

Group supervision: colleges of supervisors. A global insurer's perspective

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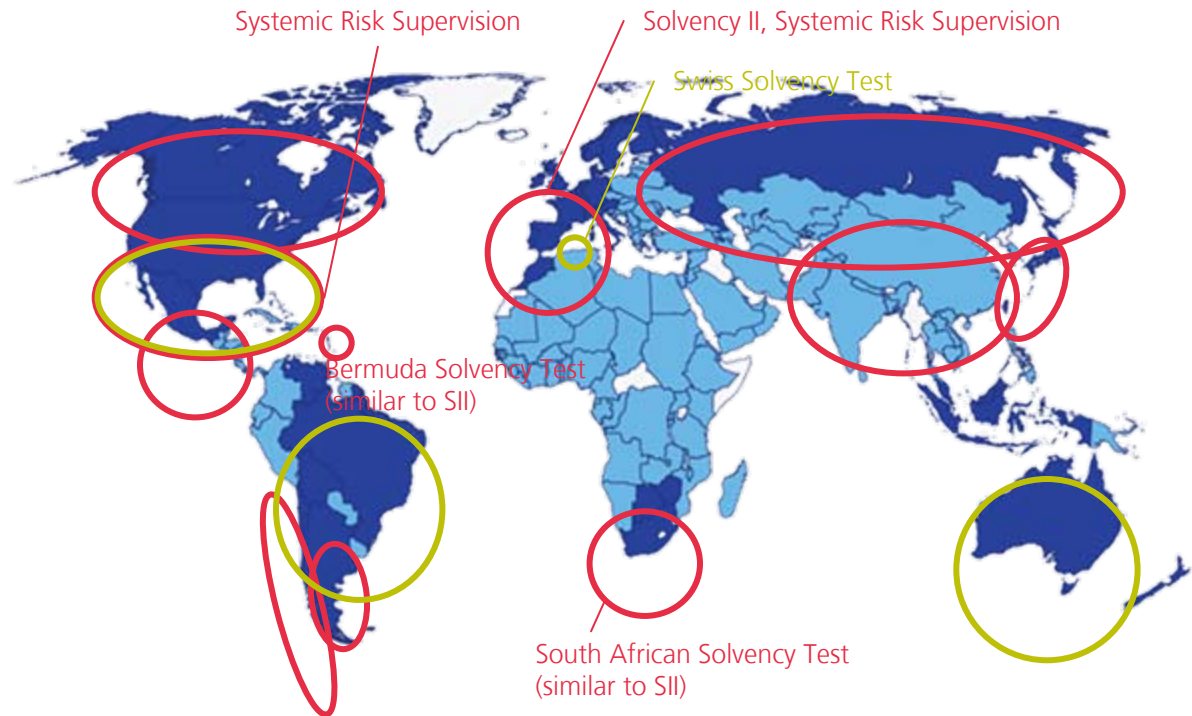
Agenda



- Operating under multiple supervisory regimes
- Zurich's experience with group supervision and supervisory colleges
- Conclusion

The financial crisis has triggered a wave of new regulation and intensified supervision across the globe

- Zurich is a global insurer (> 170 countries)
- International risk transfer is a core dimension for large international insurance groups



Expected substantial changes to insurance regulation
Risk-based supervision already in place

Zurich Presence

Zurich Partners

Supervision may recognize the strength that lies in a well run international insurance group



- Numerous risks may arise in a group context. However, a well managed insurance group is stronger than the sum of its parts
- In order to maintain balance sheet strength, international groups need the ability to pool capital and liquidity sources. This is necessary to overcome the legal and practical barriers to fungibility and to realize diversification benefits (fundamental principles of insurance; risk pooling)
- Central governance processes and risk culture are also a source of strength

International groups need consistent group-wide governance and risk management processes

- **Consistent risk management processes throughout the group**
 - These processes must include a good balance of bottom-up and top-down view
 - The accumulation of supervisory regimes that an international insurance group is subject to should not create contradictions or hinder consistent group-wide processes
 - The current regulatory reform agenda highlights this risk. The key topics (e.g. remuneration systems, corporate governance, group supervision) require a group-wide back-bone and consistent concepts across the group
- **Good regulation is smart regulation, not necessarily more regulation**
 - Focus on risk-based supervision
 - Promote common principles
- **Overlapping layers of group supervision and sub-group supervision are not very efficient and should be avoided**

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Ambitious reform agenda since the financial crisis

G20 Action Plan (November 2008) – Reinforcing International Cooperation

“Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms (...)”

