

# The global mission of insurance

The impact of low interest rates,  
technological disruption, extreme disaster  
events and tightening regulations

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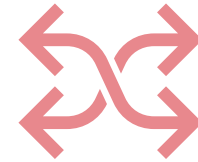
## Today's agenda

- \ The Geneva Association at a glance
- \ A new normal for the global insurance industry
- \ Low interest rates
- \ Digital disruption
- \ Extreme events and climate risk
- \ Tightening regulations
- \ The global mission of insurance – and today's reality
- \ How to fulfil our mission in trying times

## The Geneva Association is a unique forum exclusively for about 80 CEOs of leading global (re)insurers – 2 members from MENA

**Think Tank:**  
**Developing research papers** with industry experts and academics

**Insight**



**Influence**

### Research programmes

Financial Stability and Regulation

Extreme Events and Climate Risk

Global Ageing

Liability Regimes

### Research topics

Protection Gap

Cyber

Emerging Risks

The **leading advocate** of insurance specific interests at the global level

**Direct interaction with central banks and international organisations** such as IAIS, FSB, World Bank, UN and OECD

## **BASIS**

**Academic work** e.g. Publishing two peer-reviewed academic journals

The Geneva Papers on Risk and Insurance – Issues and Practice

The Geneva Risk and Insurance Review

## The Geneva Association (co-)hosts leading insurance networks and offers awards and grants for research excellence

**Annual General Assembly of CEO members**

**Key meetings for CFOs, CROs, CIOs and Chief Economists**

**Academic Networks, e.g.**

- WRIEC – World Risk and Insurance Economics Congress
- EGRIE – European Group of Risk and Insurance Economists seminar
- EALE – Joint seminar of the European Association of Law and Economics (EALE) and The Geneva Association

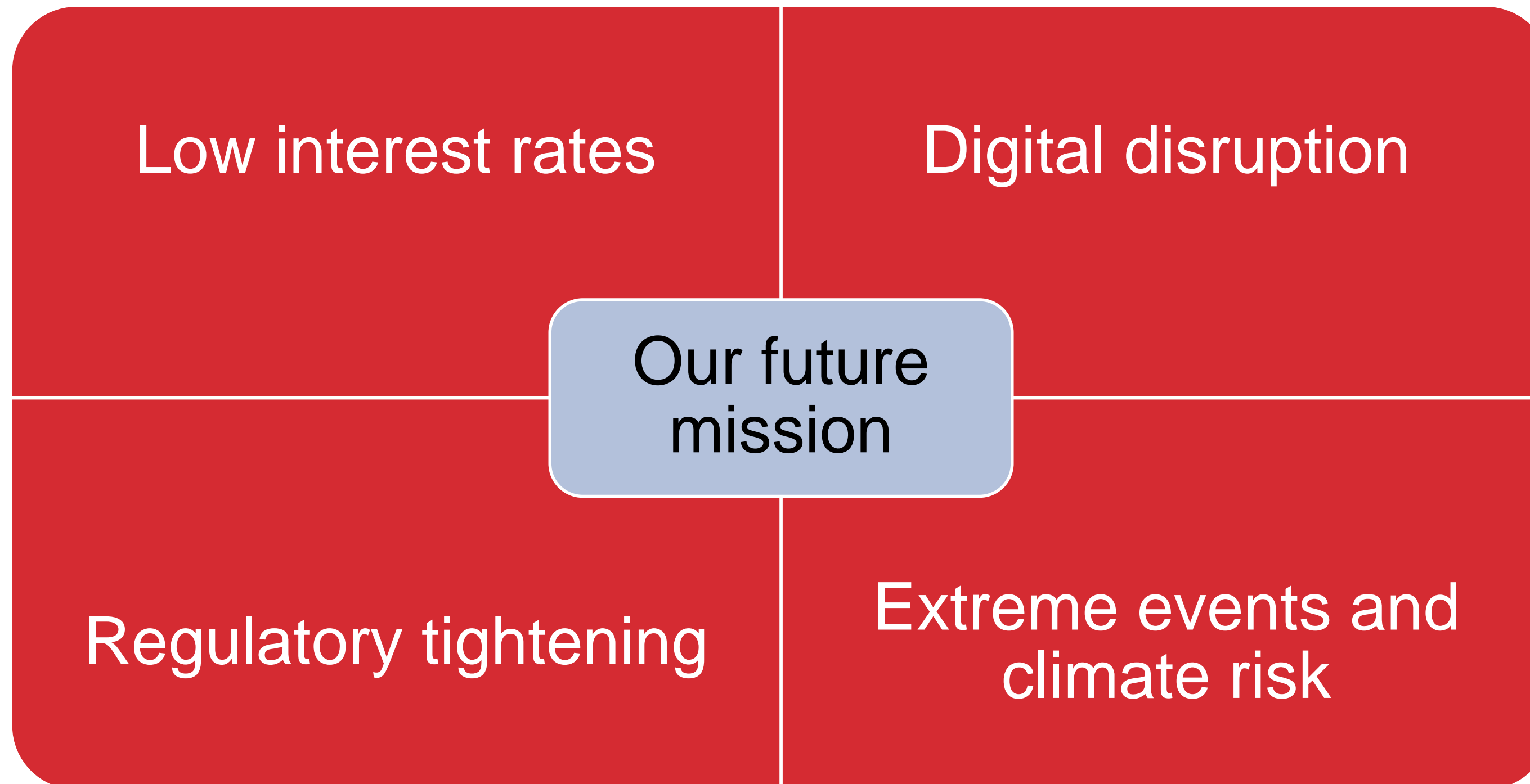
**Awards and Research Grants, e.g.**

- Ernst-Meyer Prize for the best PhD thesis in insurance economics in insurance
- Shin Research Award, a joint GA/IIS award to promote applied research
- Research grants, 2016 on Cyber

