Hong Kong
	>			India
	>			Japan
	>			Jordan
	>			Taiwan

AFRICA

Direct Insurance	Asistencia	Global Risks	Reinsurance	Country
	>			Algeria
	>			Egypt
	>			Tunisia

> DIRECT INSURANCE
> ASISTENCIA
> GLOBAL RISKS
> REINSURANCE

	Brazil	USA	Spain	Turkey	Philippines
Birth rate:	15.13 ‰	12.6 ‰	9.7‰	17.135 ‰	24.59 ‰
Mortality rate <5y:	14.4‰	7.1‰	4.5‰	14.2‰	29.8‰
Inflation:	6.2%	1.46%	1.41%	7.49%	2.3%
Unemployment:	6.9%	8.1%	25.2%	9.2%	7%
Urban population:	84.87%	82.625%	77.57%	72.33%	49.12%
Telephone lines:	22.3%	44.41%	41.87%	18.73%	4.07%
Internet users:	49.85%	81.03%	72%	45.13%	36.24%

Source: The World Bank

Different markets, different clients and different needs

SOLVENCY IS ONE OF OUR VALUES

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1. MAPFRE: IAIG

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 2.1 What we see

 2.2 What we should not see

3. SUPERVISORY GOALS: OUR PERSPECTIVE

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What we see:

Risk Managers

- We manage a wide range of risks:
  - ✓ Insurance risks: life/non-life; long-tail/short-tail; retail/industrial risks; insurance/reinsurance…
  - ✓ Financial risks: credit, equity, property,…
  - ✓ Other external risks: counterparty, operational risks…
- We are able to adapt our products and management to the different economic frameworks and clients’ needs:
  - ✓ E.g.: Inflationary markets in some South American countries and low yield environment in the EU
  - ✓ Flexibility is key to adapt our business: build close customer relationships

Causal relationship between insurance and growth

- Promoting financial stability, inter alia, mobilizing savings: largest institutional long-term investors, easing Government, corporate and infrastructure funding
- Facilitating trade and commerce: credit and suretyship (origin of insurance)
- Managing risks more efficiently through accumulation. We take risks from retail and industrial business and facilitate entrepreneurship (covering risks from SMEs)
- In line with EC 2020 priority, we create and support **smart, sustainable and inclusive growth**

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What we should not see:

A bank

- Not all financial intermediaries' businesses are equal.
- The variety of risks that insurers assume are broader and more diversified.
- We have more flexibility for adapting insurance products to our clients' needs.
- Maturity transformation does not create instability.
- Liquidity risk is not material as we invest in liquid assets.
- Traditional insurance business is not systemic.

Regulators

- But still regulatory risk is the main risk.
- But we hire more people for our regulatory departments than for underwriting/claims. We should concentrate our efforts on our business in order to create sustainable growth.
- Long-term investments require a predictable framework. Changes in insurance regulatory frameworks do not help investing over the long term.

Producers of burdensome information

- But we have to prepare duplicated information that no one will read.

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3.1 Pillar I

3.2 Pillar II

3.3 Pillar III

4. CONCLUSIONS

Pillar I: Capital requirements

Promote policyholder protection

- An adequate level of capital requirement is a trade-off between:
  - ✓ The need to have appropriate hedges to face unexpected risks.
    - ✓ Under Solvency I, the undertakings that went bust were well below 1 each 200.
    - ✓ These failures were caused by running non-traditional insurance activities and lack of good management.
  - ✓ Facilitate access to household and industrial protection. Excessive level of protection could jeopardize insurers' role in creating sustainable growth and financial stability.
- Capital requirements should:
  - ✓ Reflect risks held by the undertaking.
  - ✓ Reflect how the undertaking is managed: risk mitigation techniques and management actions should be taken into account.
  - ✓ Consider the business model in order to avoid unintended consequences on products: e.g. Long-Term Guarantees.
  - ✓ Consider different environments in different countries. E.g. approaches to tackle low yield environments cannot be implemented in inflationary economies.
  - ✓ Be carefully calibrated and tested in order to avoid market distortions.

Pillar I: Capital requirements

Avoid

- ✓ Applying the same solution for all financial service providers. Basel III does not fit for insurers:
  - While banking risks are similar worldwide, this is not the case for insurance risks.
  - Same capital requirements for different business models create wrong incentives and inefficiencies.
- ✓ The same capital requirements should be required to all participants in the market:
  - Capital requirements should not penalize risks out of the European Economic Area: Catastrophe risk is over-calibrated.
  - Different treatment depending on the legal form. Avoid shadow insurance.
  - Distort business model. An example: Matching adjustment portfolios are not managed as if they were different undertakings, but draft delegated acts impose more requirements than ring-fenced funds:
    - Own funds are not calculated separately. They only include assets and liabilities that are matched.
    - There is no lack of transferability to absorb losses.
    - Artificial creation of risk-fenced funds thwart good risk management.

