MISSION STATEMENT
GLOBALLY LEADING RESEARCH ON INSURANCE REGULATION IN FRANKFURT
Recognized as the leading scientific institution in the area of insurance regulation, the ICIR, as an integral part of the Goethe University Frankfurt am Main, fosters high-quality international, independent research on insurance regulation and market solutions to regulatory questions.

INTERNATIONAL AND INTERDISCIPLINARY PLATFORM
The ICIR provides an international and interdisciplinary platform for researchers, the financial industry, regulatory authorities, and policymakers to exchange ideas and seek answers to regulatory issues.

HIGH-LEVEL EXECUTIVE EDUCATION
In order to increase professional knowledge in the field of insurance regulation the ICIR offers high-level executive education courses on insurance regulation topics.

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HELMT GRÜNDL

Review and Outlook

A cordial welcome to the readers of the third annual report of the International Center for Insurance Regulation! Behind its long and busy and successful year. The build-up of the ICIR is now – after three years of operation – finally complete. During the reporting period, we were able to hire two further research assistants, Junior-Professor Jens Gal has taken up his work, and – after his retirement as Head of Unit in the EU commission – Prof. Karel Van Hulle has intensified his commitment at the ICIR. He and Prof. Hartmut Nickel-Waninger have developed a lecture on “Insurance and Regulation” in our bachelors’ program which was very well received by the students during the last summer term. It is well worth mentioning that for many years, Prof. Hartmut Nickel-Waninger has generously offered lectures in insurance economics at Goethe University.

Insurance regulation and supervision are facing challenging times. After more than a decade of preparation, Solvency II finally seems to be hitting the home stretch. However, the present low interest phase is bringing about major problems for the life insurance industry. One of the big issues during the last year was how the problems of providing long-term guarantees in life insurance contracts influence the final shape of Solvency II. The ICIR has contributed to this discussion and to further regulatory topics in many ways through our research projects, through presentations of European policymakers at the ICIR, and through presentations and press articles by ICIR members.

The current annual report provides an overview of last year’s research activities, of our efforts to provide a platform for the exchange of ideas between regulators, the insurance industry and academia, and of our teaching activities at Goethe University and beyond.

The goals for the coming year are to attain a further increase in our research visibility, to which the participation in the Center of Excellence S-A-F-E will positively contribute. We will refine the existing regular events such as the “Seminar on Insurance and Regulation” and the international annual conference, but we will also be open to developing new methods and formats in our endeavour to improve insurance regulation and supervision.

The success of our center would not be possible without the commitment of many people and institutions. First of all, I would like to thank our team at the ICIR. Without their help and commitment none of our goals could have been achieved. As part of the Goethe University, the ICIR receives considerable support from the University’s Presidential Board and from its various institutions. I am deeply indebted to my colleagues of the ICIR’s Executive Board, Karel Van Hulle, Manfred Wandt and Wolfram Wrabetz, for their close and trusting cooperation. The Advisory Board has provided invaluable input to the development of our center. I would also like to thank EIOPA for the excellent cooperation in our joint annual conference on “Global Insurance Supervision”. Last but not least, I wish to thank the sponsors of the ICIR, the GDV and the State of Hesse, for their generous funding and their great commitment.

KAREL VAN HULLE

What Can the ICIR Do?

Having dealt with regulation for about 38 years, I have often wondered why it is so difficult for regulators to find a ready solution for their problems in academic research. I believe that the reasons are to be found both in the way regulation is being developed and in the manner in which academic research takes place today. Regulators do not necessarily want to find the right answer to their problem. They want a solution that is acceptable for the parties involved in the process. Academics attempt to find the right answer to the problems that they have identified. They are not necessarily concerned with the practical consequences of their research for the regulatory process. I believe that the ICIR – by focusing on insurance regulation – can contribute to bringing academics and regulators closer to each other. As insurance regulation will increase in the years to come, a good co-operation would certainly be desirable.

I have often been surprised how little people from outside the insurance industry know about insurance. Insurance is not felt to be exciting. It is too technical and it is not easy to explain. There is no simple insurance product. In addition, people tend to think about insurance when it is too late and if they have been insured, they often have to struggle to receive an adequate compensation for their damage. Non-life insurance is still often seen as a sort of investment, whilst life-insurance is often perceived as only an investment difficult to distinguish from a pure banking product. As the importance of insurance – both life and non-life – is likely to increase in the future, it is important to explain more clearly what insurance is and what it is not.

Here again, the ICIR can contribute to making insurance more understandable to a broader public. This can be done through the organization of conferences, presentations and dialogues between experts and between experts and outsiders. The Karel’s Club is one way to have a high-level discussion between experts from industry, supervisory bodies and academics. Conferences can bring together people from different backgrounds to exchange views and to learn from each other’s experience. Presentations by experts from the insurance sector can help to make insurance more easily understood by a wider audience.