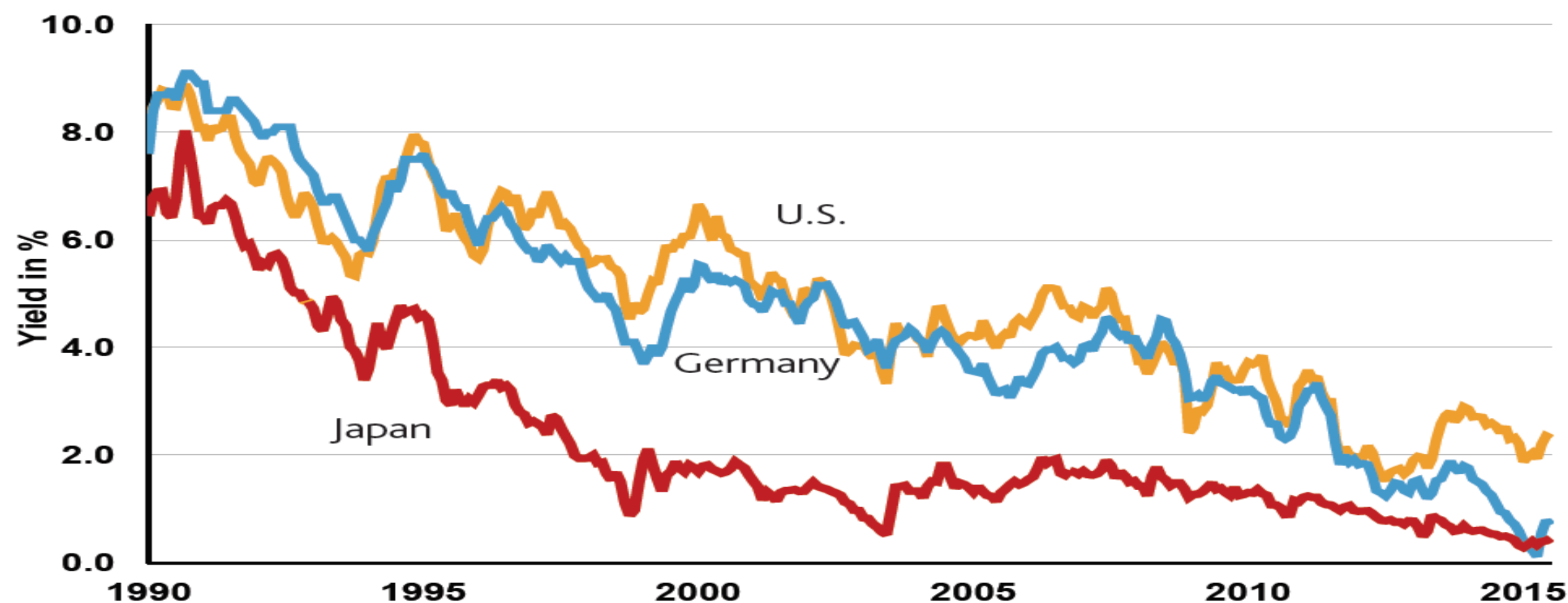
Source: The Geneva Association



## A new normal challenges traditional business models in insurance



## A well-know picture: Secular decline in 10 yr government bond yields

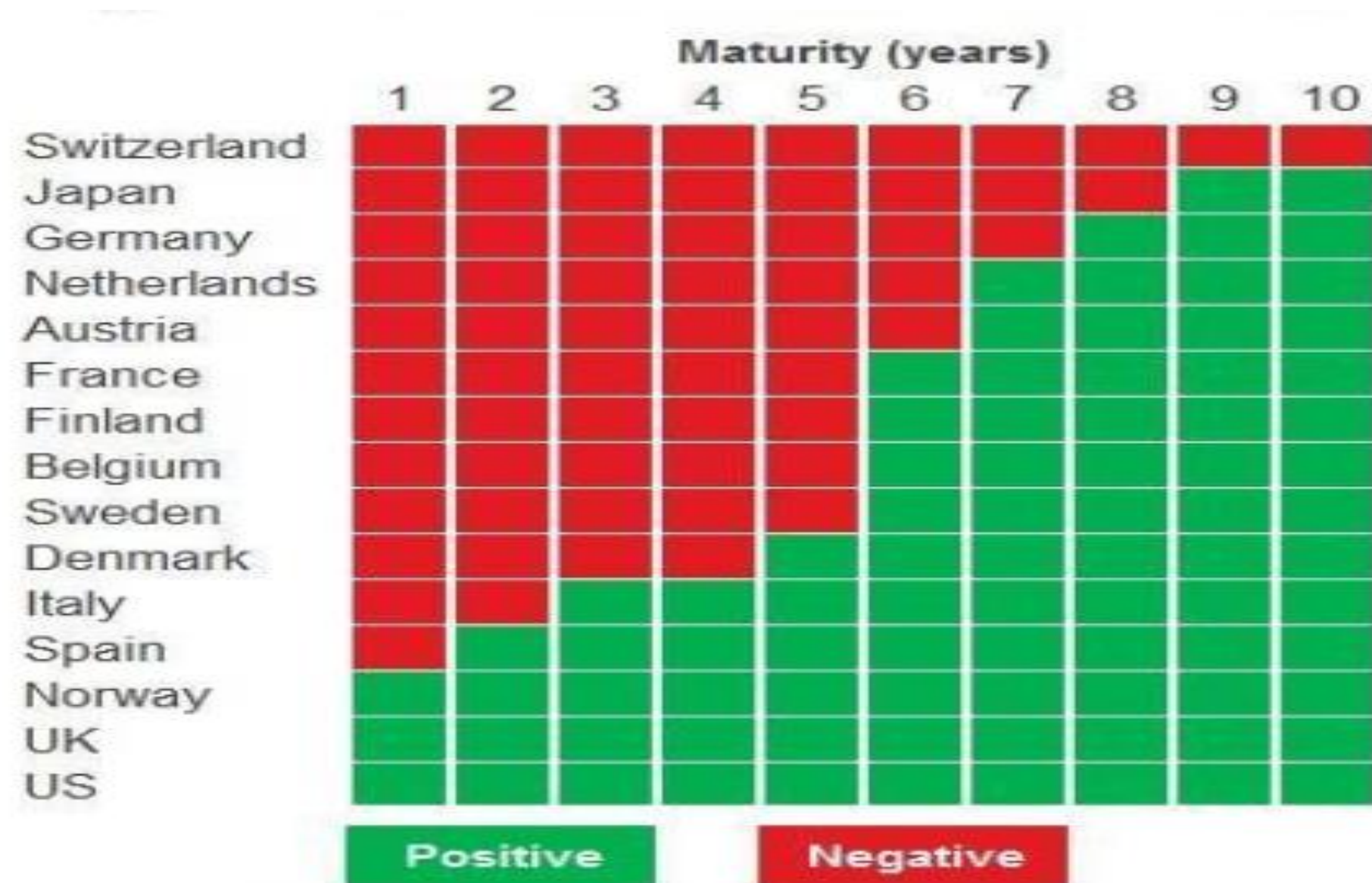


Source: Federal Reserve St. Louis

\\ Risk-free returns have all but evaporated

\\ Q1 2016 financial market turmoil to add further pressure on yields, incl. US treasuries

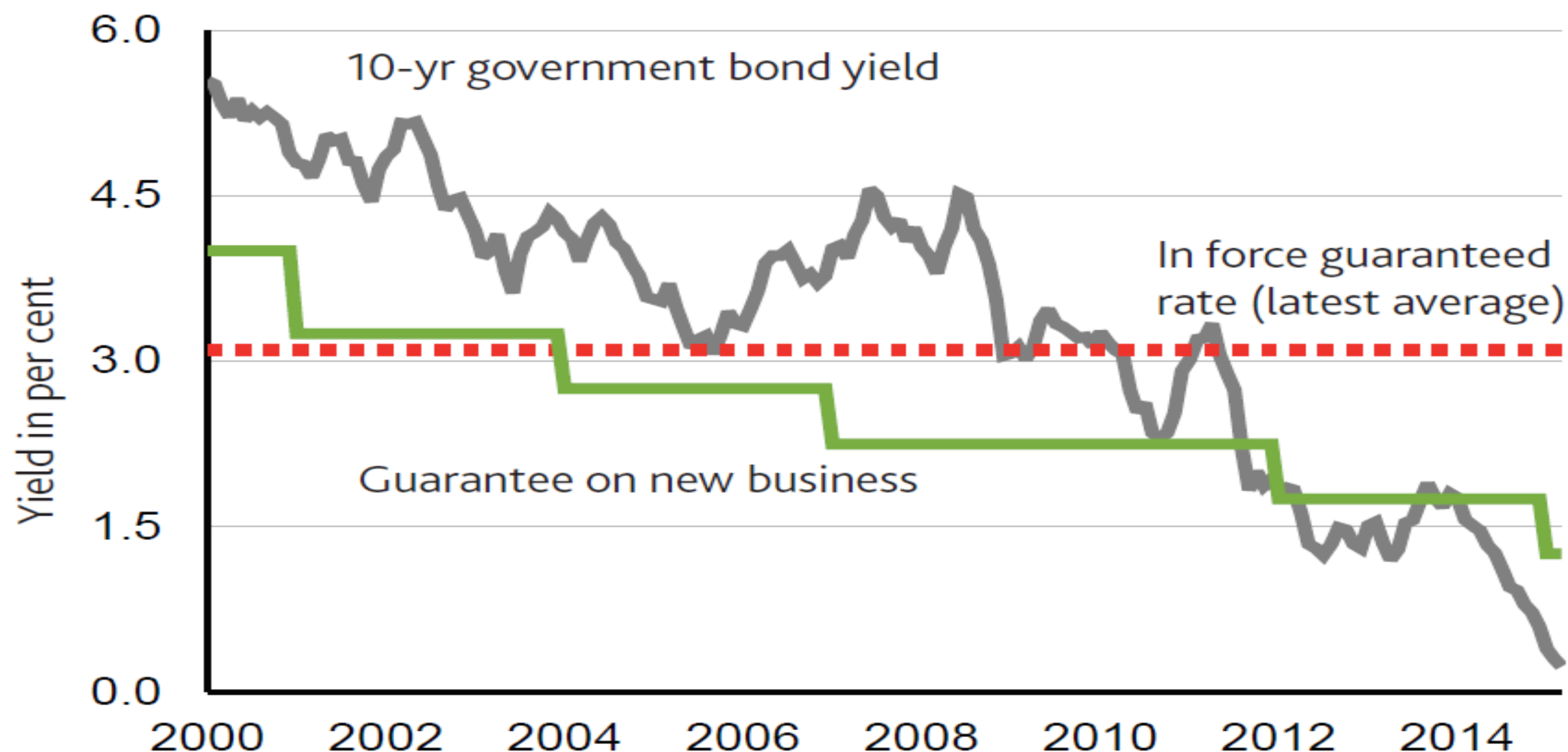
## ... with zero yields no longer the limit



Source: BlackRock, Thompson Reuters, February 2016

- \\ Negative yields are spreading rapidly across the government bond universe
- \\ Growing risk aversion and ever more aggressive monetary policies as main reasons

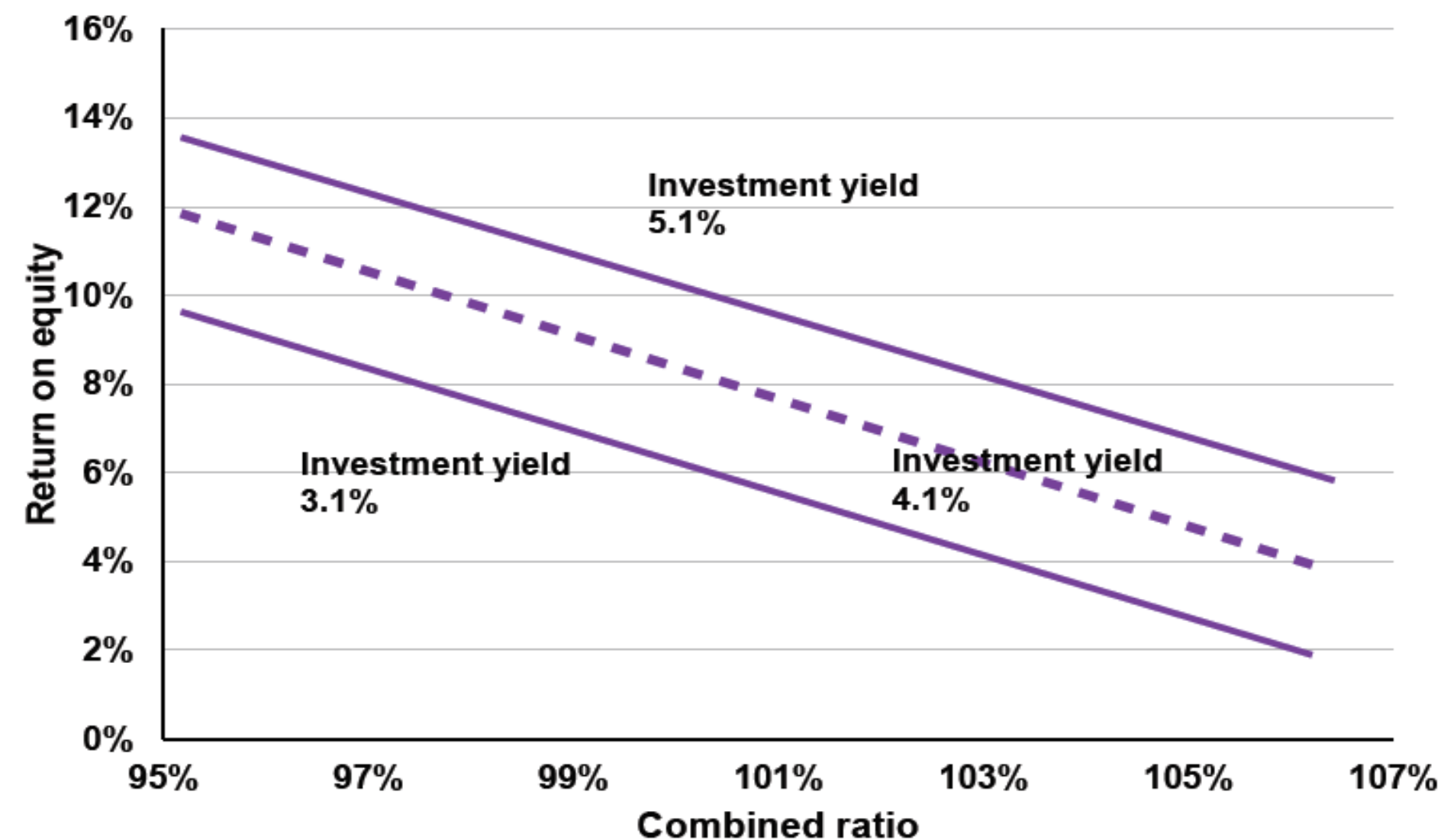
## The impact on life insurance: Germany as an example



