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**The Insurance Industry and Enterprise
Risk Management: From Compliance to
Value Creation**

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&

Uninsured Industrial Risks

Ongoing Research Project
by Tileman Fischer

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Layout & Distribution: Valéria Kozakova

Competitive Advantage through ERM: Investigating the Role of the Regulators and the Rating Agencies in Promoting the Practice of Risk Management in the Insurance Industry

Madhusudan Acharyya

Background and Aim of the Research

■ Background

- Different views on internal models
- Inconsistent regulatory frameworks
- Inconsistent rating agency criteria
- Insurers' economic capital model

■ Aim

- Studying the reaction of the insurance industry to recent changes of regulators solvency framework and rating agency criteria

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Research Questions

1. How can insurance companies assure (i) the regulators, and (ii) the rating agencies that their risk strategies and risk management plans justify reliance on company-based internal risk capital models for meeting rating criteria while avoiding parallel risk models?
2. How can risk-related compliance be consistent among the state and national jurisdictions?
3. What are the best alternatives for global insurers in the debate of regulatory consistency and regulatory arbitrage?

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Methodology

- Semi-structured interviews with various persons of:
 - Regulatory agencies
 - FSA
 - Rating agencies
 - S&P, Fitch, A. M. Best, and Moody's
 - Insurance company executives (risk management)
- Publications of regulatory and rating agencies
- Publications of CRO forum
- Qualitative data analysis technique

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Indifferent Interests – Rating Agencies

■ Interest of rating agencies

- Insurers' financial strength
- Evolvement of the market
- Adjustment of rating methodology
- A holistic view on insurers' capability of managing risk
- Financial and non-financial
 - volatile performers
 - catastrophic risks

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Indifferent Interests – Regulators

■ Interest of regulatory agencies

- Consumer protection
- Market discipline and transparency
- Minimum level of solvency
- No direct interest on insurers' ERM

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Indifferent Interests – Insurers

- Interest of insurers
 - Competitive advantage
 - Competitive market
 - Superior ratings
 - Appreciation from regulators
 - What to do vs. how to do
 - Section of priorities
 - Shareholder Value
 - Longer sustainability
 - Reputation
- ERM is a cultural issue

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Findings and Conclusions - 1

- Insurers' ERM vs. Rating Agency Model
 - it is concluded that if the rating agencies use different approaches (such as different ERM models) it should not lead them so long as the models they use work fine. The challenge is therefore to increase the sophistication of the assessment of rating agencies so that the outputs are a good representation of reality.
- Insurers' ERM vs. Regulatory Solvency Capital Model
 - It is concluded that by meeting industry best practice guidance in respect of modelling, insurance companies can assure regulators that their risk strategies and risk management plans justify reliance on company-based internal risk capital models by incorporating national and regional differences on solvency regulations.

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Findings and Conclusions - 2

■ Insurers' ERM vs. Regulatory Compliance Model

- It is concluded that insurance companies should see the initiatives of regulators as a supplement of their ERM functions. This is because the sources of [operational or strategic] risks are due to the faulty decisions of the management on which regulators have a little control.

■ Regulatory Consistency vs. Regulatory Arbitrage

- It is concluded that some degree of standardization and regulatory consistency is helpful but a fully consistent global regulatory framework is dangerous for the industry. The probable solution lies in developing criteria consistent with the economics of the sector, preparing transparent disclosures and seeking an independent regulatory approval.

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Questions

Feedback

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