As the ICIR is based in the House of Finance at the heart of Goethe University, it is obvious that it must also make an effort to help in education. It is important to attract students to study insurance and to do so ideally in a multi-disciplinary way. The presence of EIOPA in Frankfurt can be used to stimulate education and training, both for young academics and for supervisors.
The ICIR is generously sponsored by the German Insurance Association (GDV) and the State of Hesse. Each of the sponsors provides 250,000 € per year for a planned funding period of 10 years.

The financial support of the Frankfurt Association for the Promotion of the Insurance Sciences (Förderkreis für die Versicherungswissenschaft an der Johann Wolfgang Goethe-Universität Frankfurt am Main e.V.) and the Goethe Finance Association e.V. is very much appreciated.

The ICIR is located in the House of Finance on the Campus Westend of the Goethe University Frankfurt. There could be no better choice of location, since Frankfurt has become the European center for the regulation and supervision of financial markets. Being a seat of the European Central Bank, the European Systemic Risk Board and the financial and insurance markets. Being a seat of the European Central Bank, the European Systemic Risk Board and the Financial Law, especially corporate and financial law. Altogether, 170 scholars conduct research and offer courses at the House of Finance, among them 30 professors, – one of the largest research groups on financial and monetary issues in Europe.

Goethe University, in addition, provides a unique interdisciplinary scientific environment in the House of Finance. As one of the major institutions of higher education, Goethe University is committed to providing a wide spectrum of disciplines in research and teaching, to generating outstanding scientific achievements, and to breaking new ground through interdisciplinary work. In its short but very successful history, it has been awarded 19 Nobel laureates. Researchers at the House of Finance come from the research areas business administration, especially finance, economics, especially money and macroeconomics, and law, especially corporate and financial law. Altogether, 170 scholars conduct research and offer courses at the House of Finance, among them 30 professors, – one of the largest research groups on financial and monetary issues in Europe.

The newly founded Center of Excellence “Sustainable Architecture for Finance in Europe” (S·A·F·E) is also located in the House of Finance. S·A·F·E is a cooperation of the Center for Financial Studies and the Center for Insurance Regulation e.V. The location generates manifold possibilities for co-operation.
FACTS AND FIGURES

Dr. Dirk Höring
Engagement Manager

“Having joined the team of the ICIR by taking over the newly founded Chair (Junior Professor) for European Insurance Law with a special emphasis on Insurance Supervisory Law in November 2012, the last half year proved to be both very productive and enriching for me. Through the ICIR, I have gained admission to a vibrant (scientific) community of researchers, regulators and practitioners, which I regard as second to none on an international level. My gratitude goes especially to Prof. Gründl and his team, who not only welcomed me with open arms, but who have already created multiple opportunities to engage in interdisciplinary discourse. Regarding the possibilities to put forth such interdisciplinary projects – in which aspects of insurance regulation are scrutinized from an economic and a legal perspective – the ICIR seems better equipped than any other scientific entity in Germany if not in the whole of Europe. I am very much looking forward to strengthening this interdisciplinary angle of the ICIR in the forthcoming years and to helping establish the ICIR as an important player in the setting and application of European (and global) insurance supervisory law and standards.”

Dr. Sebastian Schlütter
Research Assistant at the ICIR between 2010 and 2012

“I am very happy to see that the ICIR has developed so successively over the last year and is becoming increasingly established as an important platform for insurance regulation. The key challenge of my new role is to ensure that our company’s internal risk model is used as an important basis for decision making, that our company’s internal risk model is used as an important basis for decision making, and that our company’s internal risk model is used as an important basis for decision making. Prof. Gründl and his team, who not only welcomed me with open arms, but who have already created multiple opportunities to engage in interdisciplinary discourse. Regarding the possibilities to put forth such interdisciplinary projects – in which aspects of insurance regulation are scrutinized from an economic and a legal perspective – the ICIR seems better equipped than any other scientific entity in Germany if not in the whole of Europe. I am very much looking forward to strengthening this interdisciplinary angle of the ICIR in the forthcoming years and to helping establish the ICIR as an important player in the setting and application of European (and global) insurance supervisory law and standards.”

Dr. Dirk Höring

“Last year was an exciting year for me – both academically and professionally. Academically, I have been in close contact with the ICIR and worked with Prof. Gründl on our paper on the implication of cheap-talk for the organization of risk management in financial institutions. Professionally, I have been engaged in multiple strategy topics in the insurance industry, for example the implications of Solvency II for insurers’ asset allocation and profitability improvement efforts in the German P&C business.”