Source: Bundesbank, German Insurance Association

- \\ Market yields fall short of guaranteed yields on new and existing business
- \\ Low turnover and improved diversification of life insurance investment portfolios, in combination with realised capital gains, have alleviated the squeeze so far

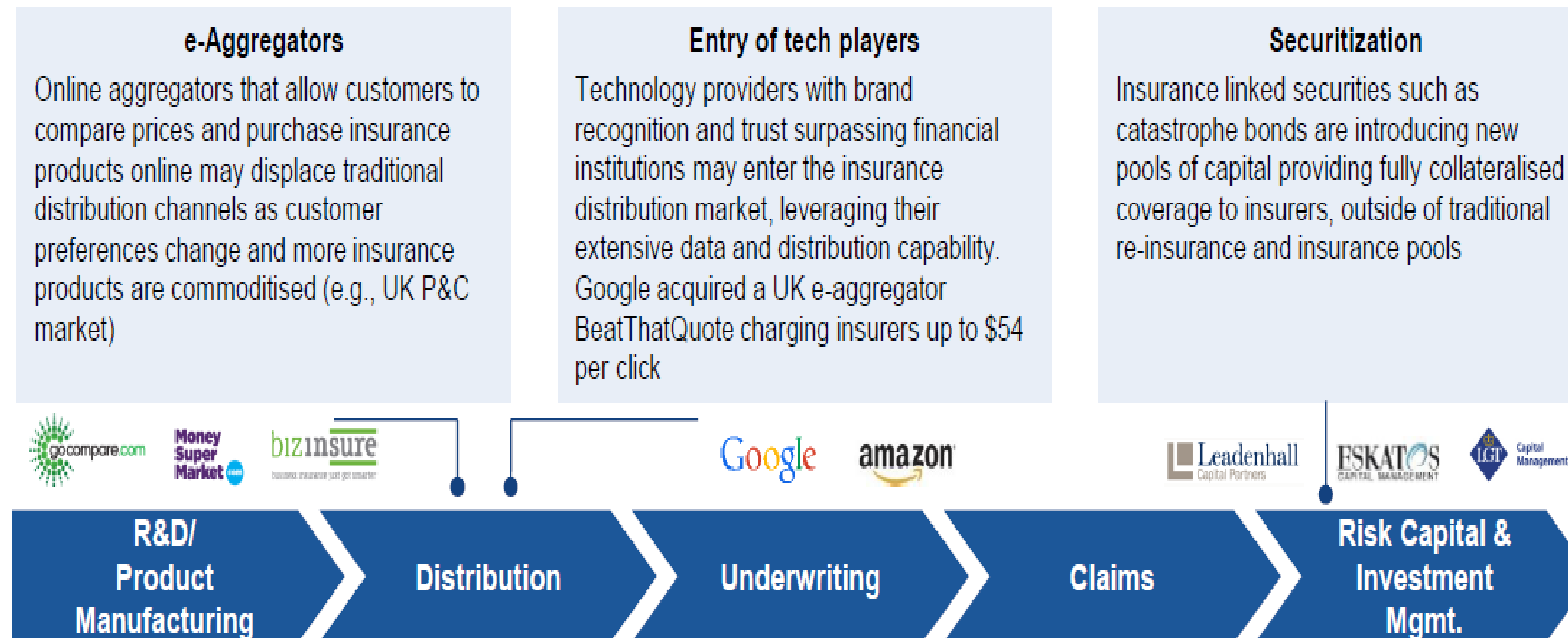
## The impact on non-life insurance: Underwriting profitability takes centre stage



Source: Swiss Re

- \ Current investment yields necessitate combined ratios of less than 95% to earn cost of capital
- \ Premium rate increases and cost management as strategic levers

## Digital technology redefines the insurance value chain

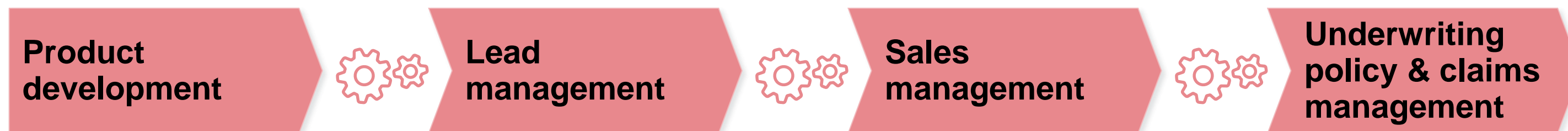


Source: WEF

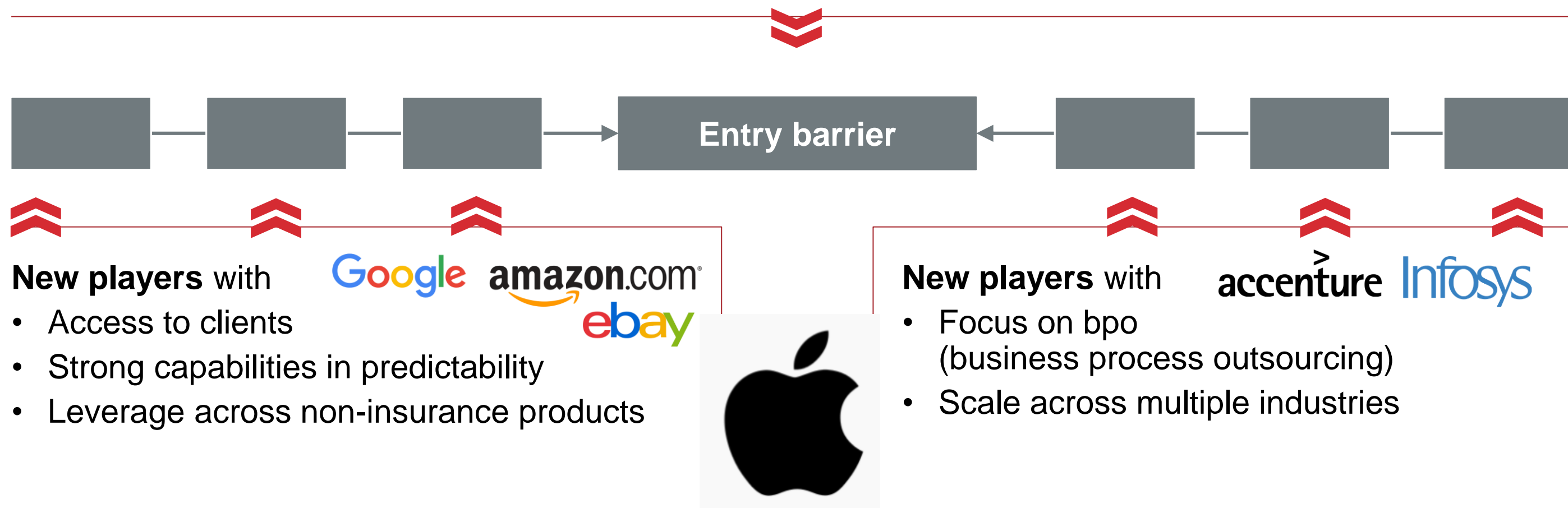
- \ Much increased transparency and commoditisation
- \ New competitors, leveraging their brands and superior access to data and customers
- \ Securitisation as a form of whole-sale non-digital disruption

## ... paving the way for new (digital) competitors

value chain



To protect their role as a dominating assessor of risk, insurers systematically have to build on their brand, to own their client access (or to be leader in collaborative agreement with "new players") and to be cost leader in insurance processes



## Data ubiquity as a key driver of change...

### New sources of data (internal & external)

#### Traditional data (internal)

- > **Identifiers** (name, address, age, gender, family size, job, ...)
- > **Income and assets** (financial, real estate, ...)
- > **Relationship history with insurer**
  - products and price
  - touchpoints
  - claims
- > **Health status** (for health insurer)
- > **Other Group data** (banking data for bank insurers, assistance data, loyalty program, ...)

#### 1 "Internet of things" data

- > Based on connected sensors (smart car / home / health)
- > Obtained via
  - Usage Based Insurance products
  - Third party companies (car manufacturers, utilities, telcos, ...)
  - Specialized companies (Nest, Lockitron, Octo, Fitbit, M2ocity,...)

#### 3 Providers data

- > Customer data gathered by companies within
  - Specific industries (utilities, retailers, postal services, aggregators, ...)
  - Cross industries
    - Google, Facebook, ...
    - Axciom, LexisNexis, Leadplace, cross industry loyalty programs, ...)

