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Conferința internațională a Forumului Internațional al Schemelor de Garantare Asigurări

A systemic risk perspective for IFGSs
Safeguard financial stability and economic growth

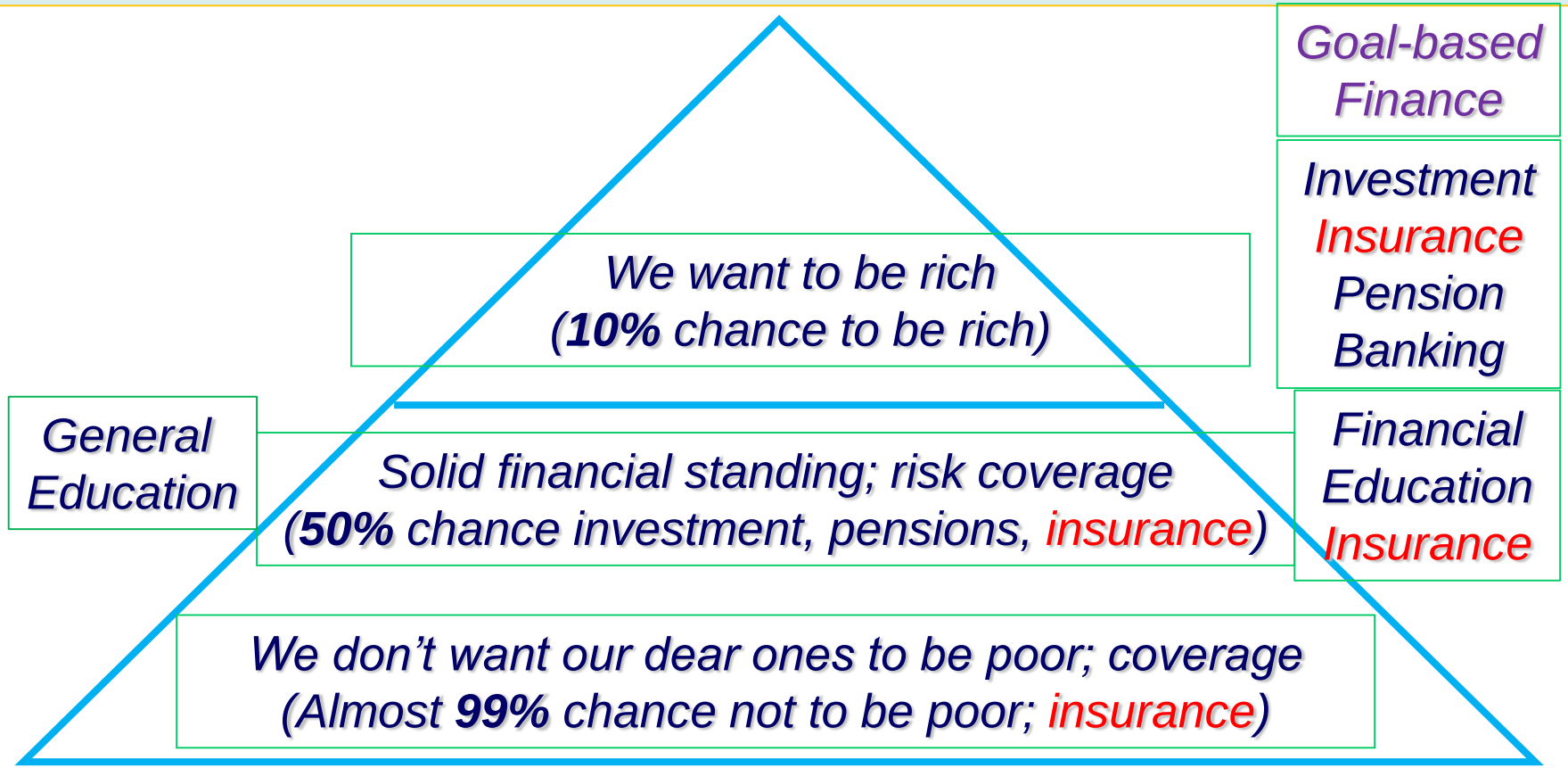
Protejarea stabilității financiare și a creșterii economice
Protecția la risc sistemic prin SGA