Dr. Sebastian Schlütter

RESEARCH FOCUS
The research interests of the ICIR focus on risk management
and insurance regulation. Specific research topics include, for example:
• Behavioral insurance and product regulation
• Group supervision: optimal capital transfer mechanisms
• Transparency and market discipline in the insurance sector
• Interconnectedness between banks and insurance
• Life insurance in the low-interest-rate environment
• Regulatory policy under multiple objectives
• Rules-based versus principles-based regulation

CURRENT RESEARCH PROJECTS AND WORKING PAPERS

Berlin, F.; Gründl, H.: “The Effect of a Low Interest Rate Environment on Life Insurers”
The life insurance industry is experiencing a challenging capital market. Low interest rates are becoming a great threat to the stability of the industry, especially in those jurisdictions, such as Germany, where products with relative high guaranteed returns sold in the past still represent a prominent share of the total portfolio. Our research project thus aims to assess the effects of the current low interest rate phase on the balance sheet of a representative German life insurer, given the current structure of the assets and liabilities. In order to do so, we generate a term structure of interest rates and stochastic stock market returns to simulate investment returns of a stylized life insurance business portfolio in a multi-period setting. Based on empirically calibrated parameters we can observe the evolution of the life insurer’s balance sheet with a special focus on its solvency situation. We include different capital market scenarios and different initial situations.

This article investigates empirically the impact of enhanced disclosure on the risk decisions of insurers. The improved disclosure provides necessary information for outside stakeholders (e.g. stock investors and policyholders) to monitor insurers’ risk behavior, which thus limits the excess risk-taking of insurers. The disclosure levels and the risk situations of 51 European insurance companies – based on a dataset from 2002 to 2012 – are explored. The results show that enhanced disclosure leads to an increase in capital holding by insurers, particularly by non-life insurers and multi-line insurers.

Glenzer, F.; Gründl, H.; Wilde, C.: “‘And lead us not into temptation’: How the presentation format influences policyholders’ contract choice”
It has become increasingly difficult to compare different life insurance contracts due to their complex design and the large variety of ways product information is presented. Particularly for decision makers with little financial literacy, comparing stochastic future insurance benefit payments is virtually impossible. We attempt to elucidate in an experimental setting which presentation format helps people most to make investment decisions that are in line with their risk-bearing capacity. The results from the experiment have important policy implications regarding the design of standardized product fact sheets.
“Hello, Goodbye: Investment Guarantees and Customer Loyalty”

Investment guarantees are important elements of many financial products. There are products that offer an explicit guarantee such as the minimum guaranteed interest rate of German life insurance and annuity contracts. In addition, the product seller typically formulates additional return expectations that are not legally binding. When promising or building an expectation about a future (stochastic) payoff, the firm faces a trade-off: promising high rates of return could attract more customers but also increases the risk of underperforming. Such underperformance can lead to a decrease in trust on the part of the customers and result in high termination rates from unsatisfied customers or in less new business. We attempt to elucidate, in an experimental setting how many times or by how much a company can underperform before it loses customers or new business and thereby contribute to the field of behavioral finance.

“Optimal Investment Strategies for Interconnected Banks and Insurers in the Presence of Solvency Regulation”

Insurance companies are among the largest institutional investors in Europe. Due to the nature of their business model, life insurers in particular generate a large inflow of premiums and exhibit an accumulation of assets backing insurers’ long-term investments. It is therefore not surprising that insurers are also the largest purchasers of bank bonds owning around 11% of European bank capital. Hence, insurers’ funds constitute a key source of the investment needed to restore growth to the economy. Given the scale of banks’ and insurers’ investments, any shift in their asset allocation caused by reforms of financial regulation could have a distorting effect on their connectedness as well as an impact on financial markets and the whole economy. Our research project thus aims to assess how Basel II/III and Solvency II will affect the stability of this connection by changing the funding patterns of banks as well as the investment strategies of insurance companies. The paper addresses the following questions: (1) How does a bank’s/insurer’s risk-taking behavior depend on regulatory requirements? And (2) To what extent will insurers’ demand for investments in banks change under Solvency II, given potential changes in the banking industry due to Basel II/III? Our results will provide insights about the optimal risk policy in life insurance companies by explicitly taking into account Basel III and Solvency II.

“Participating Insurance Contracts as a Regulatory Tool”

The research goal of this paper is to analyze whether participating insurance policies can be utilized as a possible instrument for solving the regulatory “safety-affordability” goal conflict and for increasing consumer welfare. In a theoretical model, term life insurance with a diversifiable individual mortality risk and an undiversifiable aggregate mortality risk component is considered. The insurer faces an insurance demand which reflects the willingness to pay of well-informed, presumably utility-maximizing consumers with respect to the participation rate, the insurance price and the resulting insurer’s default risk. The results suggest that introducing regulatory mechanisms that motivate the use of participating policies in different lines of insurance is in the interest of policyholders. Furthermore, any regulatory requirements of the profit-sharing rate of such participating contracts can serve as a mechanism for increasing consumer welfare as a regulatory target and to mitigate the goal conflict between the regulatory goals “solvency” and “affordability”.