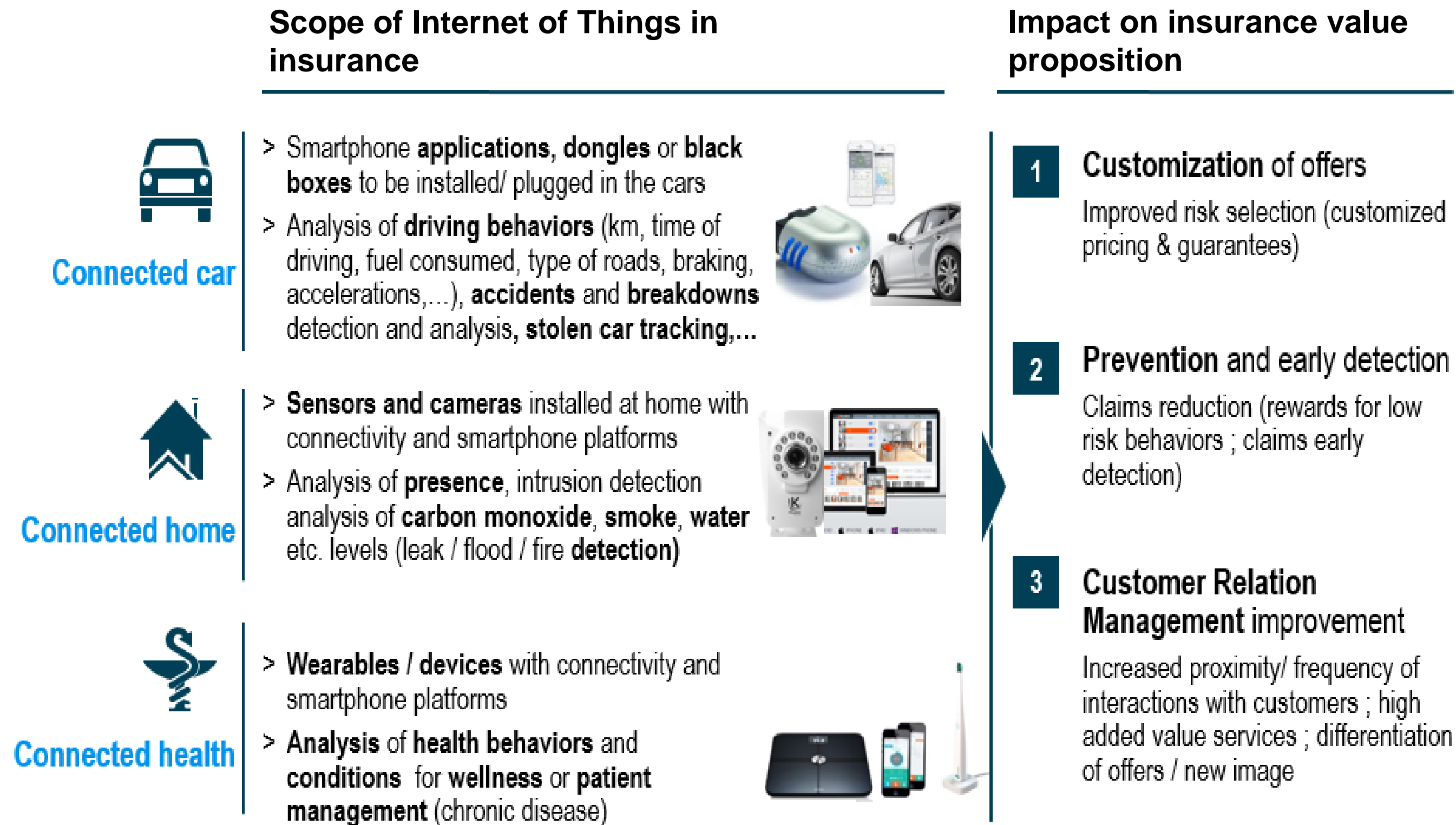
#### 2 Public data

- > Personal information (partially or totally) openly generated by customer on internet (e.g. on social media)
- > Can be tracked with support of specialized firms (e.g. Fliptop, Social Intelligence, ...)

#### 4 Open data

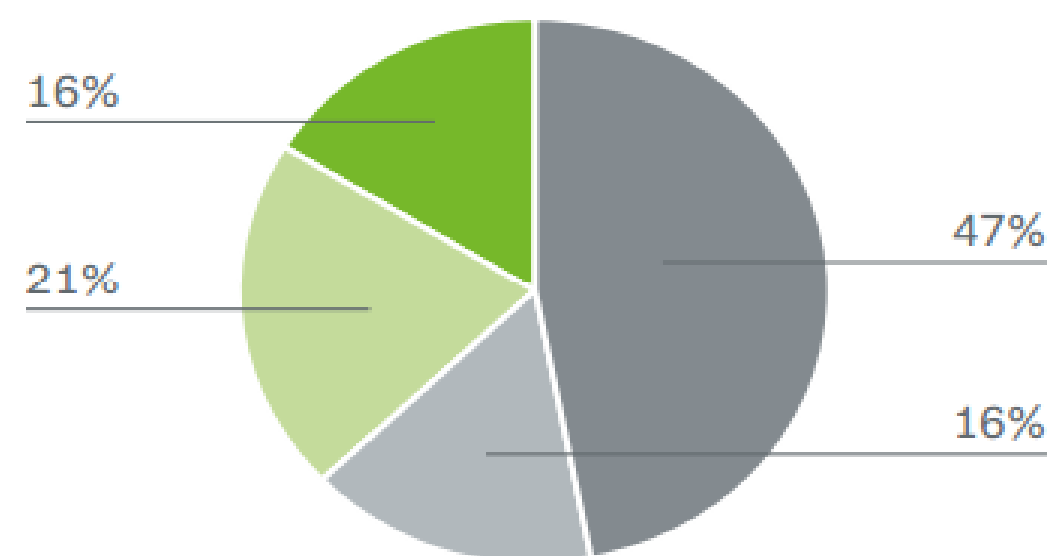
- > Data gathered by
  - Governmental bodies (cars registration, health spending)
  - On the basis of market places built in collaboration with competitors (e.g. BCA / Sidexa)