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Pillar II: System of Governance and Risk management

Promote good risk management

- We promote good risk management as the best way to protect policyholders.
- Insurance failures are usually caused by bad governance practices. Not because insurers fail to fulfill capital requirements.
- We appreciate efforts and good work on Governance and enterprise risk management:
  - ✓ Written policies including tasks, responsibilities and communication procedures
  - ✓ Fit & Proper requirements
  - ✓ Relevance of the three lines of defense
  - ✓ ORSA

Avoid

- Transforming risk management on a set of bureaucratic layers with excessive documentation requirements.
- Legal uncertainty and unlevelled playing field:
  - ✓ Solvency II is a Maximum Harmonization Directive and Requirements are included in the Directive and delegated acts.
  - ✓ Guidelines should not include new requirements (not even in the explanatory text).
  - ✓ Supervisors should not ask for more requirements.
- Running ORSAs may be a very good risk management tool, but ORSAs should still be an OWN Assessment. Avoid that ORSAs become ERSAs (EIOPA Regulatory Solvency Assessment).
  - ✓ Guidelines should not impose assessments. Otherwise they will not be used as a Risk Management tool.

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Transparency

- We fully support transparency.
- We support clear and relevant information that facilitates decision-making to our stakeholders, including supervisors.

Avoid

- Too much information is ineffective.
- Avoid duplication of information through different sources: Solvency II and IMD requirements should be aligned.
- Information for supervisors should also be relevant for supervisory needs.
  - Avoid burdensome documentation and reports that no one will read.
  - Some information should be available to the supervisors on demand instead of preparing it on a quarterly basis.
- National QRTs:
  - Current guidelines are silent on how supervisors should collect QRTs.
  - Development of different templates and formats in different countries hinders the correct functioning of the internal market by imposing barriers for entering into a market. All supervisors should ask for the same templates in the same format.

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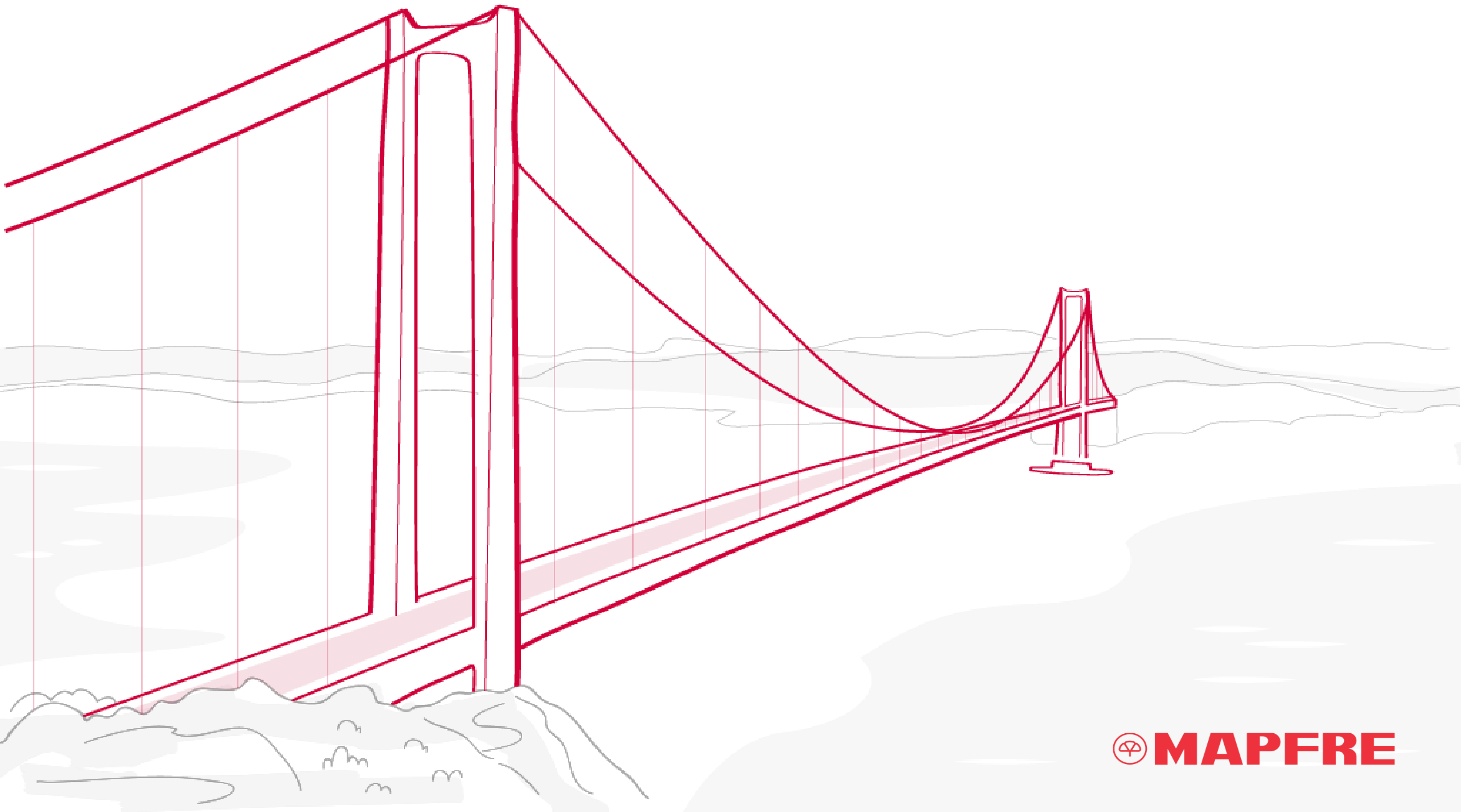
- Insurers contribute to growth when they focus on their business
- Good regulation is not over-regulation:
  - Draft Implementing Technical Standards: 146 pages.
  - Draft Guidelines: 722 pages

And this is only the first Set!!!

Thank you for your attention



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