For the full article, if available, see the ICIR’s Working Paper Series on our website: www.icir.de

The ICIR cooperates with international researchers. During the year 2012/2013, the ICIR welcomed – among others – Prof. Martin Boyer and Prof. George Zanjani as distinguished academic guests:

Prof. Martin Boyer, Ph.D.
CEFA Professor and Fellow at CIRANO
Department of Finance, HEC Montréal
Canada

Director of the Insurance and Risk Management Journal

“I had the pleasure of staying at the ICIR for some days in February 2013, during which time I met with the Ph.D. students at the ICIR, learned about the center’s activities and laid the groundwork for future collaboration on innovative research projects. I greatly appreciated the hospitable environment that Prof. Dr. Gründl’s research team, Rayna Stoyanova, Ming Dong, Franca Glenzer, Elia Berdin and Tobias Niedrig (who was previously a visiting student at HEC Montréal) greeted me with. I was happy to invite Franca Glenzer for a research stay at CIRANO and at HEC Montréal this summer in order to proceed with several research projects. Besides academic advancements, a great achievement of the center lies in its interconnectedness with practitioners and regulators. This allows for a more immediate impact of academic research on society. I hope to continue the fruitful collaboration with Prof. Dr. Gründl and his team in the future. ‘ber of the team.’”

Prof. George Zanjani, Ph.D.
Associate Professor of Risk Management and Insurance
J. Mack Robinson College of Business
Georgia State University
United States

“Operating within the House of Finance at Goethe University, the ICIR takes full advantage of Frankfurt’s position as a European financial center by bringing together top policymakers, practitioners, and academics to work on key insurance market issues. The result is impressive: Few, if any, places can boast such fruitful conversation between the practical and theoretical. Led by Professor Helmut Gründl, the research team – including Elia Berdin, Ming Dong, Franca Glenzer, Tobias Niedrig, Petra Petersen, and Rayna Stoyanova – is engaged in exciting research on a variety of policy-relevant topics. I thoroughly enjoyed my visit to the ICIR. Their hospitality was exceptional and the environment stimulating. I look forward to continuing our collaboration in the future.”

During his stay, Prof. Zanjani presented his research project “The Marginal Cost of Risk, Risk Measures, and Capital Allocation” in the “Finance Seminar.”
REPORTING PERIOD

PUBLICATIONS DURING THE REPORTING PERIOD


Wandt, M.: “Anm. zu BGH, Urt. vom 08.05.2013 (IV ZR 233/11) (Zulässigkeit eines zwischen VN und Versicherer rückwirkend verein-


The ICIR has started a research project within the Center of Excellence “Sustainable Architecture for Finance in Europe (S·A·F·E)”. The title of the ICIR’s contribution to S·A·F·E is “Basel III and Solvency II – Risks and Side-effects from their Interplay”. The project is motivated by the fact that Basel III and Solvency II were developed without consideration of their interdependencies and resulting consequences for the economy, although there are substantial cross holdings between banks and insurance companies. In particular, (life) insurance companies face a duration mismatch between assets and liabilities that arises from their long-term liabilities from life insurance policies. Therefore, they have a need for long-term bonds in order to reduce this gap. Banks, however, have long-term loan agreements on their asset side and refinance these by issuing long-term bonds. It is a natural consequence that insurance companies hold large amounts of long-term bank bonds. So far, it is unclear how these mutual dependencies as well as the different regulatory approaches will affect the risk policies of banks and insurance companies.

In our research projects, we aim to shed light on the question of how the different regulatory requirements of Basel III and Solvency II influence equity endowment and asset allocation in banks and insurance companies as well as the refinancing costs of banks. We will also analyze which safety level will be optimal as a consequence. Finally, we attempt to assess the impact of transparency about safety levels of financial institutions on the risk policy of banks and life insurance companies.