## ... compounded by the power of connectivity

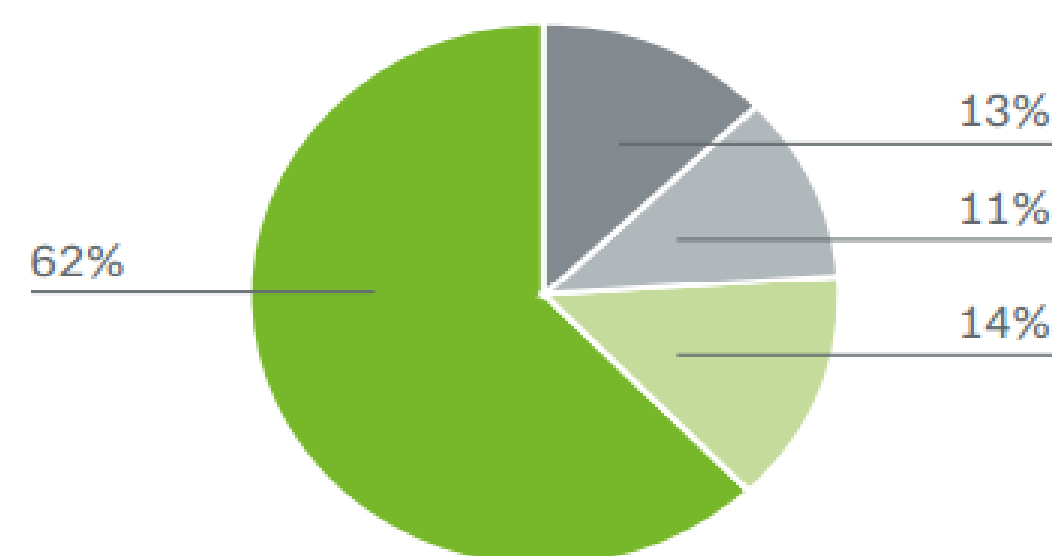


## 850'000 fatalities and US\$ 3.3 trillion total losses from weather-related loss events worldwide since 1980...

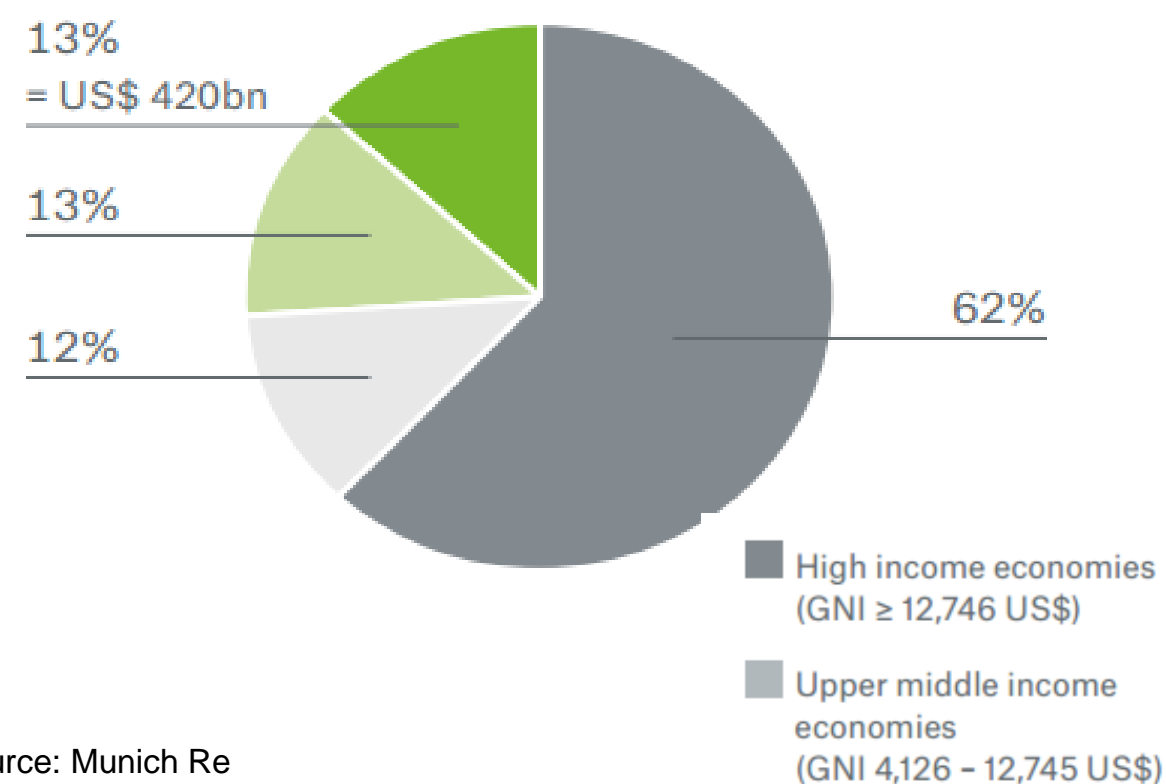
22,000 Loss events<sup>1</sup>



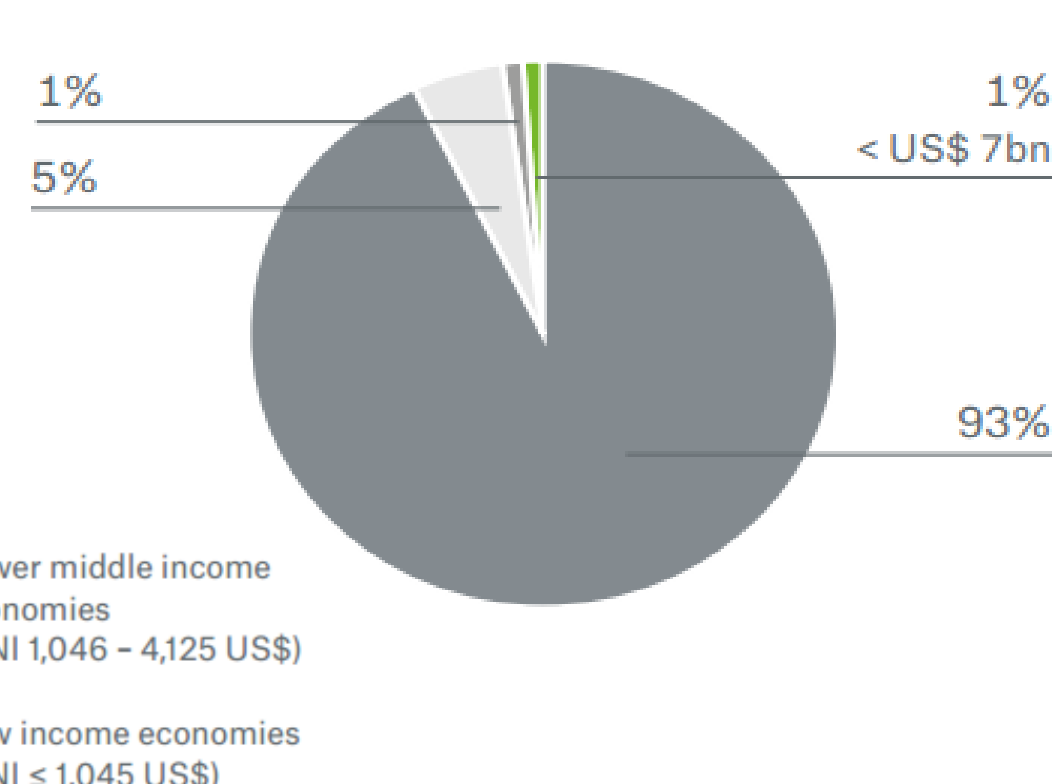
850,000 Fatalities<sup>2</sup>



Overall losses<sup>3</sup> US\$ 3,300 bn

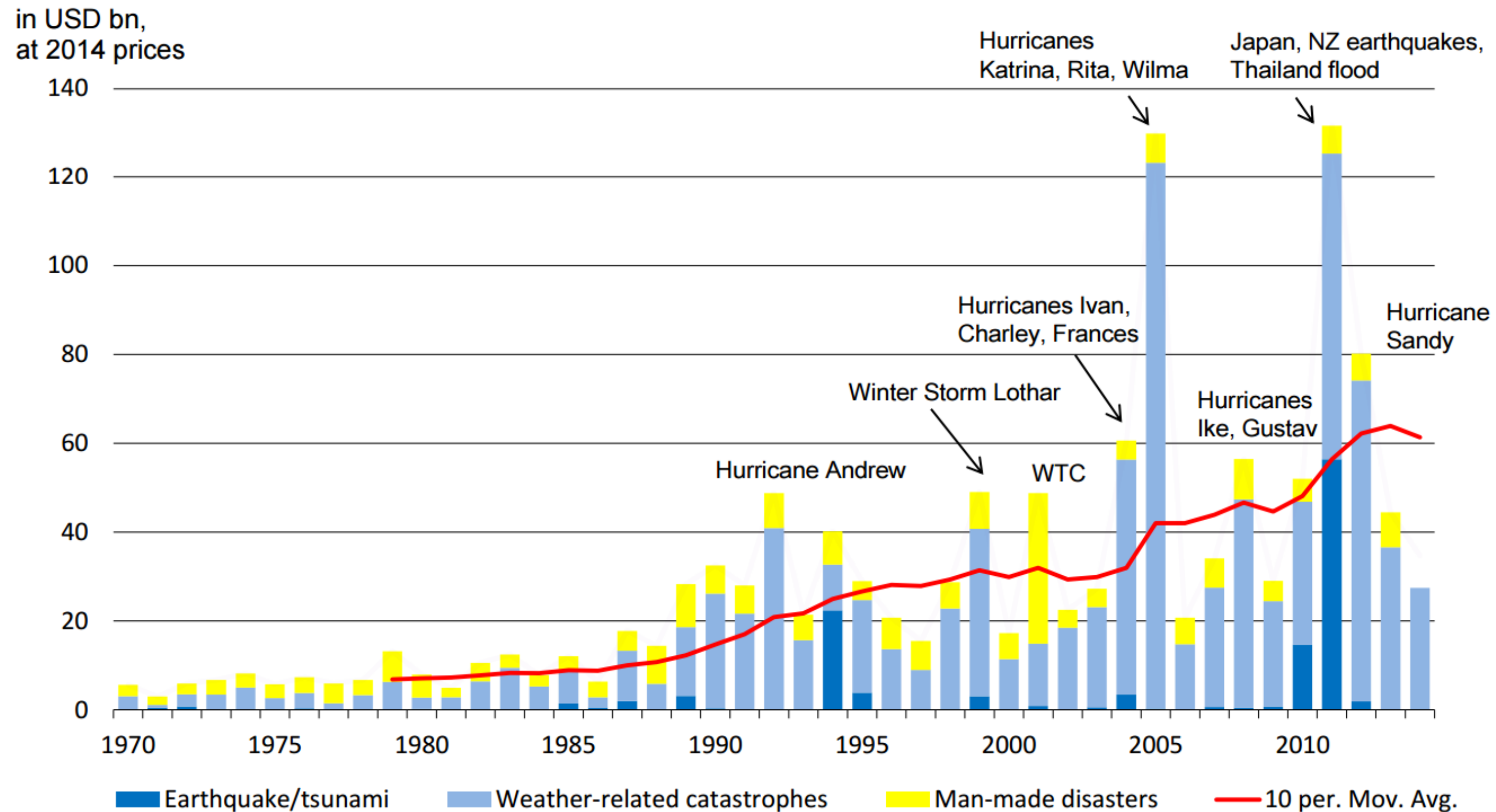


Insured losses<sup>3</sup> US\$ 940 bn



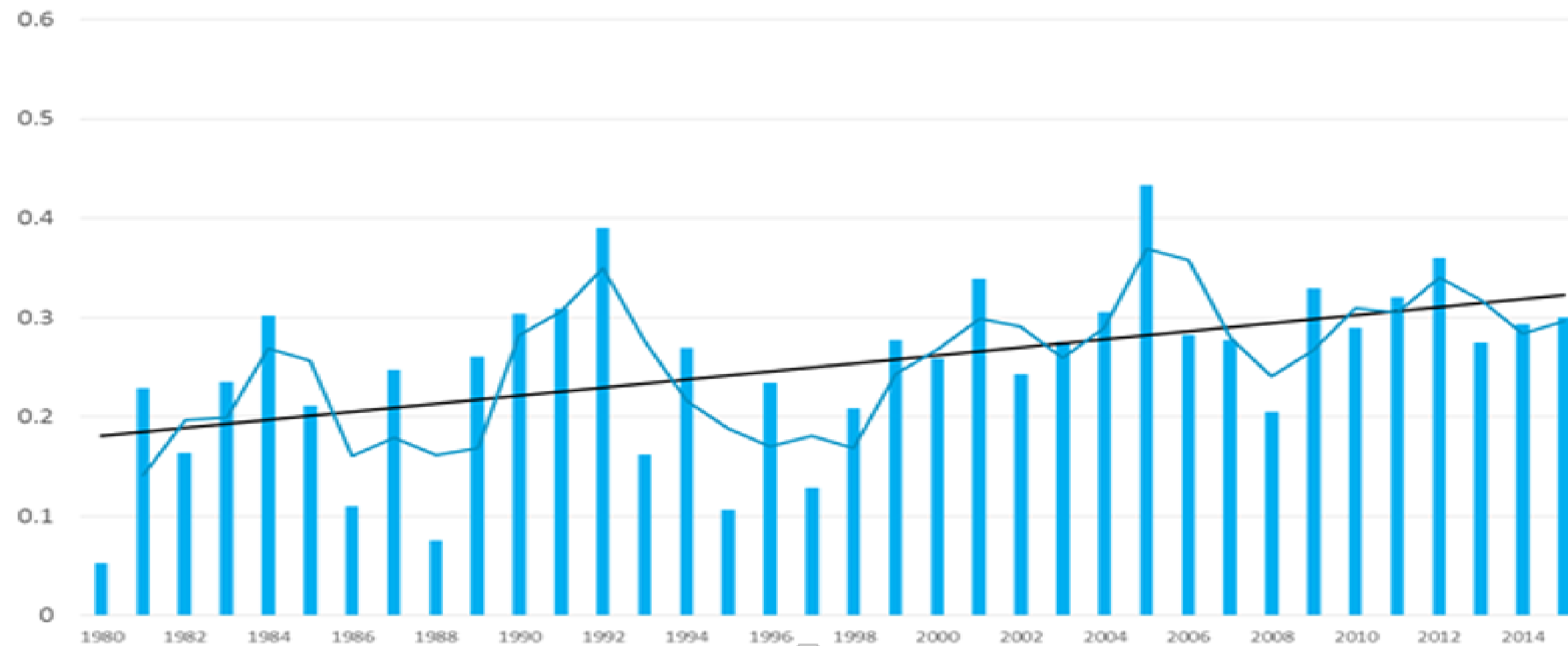
Source: Munich Re

## ... and a trend towards an increasing severity of disaster events...



## ... the majority of which remain uninsured

Global insured natural disaster losses as a share of total economic losses (1980-2015, nominal)



\ Globally, two thirds of economic losses from natural disasters remain uninsured

