Global Trends in Risk-based Supervision

Industry View

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Outline

- 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.

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

**Asia Pacific**
- Australia
- China
- Dubai
- Hong Kong
- India
- Malaysia
- Singapore
- Thailand
- Vietnam

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

- Private Passenger Auto: 36.1%
- Homeowners: 14.0%
- Commercial Auto: 5.3%
- General Liability: 3.9%
- Group Disability & Group Life: 3.7%
- Syndicate 4472: 5.0%
- Individual Life & Health: 2.9%
- LIU Third Party: 3.4%
- Surety: 2.1%
- LIU Inland Marine Program: 1.8%
- LIU First Party: 1.0%
- Workers Comp – Voluntary: 7.1%
- Workers Comp – Involuntary: 0.4%
- Commercial Multi-Peril/Fire: 7.3%
- Other: 6.0%
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## Trends in Risk-based Supervision: United States

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

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

### Dual Regulation
- State regulation, as above, plus...
  - Dodd-Frank
    - Collins amendment
    - Brown–Johannes amendment
Trends in Risk-based Supervision: IAIS

More Questions than Answers

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?

**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

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”