In a current project, we focus on analyzing the “Optimal Investment Strategies for Interconnected Banks and Insurers in the Presence of Solvency Regulation”.
CONFERENCE PARTICIPATION

19th Annual Congress of the German Insurance Association (DGTV)
October 5–6, 2012 – Hannover, Germany

BWW Rhein-Main e.V. New Year’s Reception
January 22, 2013 – Frankfurt, Germany
Presentation: “Solvency II, the low interest rate environment and life insurance products” Speaker: Prof. Dr. Helmut Gründl

Europa Institut of the University of Zurich
March 20, 2013 – Zurich, Switzerland
Presentation: “Rückblick und Ausblick auf die Versicherungsregulierung in der EU” Speaker: Prof. Karel Van Hulle

Annual Conference of the German Insurance Science Association
March 20-21, 2013 – Berlin, Germany
Prof. Dr. Manfred Wandt and Prof. Dr. Helmut Gründl served as moderators at the conference. Presentations: Jun. Prof. Dr. Jens Gläser, “Legitimationsdefizite und Kompetenzen der EIOPA im Lichte der Meroni-Rechtsprechung”

Expert Forum on “Getting the balance right: private insurance for social needs” (organized by Swiss Re)
March 4, 2013 – Rischlikon, Switzerland
Presentation: “Balancing private versus social insurance” Speaker: Prof. Karel Van Hulle

European Insurance Conference
April 11-12, 2013 – Geneva, Switzerland
Presentations: “Do we need a global capital standard for insurance?”

CEAR/MRIC Behavioral Insurance Workshop
December 10-11, 2012 – Munich, Germany
Presentation: “And Lead Us Not Into Temptation: How the Presentation Format Influences Policyholders’ Contract Choice” Speaker: Prof. Karel Van Hulle

4th CEPS-EMCI Task Force
March 14, 2013 – Brussels, Belgium
Presentation: “The Impact of prudential rules on asset allocation” Speaker: Prof. Dr. Helmut Gründl

13th session of the Financial Committee of the German Bundestag
April 15, 2013 – Berlin, Germany
Prof. Dr. Helmut Gründl was invited to the 13th session of the Financial Committee of the German Bundestag which took place in Berlin on April 15, 2013. The public expert talk concerned a bill of the Bundesregierung (Federal Government) regarding the implementation of a new European directive (2011/89/EU) on the supplementary supervision of financial entities in a financial conglomerate.

Spring International Seminar on “Recent Developments in Global Regulatory and Supervisory Architecture. Is there a Master Plan?” (organized by the Geneva Association)
April 11-12, 2013 – Geneva, Switzerland
Presentation: “’And Lead Us Not Into Temptation’: How the Presentation Format Influences Policyholders’ Contract Choice” Speaker: Prof. Karel Van Hulle

European Insurance Law Conference FERMA-AIDA
June 3, 2013 – Paris, France
Presentation: “Restrictions on insurance within embargo measures” Speaker: Prof. Dr. Manfred Wandt

11th International Workshop on Pension, Insurance and Saving
June 6-7, 2013 – Paris, France
Presentation: “And Lead Us Not Into Temptation: How the Presentation Format Influences Policyholders’ Contract Choice” Speaker: Dr. Christian Wilde

14th International Pension and Employee Benefits Lawyers Association (PEBCLA) conference
May 27, 2013 – Rome, Italy
Presentation: “Should we continue to close our eyes for the cost of retirement?” Speaker: Prof. Karel Van Hulle

European Insurance Law Conference FERMA-AIDA
June 3, 2013 – Paris, France
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June 6-7, 2013 – Paris, France
Presentation: “And Lead Us Not Into Temptation: How the Presentation Format Influences Policyholders’ Contract Choice” Speaker: Dr. Christian Wilde
This research project was also presented at the following meeting: 28th European Economic Association meeting (August 26-30, 2013 – Gothenburg, Sweden)

June 13, 2013
Prof. Karel Van Hulle moderated the 5th International Insurance Conference on “Stability and security: insuring our futures”, organized by Insureur Europe in Rome, Italy.

Risk and Investment Conference (organized by the Institute and Faculty of Actuaries)
June 17, 2013 – Brighton, United Kingdom
Presentation: “Actuarial discipline: threat or opportunity?” Speaker: Prof. Karel Van Hulle

Netspar International Pension Workshop
June 19, 2013 – Frankfurt, Germany
Panel Talk by Prof. Dr. Helmut Gründl: “And Lead Us Not Into Temptation: How the Presentation Format Influences Policyholders’ Contract Choice”

Solvency II in der Rechtsanwendung
June 25, 2013 – Frankfurt, Germany
Prof. Dr. Manfred Wandt co-organized the conference, served as moderator and gave a presentation on “Grenzbereiche der Befugnisse von EIOPA” based on a paper co-written with Jun. Prof. Dr. Jens Gal.

Workshop on the “Rationale for the Prudential Regulation and Supervision of Insurers” (organized by the Bank of England)
July 18, 2013 – London, United Kingdom
Prof. Dr. Helmut Gründl and Prof. Karel Van Hulle took part in this workshop.