\ The longer-term trend suggests a moderate narrowing of the protection gap

## Challenges to insuring extreme event and climate risk

Mature markets



☐ Low awareness

☐ Supply fuctuations

☐ Public policy interventions

Developing markets

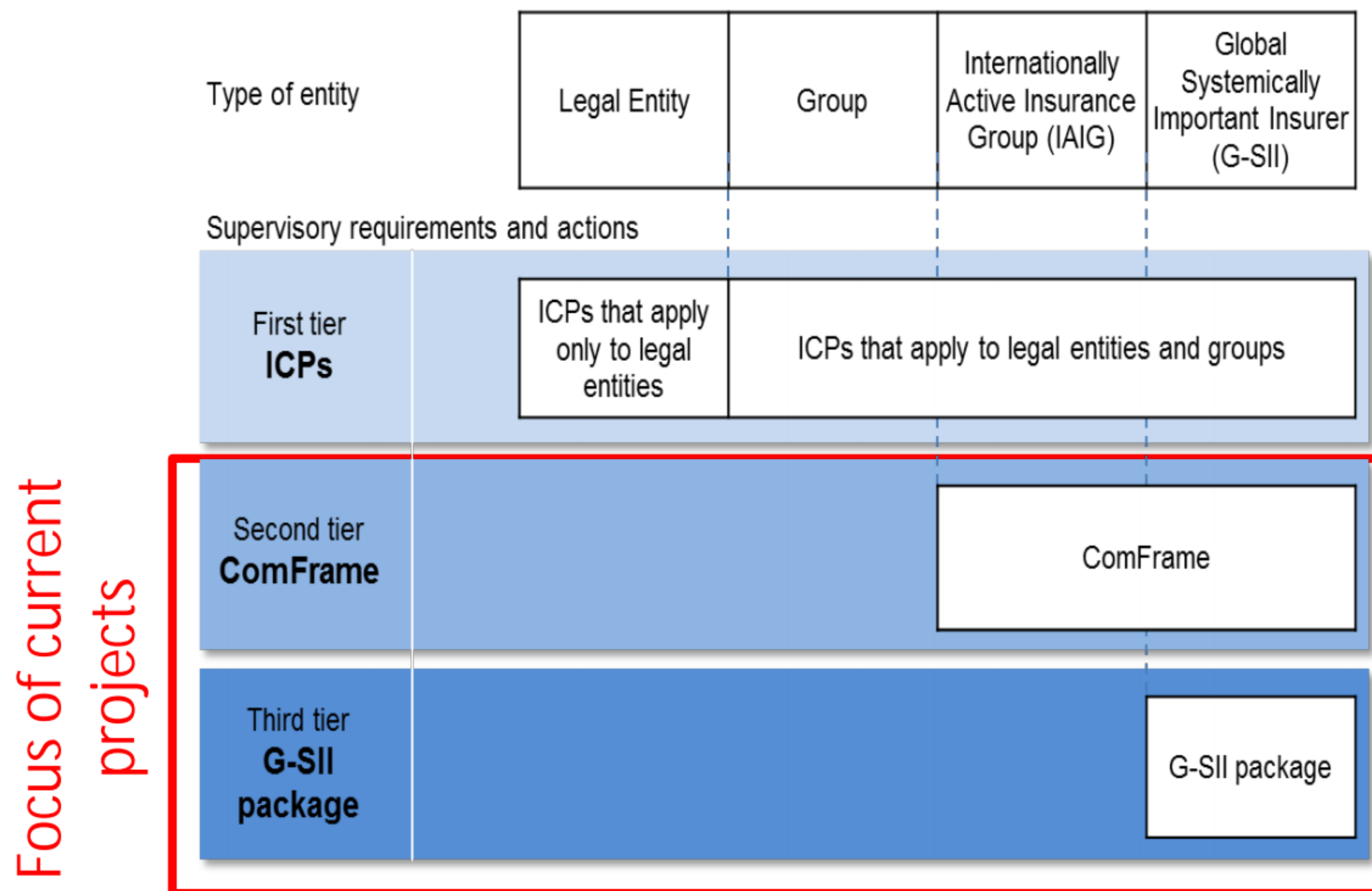


☐ Lack of data

☐ Regulatory deficits

☐ High transaction cost

## The policy view: Regulatory framework of the International Association of Insurance Supervisors (IAIS)



## 26 Insurance Core Principles (ICPs)

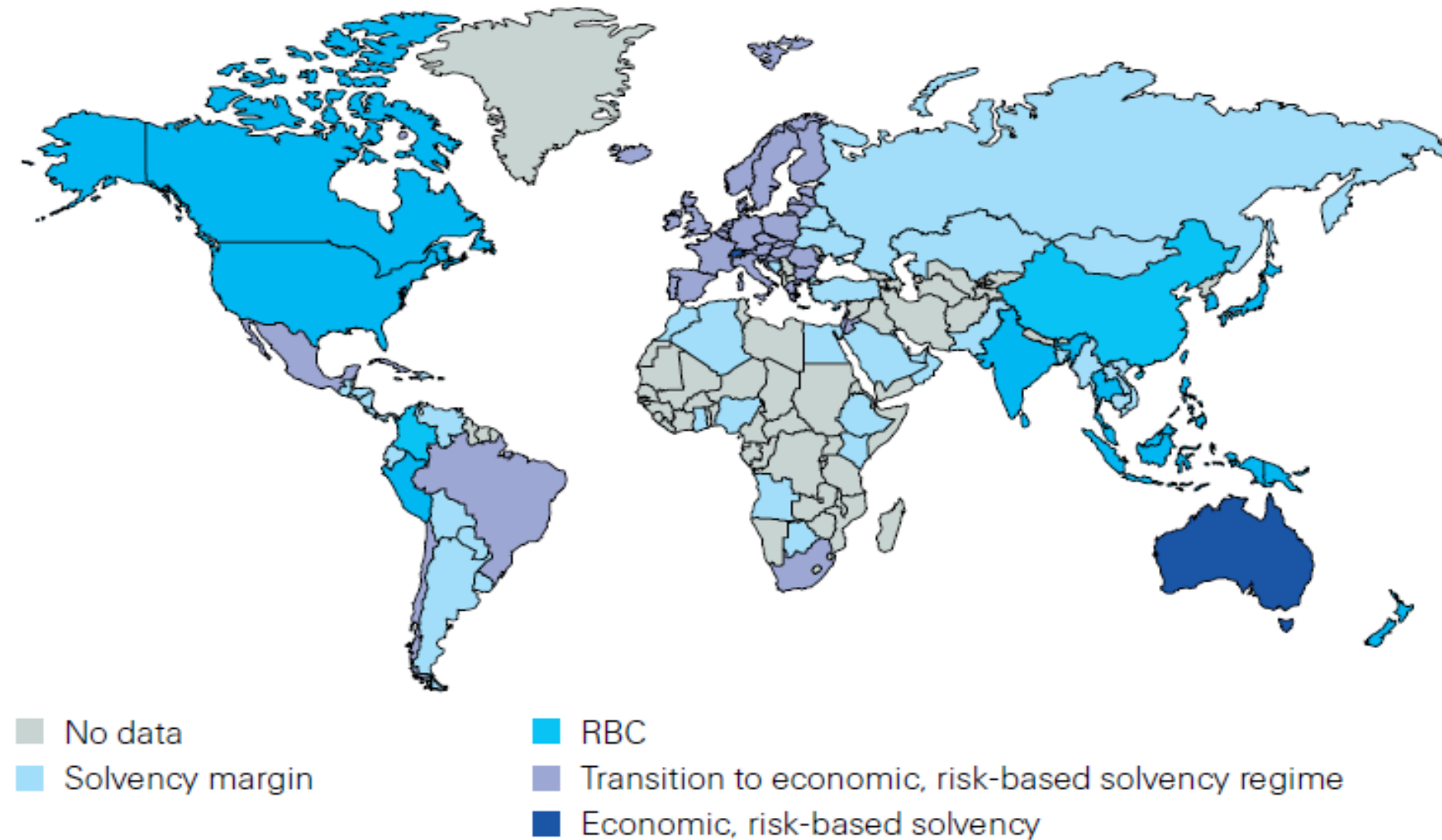
ICP 1	Objectives, Powers and Responsibilities of the Supervisor.....
ICP 2	Supervisor .....
ICP 3	Information Exchange and Confidentiality Requirements.....
ICP 4	Licensing .....
ICP 5	Suitability of Persons .....
ICP 6	Changes in Control and Portfolio Transfers .....
ICP 7	Corporate Governance .....
ICP 8	Risk Management and Internal Controls .....
ICP 9	Supervisory Review and Reporting .....
ICP 10	Preventive and Corrective Measures.....
ICP 11	Enforcement.....
ICP 12	Winding-up and Exit from the Market.....
ICP 13	Reinsurance and Other Forms of Risk Transfer.....
ICP 14	Valuation .....
ICP 15	Investment.....
ICP 16	Enterprise Risk Management for Solvency Purposes .....
ICP 17	Capital Adequacy .....
ICP 18	Intermediaries.....
ICP 19	Conduct of Business.....
ICP 20	Public Disclosure .....
ICP 21	Countering Fraud in Insurance .....
ICP 22	Anti-Money Laundering and Combating the Financing of Terrorism .....
ICP 23	Group-wide Supervision .....
ICP 24	Macroprudential Surveillance and Insurance Supervision.....
ICP 25	Supervisory Cooperation and Coordination .....
ICP 26	Cross-border Cooperation and Coordination on Crisis Management.....