Dr. Adrian T. Mitroi, CFA, MBA
As. Professor of Applied Behavioral Finance.
Bucharest University of Economic Studies, Faculty of Finance

Board Member, Insurance Guarantee Fund

Public perception insurance - critical systemic importance

IFGSs schemes to safeguard stability and growth



Insurance Sector Risk Scoreboard, Oct 2018 (I)

Political risk: Medium to High

- Service *continuity* of insurance b/w UK-EU27, politico-economic scenarios on an institution's financial position
- *Globalization* of fin services, importance of international standards, convergence of practices, a common interpretation of regulations for protection policyholders
- Trade, currency war, protectionism
- *Decline in global trade*, rise in the oil price

Macro risks: Medium

- Improvement in economic activity, normalization of monetary policy, low yields, higher volatility bond markets
- Accommodative monetary, fiscal
- Low consumer price indices
- In a macro stagnation and market correction, insurers are exposed *both to investments and product portfolios*
- US high yield vs EU, ECB's QE end

Credit risks still: Medium

- Indebtedness high but insurers' exposures to mortgages and risky loans are medium
- Increased spreads across all bond segments
- Long low % *monetary easing uncertain*
- Divergent monetary policies, central banks, like governments, in a silent competition
- Euro credit markets signs of "fragility" *imposed by US normalization*, % differential

Market risks: Medium

- Market risks higher but still medium level, mostly from higher volatility in European bond and equity markets
- Insurance investments in asset classes exposed to *markets procyclical behavior*
- Mild sector vulnerability to adverse developments in overall specter of market and trade risks

Insurance Sector Risk Scoreboard, Oct. 2018 (II)

Liquidity and funding risks: Medium

- Easier funding conditions, better financial indicators: average coupon to maturity, cash to assets, liquidity, funding ratios OK
- Liquidity shocks are preventable need *coordinated in monetary euro system*
- No discernable potential risk from lapse rate of the life insurance or from liquidity buffer no high spreads signal a reduction in demand - a risk for liquidity and funding.

Interlinkages and imbalances: Medium

- Interlinkages, *imbalances risks constant*
- Insurers investment exposures to banks, insurers, financial institutions stable
- exposure to domestic debt predominant
- correlation of EM, FX volatility
- jump in US Dollar - EM currency weakness

Profitability and solvency: Medium

- Solvency ratios robust, capitalization and market indexes are increasing
- Assets over liabilities remains stable
- Trends in the investment portfolio of *insurers in search of yield*, a shift of asset allocation from fixed-income to equities, mortgages or alternative, higher yield investments

Insurance (underwriting) risks: Low

- As indicators for insurance risks gross written premiums of both life and non-life, critical risk input, but
- presently, for insurance sector no expansion (sustainability risk) and contraction (growth risk) do not indicate elevated insurance risks

Insurance Sector Risk Scoreboard, Oct. 2018 (III)

Market perceptions: Medium

- After 10 years, market perceptions are more favorable on overall financials
- Aggregate undertakings can create *systemic vulnerabilities*, market perception on the insurance sector is of systemic importance
- Resilience of insurance institutions to adverse market developments is stronger, *public opinion better*

Corporate Governance: Medium

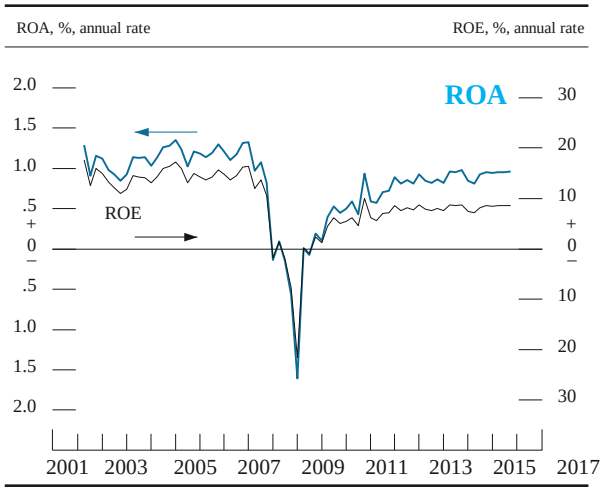
- Undertakings soundly managed and with an effective system of governance robust solvency position (current prospective)
- Insurer act honestly, fairly professionally *best interests policyholders beneficiaries*
- e.g. continuity of insurance, rather than cash compensation, better protection of insured; compensation not enable older holders, may be worse health than initially