Annual Meeting of the American Risk and Insurance Association
August 4-7, 2013 – Washington, DC, United States of America

8th Alpbach Expertentreffen on “Versicherungsmakler: Beruf im Wandel der Zukunft?” (organized by the Fachverband der Versicherungsmakler und Berater in Versicherungsangelegenheiten and the Wirtschaftskammer Tirol)
August 27, 2013 – Alpbach, Austria
Presentation: “Europäische Entwicklungen im Bereich der Versicherungsvermittlung” Speaker: Prof. Karel Van Hulle

International Legal Symposium
(organized by the Marianne and Marcus Wallenberg Foundation and the Stockholm University Centre for Commercial Law)
August 29, 2013 – Stockholm, Sweden
Presentation: “The liability of auditors and the problem of insurability” Speaker: Prof. Karel Van Hulle

Risk & Regulation Forum
(organized by Risk Minds)
September 12, 2013 – Nice, France
Prof. Karel Van Hulle participated in a panel discussion on “What lessons can be drawn from the practical implementation of financial regulation across the industry sectors?”

4th CEQURA Conference on Advances in Financial and Insurance Risk Management
September 23-24, 2013 – Munich, Germany
Presentation: Berdin, E.; Gründl, H.; “The Effect of a Low Interest Rate Environment on Life Insurers”

FERMA Forum on Risk Management
September 30, 2013 – Maastricht, the Netherlands
Presentation: “Why don’t we yet have Solvency II?” Speaker: Prof. Karel Van Hulle

International Conference on Financial Services (organized by the College of Economic and Management Sciences of the University of South Africa)
October 3, 2013 – Durban, South Africa
Presentation: “A risk-based solvency regime: lessons learnt from the development of Solvency II” Speaker: Prof. Karel Van Hulle

Events Organized by the ICIR

ICIR’s Platform Services

DR. ELKE KÖNIG
Seminar on Insurance and Regulation
On October 29, 2012, the ICIR hosted the 3rd Seminar on Insurance and Regulation. The ICIR had the honor of welcoming Dr. Elke König, the President of the German Federal Financial Supervisory Authority (BaFin), as the guest speaker. The topic of her talk was: “Critical Comments on Solvency II”.

Before addressing the “critical comments”, Dr. König emphasized that Solvency II as a principles-based regulatory regime, being founded on market-consistent valuation, is the right approach to be adopted. It is far superior to the present Solvency I rules book.

However, the implementation of Solvency II has been repeatedly delayed. Dr. König said that it might not be before 2016 that Solvency II is introduced. However, she indicated that parts of the book can be implemented in advance. In particular she suggests that elements of the “Own Risk Solvency Assessment” (ORSA), which is the core of the second pillar of Solvency II, could become mandatory even before the official introduction of Solvency II. This would allow for a smooth phasing-in, rather than a big-bang introduction.

Another important issue which Dr. König raised is that certain “backstops” may become necessary in addition to the principle-based rules of Solvency II. She explained that such “backstops” could be a small number of strict strategic rules which would help supervisors to control risks more easily.

Regarding the previous quantitative impact studies of Solvency II, she remarked that their problem was that they all referred to different stages of the Solvency II development. What is needed are consecutive impact studies based on the same defined Solvency II-standard. The time until Solvency II is introduced can be gainfully spent on carrying out such studies. They can help to obtain information on how well the insurance industry is prepared for the new regulation. In addition, supervisors can use the results of these assessments as a toolbox to help draw their conclusions.

In her talk, Dr. König also addressed the issue of long-term guarantees in the prevailing low interest-rate phase. The currently discussed “matching adjustment”, which allows for higher interest rates for discounting liabilities that are matched with assigned assets in the Solvency II-balance sheet, is another concept to be tested aiming to ensure an adequate valuation of long term insurance business. As for the “counteryclical premium”, Dr. König sees the pros and cons
of the fact that for its introduction, EIOPA would first have to proclaim a “crisis time”, which could send a detrimental signal to the markets.

She said that adjusting the measurement of risks would, of course, not change the real-world environment for the industry. With regard to the industry, Dr. König emphasized the importance of a well-functioning enterprise risk management and of internal control measures. Companies should not hesitate to set up a multi-year forward projection on their solvency situation. Based on that they could make strategic decisions on their equity capital endowment before the Solvency II rules come into force.

The Frankfurter Vorträge are organized and promoted by the Förderkreis für die Versicherunglehre and traditionally take place once every semester.

On December 3, 2012, Jun. Prof. Dr. Jens Gal from the ICIR was invited to give a talk on “Probleme in der Umsetzung der Solvency II-Richtlinie durch die 10. VAG-Novelle”. Prof. Koji Kinoshita (PhD Doshisha Law School, Kyoto, Japan) also spoke about the “Current Development of the Japanese Insurance Act 2008 – A Brief Sketch of Comparative Study with the German VVG and the PEICL”.