\ Applicable to all insurers

\ Focus on supervisory practices, corporate governance, ERM and capital adequacy

\ Not legally binding but used by World Bank / IMF in their country-specific Financial Sector Assessment Programs (FSAP)

## Towards risk-based and economic risk-based solvency regimes



Source: Swiss Re

- ✓ In accordance with ICPs solvency margins are being replaced by (economic) risk-based regimes

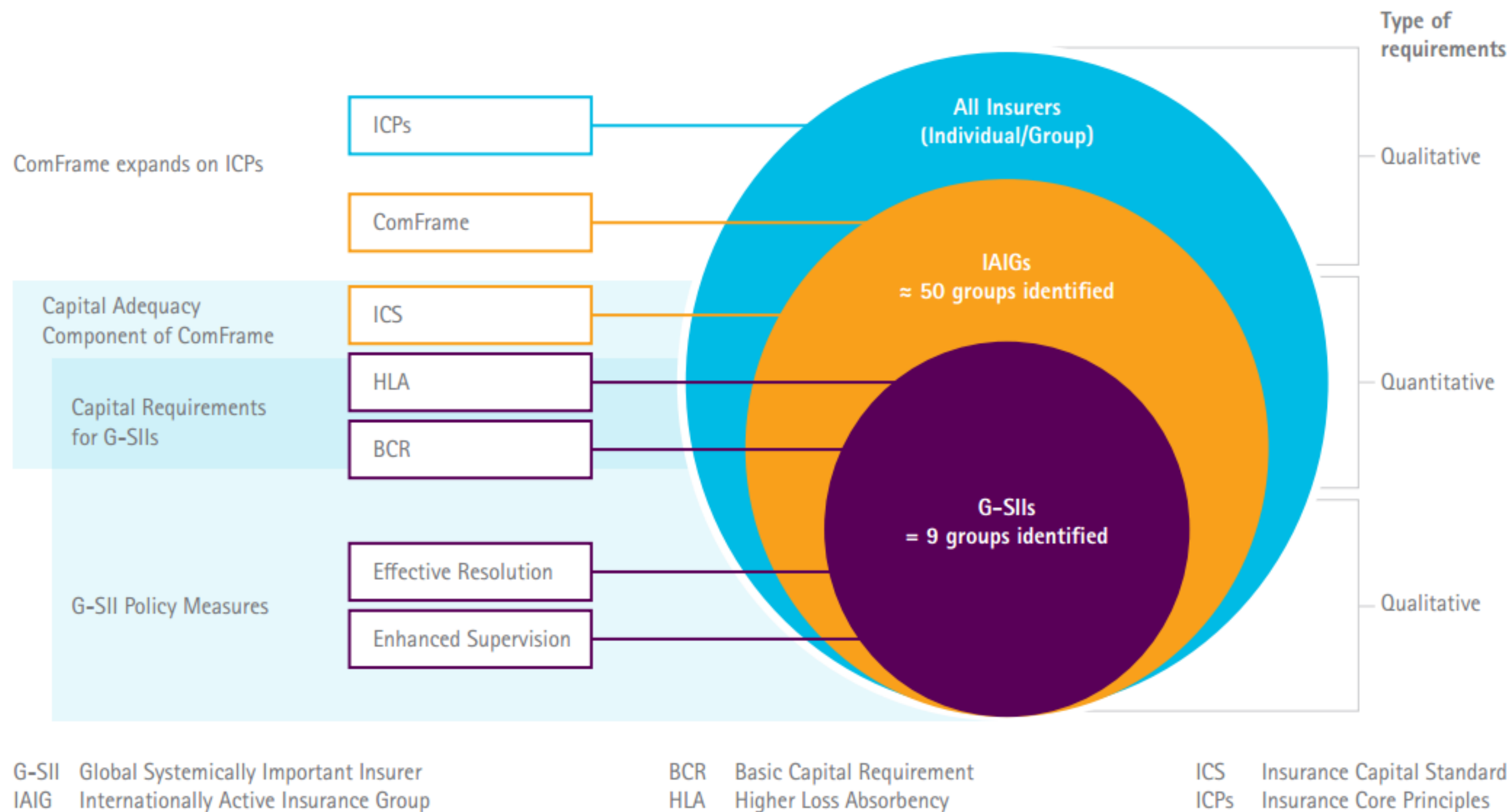
## Common Framework (ComFrame)

- \ Focus on the supervision of large Internationally Active Insurance Groups (IAGS)
- \ Applicable to about 50 insurance groups with a global market share of approximately 50%
- \ ComFrame will stipulate a set of Insurance Capital Standards (ICS) and define the role and responsibilities of the group-wide supervisor

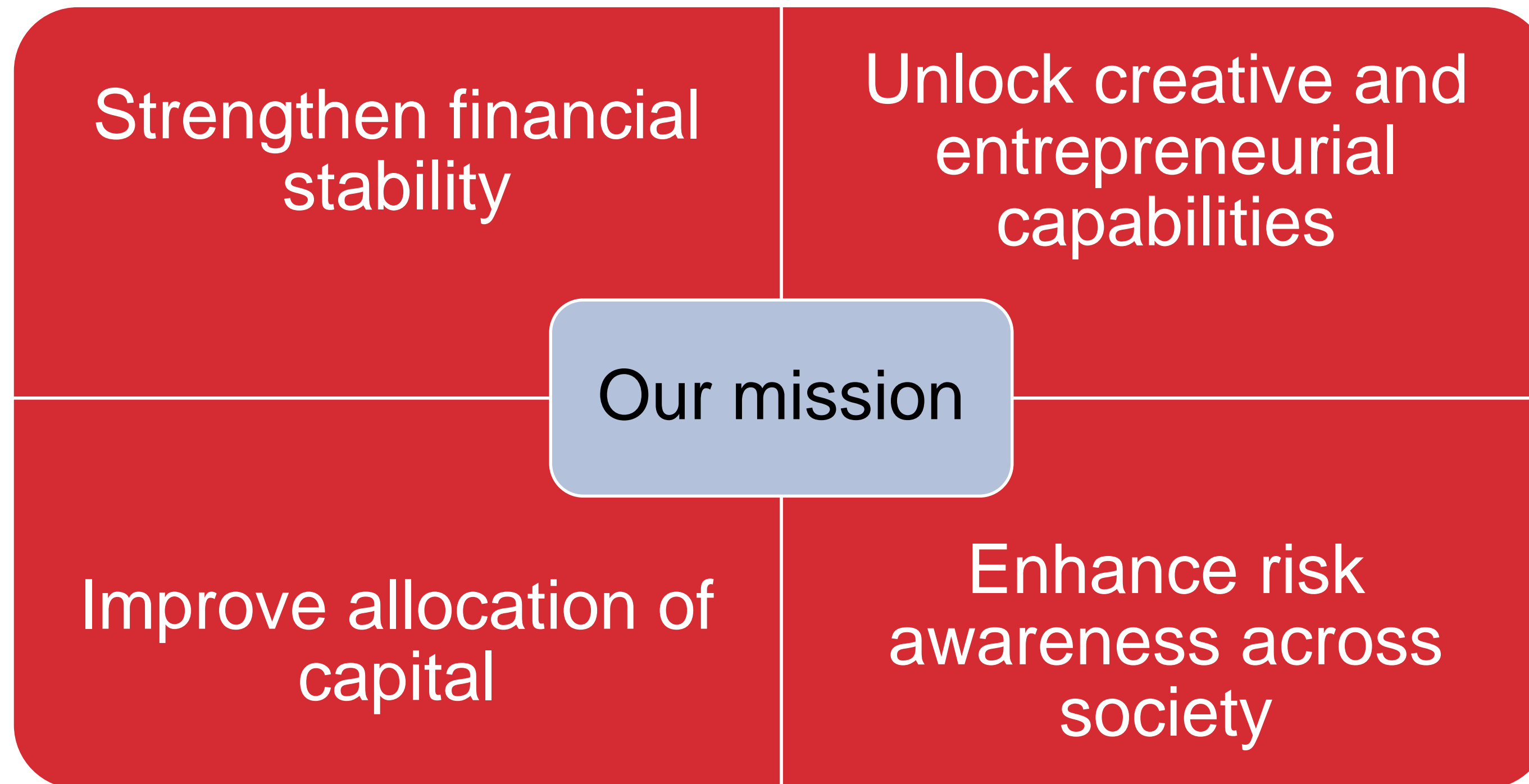
## Global Systemically Important Insurers (G-SIIs)

- \ Enhanced supervision
- \ Effective resolution
- \ Higher Loss Absorbency (HLA) on top of Basic Capital Requirements (BCR)
- \ Current list of G-SIIs: Aegon, Allianz, AIG, Aviva, Axa, MetLife, Ping An, Prudential Financial, Prudential plc

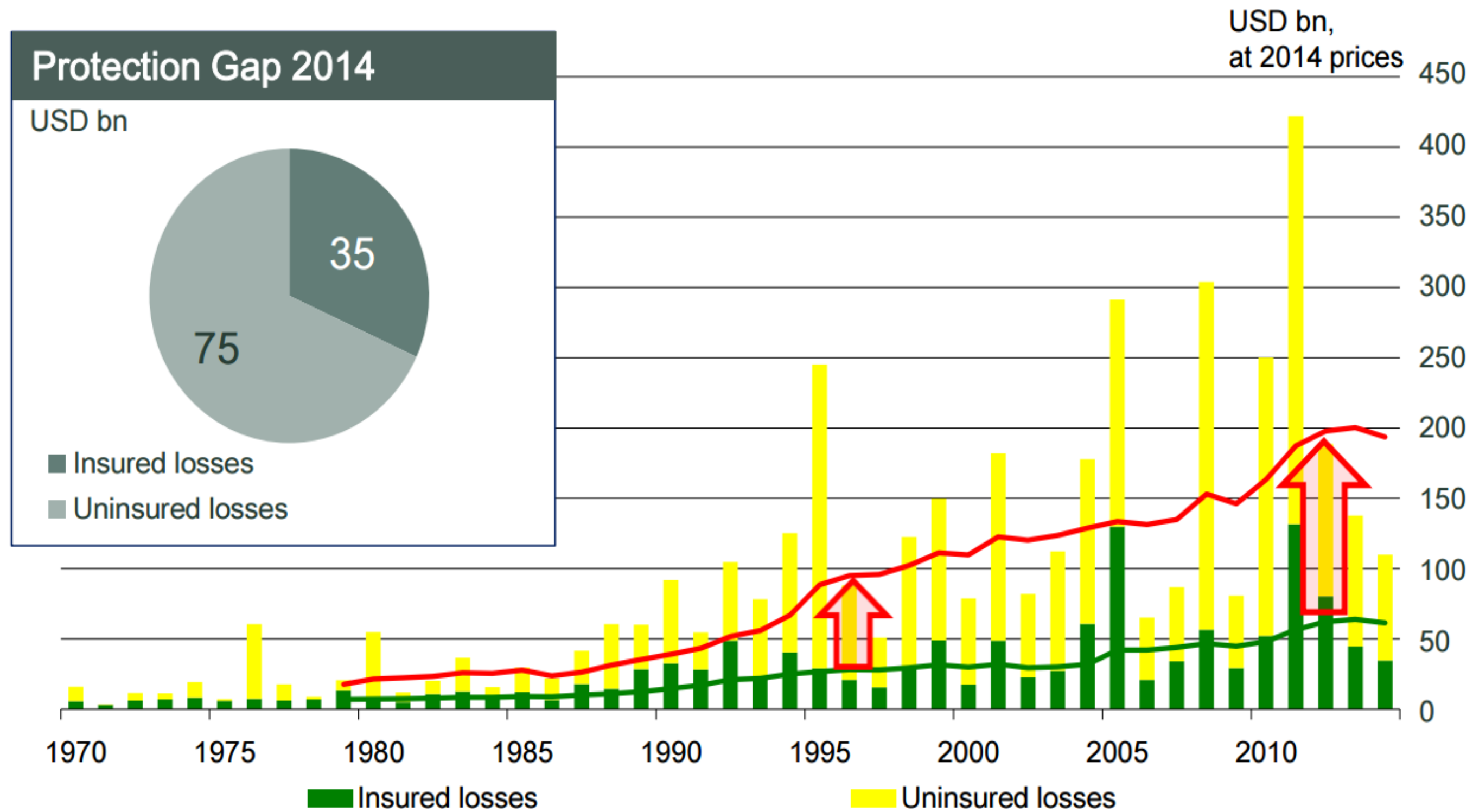
## The company view: Coping with heightened regulatory complexity



