

Risk Management in the Insurance Sector : is the new regulation wave so promising?

Symposium Growth and global imbalances *Chinese and European approaches*

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By

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Insurance and the « solvency 2 » approach (1/5)

- Insurance activities → ALM approach
 - Reconsideration at the EU level of the risk-exposure reporting made by insurers
 - Agenda : Nov. 2011 / Begin'g of 2012
 - Project in parallel with the IFRS 4 standard Phase II project
 - The « Solvency 2 » project currently considered by other geographical areas (South Africa, Latin America,...)
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Insurance and the « solvency 2 » approach (2/5)

- Fundamental review of the capital adequacy regime for the EU insurance industry
 - ALM approach
 - Establishing a revised set of EU-wide capital requirements and risk management standards
 - Replacing the current solvency requirements
 - Adopts an economic approach of B/S and a solvency regime based on prospective vision of risk underlying insurance activities
 - Divergent from the prior accounting-based view
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Insurance and the « solvency 2 » approach (3/5)

- Key challenges (1/2)
 - Implementing a consistent approach to risk governance across the enterprise
 - Really promising?
 - Aggregating risk at the line of business and group level
 - Too detailed and unpractical at an overview level
 - Comparing quantitatively and qualitatively derived risk information
 - How combining both views in key performance indicators (SCR, NAV, BSCR)?
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Insurance and the « solvency 2 » approach (4/5)

- Key challenges (2/2)
 - Developing an internal model for risk management that includes an Own Risk and Solvency Assessment (ORSA) that can be shared with regulators
 - Shared or imposed to the regulators?
 - Disclosing publicly, at least annually, essential information on solvency and financial condition
 - What for is the message is truncated and hardly understandable?
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Insurance and the « solvency 2 » approach (5/5)

- Conclusions : the underlyings of this regulation reform are twofold:
 - The SII regulation implies to process with a huge amount of data
 - For internal and external users
 - Identifying, gathering, cleaning, aggregating and analysing data (pooling data like in the UK)
 - Comparing entities business models and internal modelling processes
 - Who is the recipient of the message? The regulators? The policyholders? The shareholders? The top-management?
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