Robert Ophèle, Deputy Governor

Is there a potential for systemic risk in the insurance sector?

Ladies and gentlemen,

This third session is devoted to the assessment of the potential for systemic risk in the insurance sector and to discuss if the supervisory framework which is under construction correctly addresses these risks.

Our Lead Speaker today is Professor Shin. Professor Shin is well known both in the academic circles and in the policy maker circles. Let me just recall that he took a leading role in formulating financial stability policy in Korea and in the debates taking place at the FSB and at the G20 in financial stability matters. Head of Research and economic advisor at the BIS, which highlights its twinned credentials, he will focus on the investment of insurer in sovereign bonds; how, in a context of low interest rates, govies attract the investment of insurers, not in reason of a search for yields or for speculation purposes, but due to a fully legitimate duration led policy. Since insurers are dominant players on the long term segment of the yield curve, this creates a vicious circle, by which the decreasing rates might foster insurers' investments in longer term govies, pushing further down the long term interest rates. To some extent, due to the place of Insurers in the market, the demand for sovereign bonds appears to exhibit a price-quantity relationship which has the unusual feature of being upward sloping: the more expensive they are the higher will be the demand.

Guillaume Plantin, our friend of Toulouse School of Economics and Sciences-Po Paris, will discuss this risk for financial stability, taking into account that the econometric confirmation work of Professor

Shin and his co-authors relates actually to a period when Solvency 1 was the regulation of reference and the ECB QE policy was not yet announced and implemented.

Then we will have the views of the Industry, I should say of this part of the Industry which is qualified as being systemic, with John C. R. Hele, who is Executive Vice President and Chief financial officer of Metlife and Christian Thimann, who is a Member of the Executive Committee of AXA. They will both review the shortcomings of the current regulatory approach of systemicity in Insurance: the inappropriateness of the definition of NTNI activities and the limit of an approach trying to get the implied risks under control through increased capital requirements; one could even advocate that the BCR, as the capital requirements for banks – but for them we have introduced a counter-cyclical buffer - , is procyclical and that this procyclicality would be exacerbated by the HLA.
But at the end of the day, nobody could believe that an activity

- which manages more funds than the banking industry,
- which, in many countries, receives more saving from households than banks,
- where many contracts allow for an early exit and consequently where insurers could be exposed to runs, to some extent, very similar to bank runs,
- and where ultimately some products as life insurance deserve to be guaranteed, just as bank deposits,
- an activity which is often conducted as part of a broader financial conglomerate where banking and asset management are also present …

so nobody could believe that such an activity has not a systemic implication which deserves a specific regulation preventing the too big or to interconnected to fail rationale. There is a need to prevent, as much as possible, failures of large institutions and also to be able to manage orderly resolution. Insurance activities also deserve some specific macro-prudential tools.

So the regulator will have the final say and a special thanks to Sandrine Lemery which has accepted to replace on the spot Michael Mc Raith, who unfortunately for us is blocked by a hearing at the US Congress. Sandrine is first deputy Secretary General at the ACPR and member of the management board of EIOPA.