On April 24, 2013, the ICIR hosted the 4th Seminar on Insurance and Regulation. The ICIR had the honor of welcoming Ms. Daniela Weber-Rey, L.L.M. (Columbia University) as the guest speaker. Ms. Weber-Rey, who is admitted to the bar in Frankfurt and New York, was, at the time of the lecture, a partner at the law firm Clifford Chance and has taken over her new position as Chief Governance Officer and Deputy Global Head Compliance at Deutsche Bank in June 2013. Against the background of the envisaged Solvency II Project, Ms. Weber-Rey gave a talk on the topic of “Corporate Governance, Key Functions and Interim Measures – A Call for Action”.

Ms. Weber-Rey began her talk by pointing out that ineffective corporate governance figures – according to the majority view at the EU Commission as well as in the Member States – are amongst the key contributing factors in the current financial crisis and that the EU-Green Paper on Corporate Governance in Financial Institutions has thus highlighted the importance of establishing a functioning system of corporate governance. From the perspective of Ms. Weber Rey, the implementation of a corporate governance system should, first and foremost, be a question of creating the corresponding corporate culture and should not be a mere reaction to over-detailed, rigorous regulatory requirements. Pursuant to Ms. Weber-Rey any regulation on the governance system should, therefore, be principles-based in order to grant companies the necessary leeway to implement a governance system best suited to their concrete business model.

During her talk, Ms. Weber-Rey also pointed out possible conflicts arising from the fact that governance requirements laid down in regulatory law at the EU level and governance requirements laid down in the national corporate laws have not been brought into line and run the risk of being inconsistent. The pressure on the financial sector as a consequence of the financial crisis leads to issues of corporate governance being developed under regulatory laws rather than being well thought through by corporate law makers. The new key functions and the fit and proper requirements created for them are a good example of this development.

In order to counter the problems created by the belated implementation of the Solvency II Project, EIOPA opted late last year to introduce interim measures with the intent to better prepare insur-
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Moreover, she is fully supportive of the Prepara-
tory Measures as recently put to consultation by
EIOPA, as she agrees that it is of the essence to
keep the momentum for a risk-based supervisory
framework for the insurance sector, preparing
undertakings for the considerable challenges
laying ahead, while trying to harmonize the
requirements established by EIOPA and the ICIR
as well as the Member States in the context of
potential macro-economic risk emanating from
the insurance sector. In particular, the Prepara-
tory Measures created by EIOPA are an excellent
example of the new European system of financial
supervision at work, attempting to produce the
best results for the (insurance) industry even in
times of political standstill.

NETSPAR

Policy Workshop
on Pensions

On June 17, the ICIR co-organized the
Netspar Policy Workshop on Pensions,
which was hosted by the Goethe University
Frankfurt. The event was promoted by the Net-
work for Studies on Pensions, Aging and Retire-
ment of the University of Tilburg (The Nether-
lands). Both Jun. Prof. Dr. Jens Gal and Prof. Dr.
Helmut Gründl of the ICIR actively participated
in the workshop. Jun. Prof. Dr. Jens Gal chaired
the panels on “Pension adequacy” and on “Long-
term investment and growth”. Key speakers of
the session were Marc Vothknecht (European
Commission), Yves Stevens (KU Leuven), Ole
Beier Sorensen (ATP Denmark) and Arie Kapteyn
(University of Southern California).

2ND CONFERENCE ON

Global Insurance
Supervision

In cooperation with the European Insur-
ance and Occupational Pensions Authority
(EIFPA), the International Center for Insur-
ance Regulation (ICIR) organized the “2nd
International Conference on Global Insur-
ance Supervision (GIS) – Trends and Develop-
ments”, which was held at Goethe University
Frankfurt, Germany, on September 5-6, 2013.

Since this was a follow-up event to the first GIS
conference in 2012, the organizers maintained the
global scope of the conference and focused again
on the topics of supervisory convergence and the
search for global standards. Major issues such as
systemic risk, Own Risk and Solvency Assessment
(ORSAs), and the potential for supervisory con-
vergence on the individual and group level across
jurisdictions, regions and sectors, were discussed
with regard to both the insurance and the bank-
ing industry. The objective of the conference was
to encourage the exchange between supervisors
and leading industry professionals on the subject
of Global Insurance Supervision. Through promi-

nent presentations of Self-assessment of Risks and
Solvency and in-depth discussions of Supervisory
Convergence in break-out sessions, operational
solutions were derived.