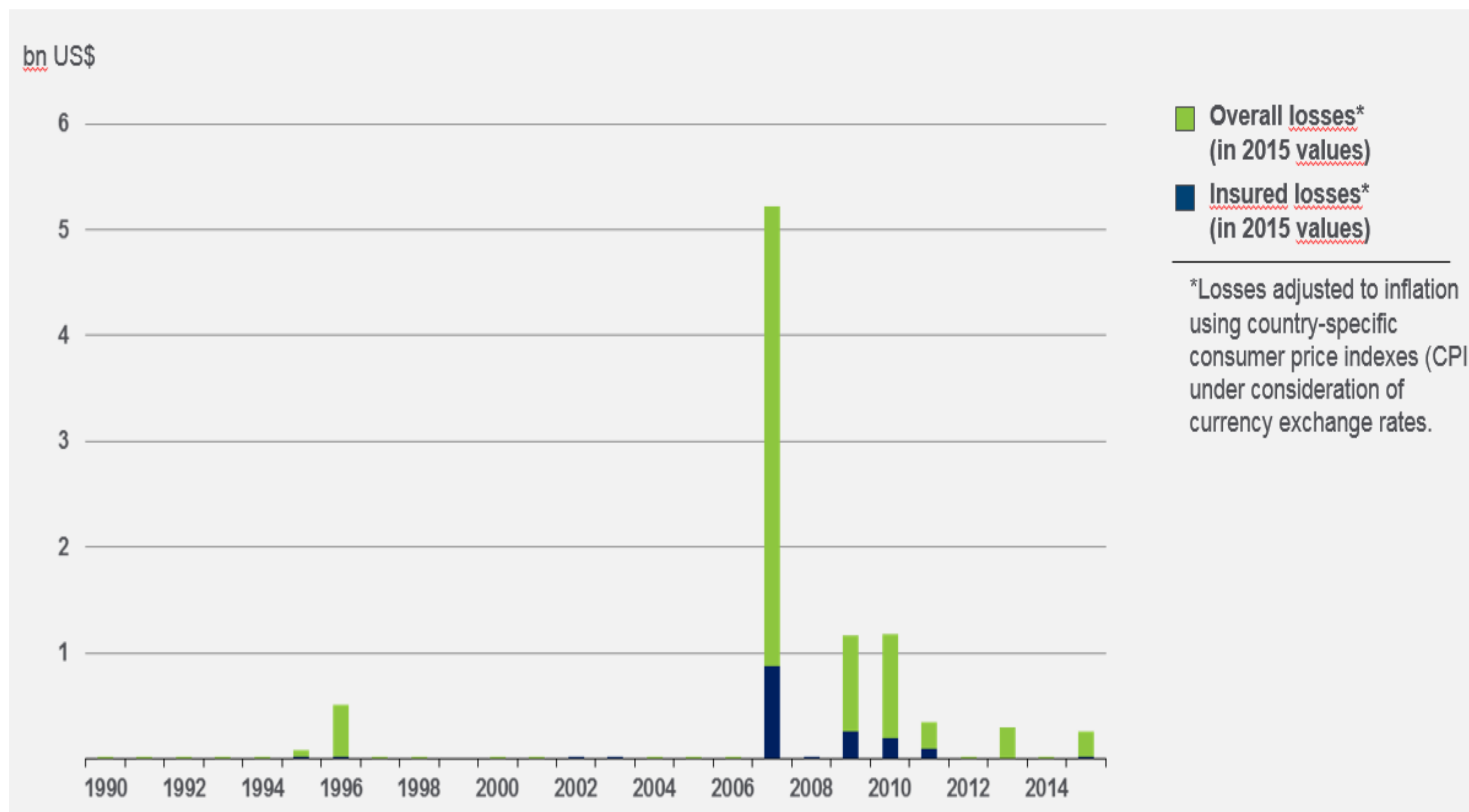
## Insurance is about promoting economic and societal development



## Today's reality: A huge global protection gap

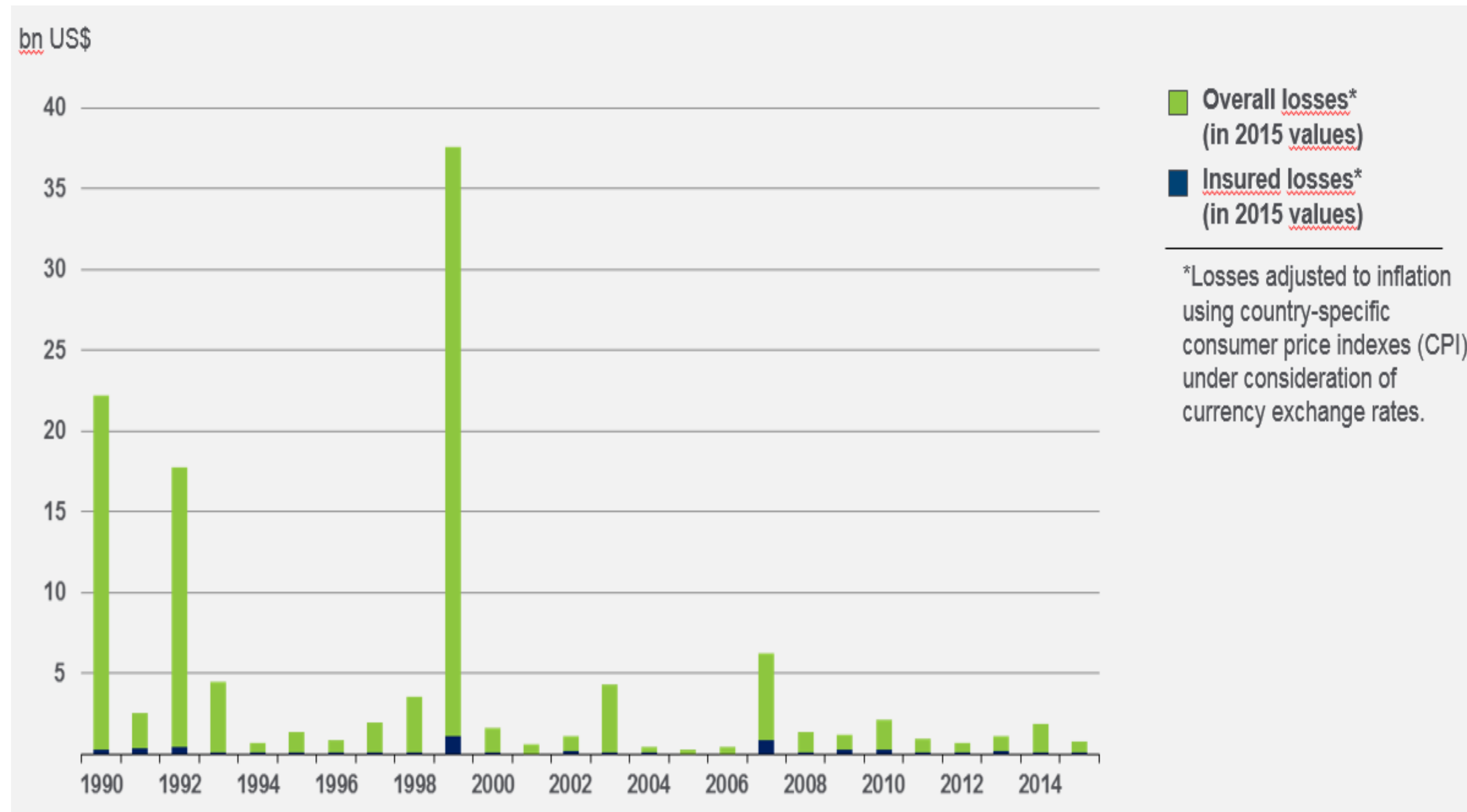


## The protection gap in the GCC region



\ The average GCC NatCat protection gap is about 80%

## The protection gap in the Greater MENA region (incl. Iran and Turkey)



\ The average Greater MENA NatCat protection gap exceeds 95%

## In summary: How to fulfill our mission in these trying times

### Challenges

- **Low interest rates:** Defend insurers' profitability and solvency as well as social and economic role
- **Regulations:** Address increasing cost and complexity

### Opportunities

- **Digitisation:** Make insurance more cost-efficient and attractive
- **Extreme events:** Narrow protection gap through creative solutions



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