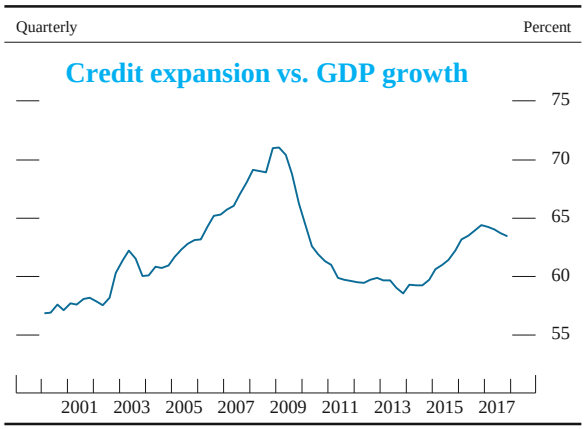
A fiduciary duty to our customers

- Close relationship between market conduct and prudential issue, in the minimal disruption or loss for policyholders and beneficiaries
- Well-functioning IFIG limits losses in insolvency, as pay-box for *continuation of the policies* for policyholders

Future systemic risk: mitigation by IFGS

- better *business intelligence* to data, passport information to ascertain impact and probability of undertaking's failure;
- both potential financial impact of:
  - any failure (size, public, systemic)
  - probability of failure need to be considered by the IFIG.





Int'l markets; new challenges the insurance sector

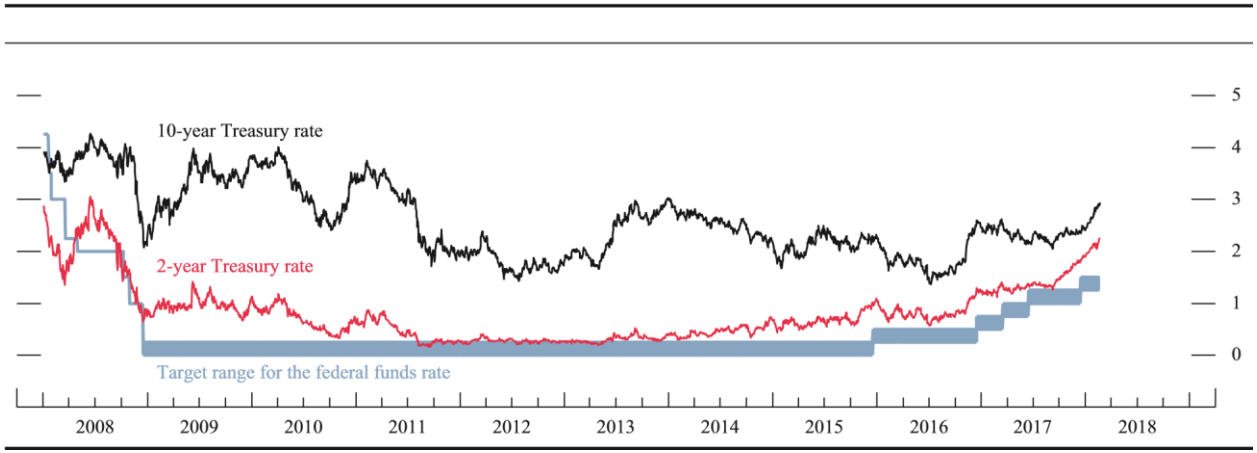
Credit expands, bank and insurance profitability stable. Credit and insurance pace now slower than nominal GDP, bank credit to current-money GDP lower than earlier in 2018. profitability little changed

Macroeconomics and central banks matters most for financial, insurance sector

American Monetary Policy

Vs.

ECB status quo



Conclusion

from a systemic risk perspective, IFGSs are indispensable schemes to safeguard financial International stability and economic growth