During the presentations, Helmut Gründl of the
ICIR demonstrated the advantages of, but also
the problems caused by the interconnectedness
between banks and insurance. On the one hand,
the long duration of life insurers’ liabilities and of
bank loans leads to a duration mismatch between
the asset and liability side of both sectors, which
can be mitigated by selling bank bonds to insurers.
On the other hand, possible bank bond defaults can
cause contagion risk to insurers, and the reputa-
tional risk of one party can also increase due to the
financial distress of the other. During his presen-
tation on the topic “Tao of risk management and
regulatory developments in Asia”, Makoto Okubo
of the Nippon Life Insurance Company presented
his operational experience in risk management.
In order to counter low interest rates, Nippon
Life lowered the guaranteed interest rate for new
policies, reduced operational expenses, changed
investment strategies to match the characteristics
of insurance liabilities, accumulated additional
policy reserves and enhanced capital.
In the afternoon four break-out sessions focused on the topic of supervisory convergence. The participants intensely discussed specific questions such as: “What powers should a supervisor have in times of crisis?”, “What kind of resolution regimes do we need?”, “Is a complete risk-mapping in cross border groups possible?”, “What positive and negative impacts do industry actions have on global standard settings?”, “Are insurance-linked securities being used as a vehicle for regulatory arbitrage?” etc. The outcomes of the break-out sessions will be summarized in a separate report. The second day of the conference was dedicated to the evolution of global standards in insurance supervision. A panel discussion summarized the lessons learned from previous projects and provided an outlook for insurance supervision. One of the proposals was to adopt hard rules on regulating global finance, with legal enforcement. In order to achieve this, increasing market transparency and coordination, building trust and gaining political support are crucial. Otherwise, rules will be applied with arbitrage. Although the difficulties and costs of establishing such international standards are obvious, in the long run the new “system” with sound compliances is assumed to be more efficient and beneficial. A counter-argument was that local markets have specific characteristics (e.g. cultural specifics) that cannot be ignored, in which case global standards may be problematic. Furthermore, policyholder protection and reducing arbitrage in capital allocation and pricing should be the ultimate goals of regulators, the implementation of global standards or local rules notwithstanding. The conference again received good feedback, also on the fact that it provides an excellent opportunity for networking. We would like to thank our cooperation partners and the notable participants from supervision, industry and academia from all over the world, for helping to make the conference a success. We look forward to next year’s international GIS conference.
The goals of the lecture are to understand asset and liability management strategies used in insurance companies, to apply tools such as @Risk for simulating risk situations, and to understand the new Solvency II insurance regulatory rules.

Winter Semester 2012/2013 European Insurance Contract Law (Jun. Prof. Dr. Jens Gal, Dr. Theo Langhein, Prof. Dr. Manfred Wandy) This course examined insurance contract law – including the basics of insurance techniques – on a comparative basis. It focused on the different legal systems of the EU’s Member States, including the common law system and harmonization within the EU. The first part gave a general introduction into insurance contract law and into the several insurance contracts and their wordings. It also covered the specialties of property, liability, life, disability, accident and health insurance. The second part dealt with the activities of insurance agents and brokers. The third part consisted of a description of the particular requirements of extra contractual obligations between insured and insurer, focusing upon the duty of utmost good faith owed between the parties. In that context, an analysis of the Marine Insurance Act and English case law were provided. The course also described the peculiarities of insurance contract law focusing on the classification of terms, the attitude of English courts to draconian measure incorporated into English insurance wordings and particular requirements of facultative reinsurance.

Summer Semester 2013 Versicherungstechnologie und ihre Grenzen (Prof. Dr. Hartmut Nickel-Waninger) The Rhine-Main region is not only a financial center but also a logistics hub. Starting from the ford through the river Main, traffic has shaped the development of the Frankfurt economic area. Logistics is a decisive locational factor for industry, trade and the financial services industry. This seminar focuses on the insurance of aviation risks. By connecting presentations of the seminar participants and high-calibre practitioners the seminar provides a deep insight into this challenging field of risk management.

Summer Semester 2013 Risk Management and Insurance (Prof. Dr. Helmut Gründl) This was an elective course provided for Master of Science and Diploma students in the areas of Management, Money and Finance. The goals of the course were to understand the relevance and rationality of risk management, to systematize risk management instruments, and to learn to apply an adequate mix of risk management tools. Further topics of this lecture were the theory of insurance demand, the theory of insurance supply and problems stemming from information asymmetry.
In cooperation with the Deutsche Versicherungsakademie (DVA) and the Gesamtverband der Deutschen Versicherungswirtschaft (GDV), the ICIR has developed an executive education program for the insurance industry. This program intends to train insurance managers for the future requirements of Solvency II. Successful participants receive one of the following certificates:

- Certified Risk Manager Insurance Solvency II (DVA)
- Certified Compliance Officer Solvency II (DVA)
- Certified Internal Auditor Solvency II (DVA)

The program started in the fall of 2011. Prof. Dr. Helmut Gründl holds several courses.