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

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4. CONCLUSIONS
Brazil
Birth rate: 15.13‰
Mortality rate <5y: 14.4‰
Inflation: 6.2%
Unemployment: 6.9%
Urban population: 84.87%
Telephone lines: 22.3%
Internet users: 49.85%

USA
Birth rate: 12.6‰
Mortality rate <5y: 7.1‰
Inflation: 1.46%
Unemployment: 8.1%
Urban population: 82.625%
Telephone lines: 44.41%
Internet users: 81.03%

Spain
Birth rate: 9.7‰
Mortality rate <5y: 4.5‰
Inflation: 1.41%
Unemployment: 25.2%
Urban population: 77.57%
Telephone lines: 41.87%
Internet users: 72%

Turkey
Birth rate: 17.135‰
Mortality rate <5y: 14.2‰
Inflation: 7.49%
Unemployment: 9.2%
Urban population: 72.33%
Telephone lines: 18.73%
Internet users: 45.13%

Philippines
Birth rate: 24.59‰
Mortality rate <5y: 29.8‰
Inflation: 2.3%
Unemployment: 7%
Urban population: 49.12%
Telephone lines: 4.07%
Internet users: 36.24%

Source: The World Bank

Different markets, different clients and different needs

SOLVENCY IS ONE OF OUR VALUES
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   2.1 What we see
   2.2 What we should not see

3. SUPERVISORY GOALS: OUR PERSPECTIVE

4. CONCLUSIONS
What we see:

- 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

- 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

- 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

- 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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4. CONCLUSIONS
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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Pillar II: System of Governance and Risk management

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