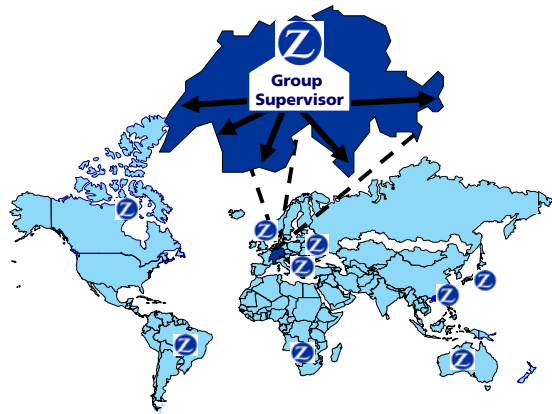
IAIS ComFrame Concept Paper (July 2011) :

“ In order to fully understand the operations and risks of an IAIG and its entities in the involved jurisdictions, any one supervisor needs to cooperate and coordinate with other supervisors (...)”

ComFrame will provide a framework to assist supervisors to holistically address the risks arising in IAIGs (...)”

Quo vadis group supervision?

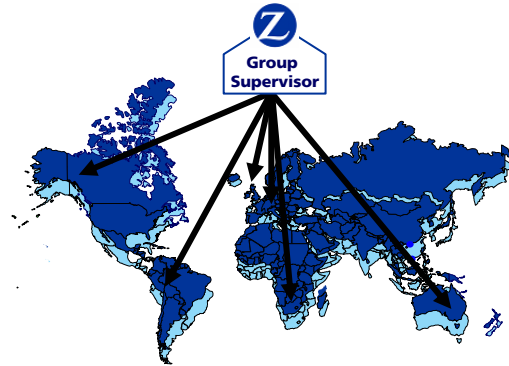
TODAY



Supervisory College

Nationally based, holistic group supervision

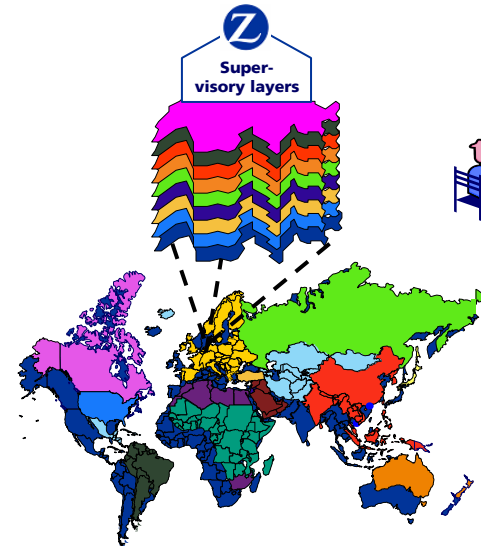
TOMORROW (?)



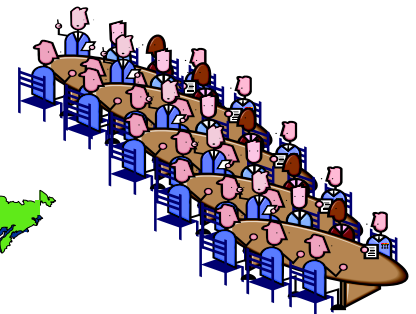
Globally coordinated and harmonized system



Supervisory College

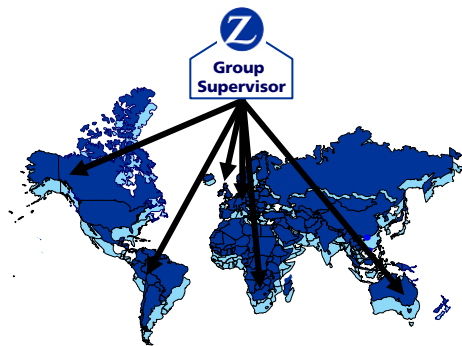


System with different group supervisors (illustrative)



Supervisory Colleges

We are supportive of the efforts for convergence of group supervision and international cooperation amongst supervisors ...



Globally coordinated and harmonized system



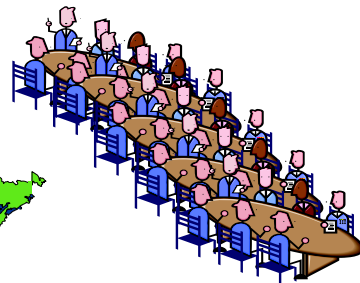
Supervisory College



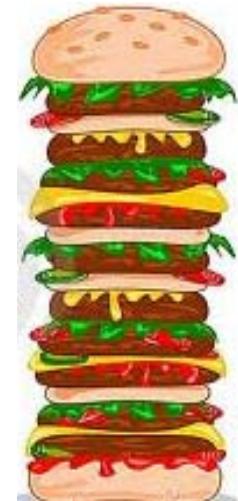
"The lean and healthy version"



System with different group supervisors (illustrative)



Supervisory Colleges



"The fat and un-healthy version"

... in the expectation that it will increase efficiency and avoid duplication.

Zurich's experience with group supervision

The four building blocks



Our positive experience with group supervision builds on a number of elements:

- (1) A solid, risk based supervisory framework (with the SST as a group wide solvency approach)
- (2) A competent group supervisor who is engaged in a critical and close dialogue with the company
- (3) A functioning supervisory college and professional interactions, and
- (4) Active engagement by management

(1) A solid risk based supervisory framework



- The Swiss Solvency Test (SST) is a demanding risk based solvency standard for our Swiss legal entity and the group solvency
- The SST is conservative, but allows a meaningful comparison across the group
- The comprehensive reporting (structure, organization, financials, intra-group transactions, risk concentrations, etc.) helps the group supervisor gain a holistic view
- The group supervisor applies a top-down view to all elements of group governance (risk management, corporate governance, internal audit, etc.)

(2) A competent group supervisor, engaged in a critical and close dialogue



- Group supervision is about obtaining a holistic view from a supervisory perspective
- Insights into risks and developments require a constant and critical dialogue with the group
- These are challenging requirements for the supervisory team (and for the company...)

(3) A functioning supervisory college and professional interaction



- It takes time to build trust and common understanding amongst supervisors
- Agenda management by the group supervisor is key
- Preparation and coordination of information flow by the group supervisor is key

(4) Active engagement by management



- Pro-active, open and responsive engagement in the interaction with the group supervisors and at the supervisory college
- Top management commitment: the tone from the top matters
- Active involvement of practically all function heads (Finance, Risk, Investments, Audit, Legal, Actuarial, etc.)
- Single access point for regulatory affairs at Group level

Supervisory colleges are an important part of group supervision

Supervisory colleges as

„not just a meeting of supervisors, but rather the foundation upon which involved supervisors are able to communicate and cooperate on supervisory actions” (ComFrame Draft July 2012, M3E4-1-1-3, 154 f)

- Group supervision also requires an empowered group supervisor
- Successful group supervision requires a proactive culture of engagement on both sides

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Conclusion



- Regulatory systems need to be coordinated and harmonized - no multi-layering. International convergence must increase efficiencies and eliminate duplications
- Successful group supervision requires an empowered group supervisor and a proactive culture of engagement on both sides
- Colleges are an important part of group supervision and require an appropriate level of seniority and preparation of participants to ensure a professional and relevant interaction and a meaningful information exchange
- The work towards a more consistent approach to insurance regulation should continue. The insurance markets need increased comparability and transparency

Thank you! – Questions?



Zurich HelpPoint