

Aligning Insurance Regulation With The Realities Of Globalization: A Case For Insurance Regulatory Modernization

The Role Of Insurance In Supporting Economic Growth

By effectively diversifying risk and deploying capital, insurance:

- Fosters entrepreneurship for small businesses and start-ups
- Offers protection to households and firms from disasters and other risks, unlocking investment and innovation
- Improves the financial soundness of multinational companies managing varied risks across the globe
- Creates liquidity and mobilizes savings in emerging economies

The Reality Of Globalization And The Increased Importance Of Insurance

Globalization is providing businesses, investors, and entrepreneurs new opportunities:

- Nearly 50% of S&P 500 companies revenue comes from non-U.S. sources
- World exports are now over 30% of global GDP, almost double its level from 1990
- 67% of companies in EY survey said their supply chain is servicing company's growth in emerging markets

The Increasing Importance Of Insurance

- With these trends, risks have become globalized. With global supply chains, investments, and customers, insurable risks on one side of the world impact people on the other more than ever before
- For insurers, the ability to effectively diversify risk and deploy capital is essential to continue the offering of competitively priced quality products to businesses and individuals

Key Question For Policymakers: Does The Current Regulatory Environment Help Or Hinder Insurers' Ability To Propel Economic Growth In The 21st Century?

A fragmented system of solvency regulation for internationally active insurance groups is not cost-effective and impedes fair competition. Nor are policyholders well-served by layers of uncoordinated regulation and disharmony among regulatory bodies

Zurich believes the industry is at an important crossroad in which foundations are being laid for the insurance mechanism to contribute to sustained economic growth and financial stability for decades to come.

Regulatory regimes must account for increased globalization:

- (1) To meet the needs of global customers;
- (2) Promote diversification of risk across regions;
- (3) Allow for effective deployment of capital; and,
- (4) Lower costs for-insureds

What Zurich Supports With International Capital Standards

Zurich supports movement toward a risk-based global insurance capital standard (ICS) to be applied on a consolidated group-wide basis to IAIGs. The standard should:

- Allow for the comparability of an IAIG's financial position across jurisdictions
- Specify a one year time horizon for quantifying capital requirements
- Apply proportionality through a focus on material risks

Further, Zurich supports the establishment of one group-wide supervisor with a holistic view of the group, supplemented by strong and meaningful collaboration among all supervisors in the Supervisory College

Zurich believes valuation for ICS should be based on objective economic principles to ensure comparability, not prescriptive rules:

- Zurich is generally supportive of the good progress already made by the IAIS on BCR valuation
- The key principles of the Market Adjusted Approach proposed by the IAIS for BCR valuation should also inform the ICS: fair value for investment assets, and current best estimate for liabilities
- IAIGs should put a materially similar present value on a fixed nominal cash flow of a given currency, timing, and illiquidity

Additionally, Zurich believes:

- The use of internal models should be part of the ICS and if approved by local supervisors to a standard at least equivalent to ICS, they should be applicable from the outset.
- A capital standard must incentivize good risk management practices by giving credit for both risk mitigation instruments and risk diversification.
- The development of the capital standard is a *multi-year process* and is not likely to be achieved in a single step. We support a phased-in implementation that would allow for adaptation to existing business models and local regulation over time.

What Zurich Does Not Support

- **Zurich does not support global application of Solvency II, the US RBC or the Swiss Solvency Test.**
- **Zurich does not believe the ICS should be applied to all insurance firms,** but only to Internationally Active Insurance Groups (IAIG's) as defined by the International Association of Insurance Supervisors, (IAIS).
- **Zurich is not seeking to displace local regulation,** but wants to enhance harmonization of regulatory requirements across all the regions in which our group operates and our customers conduct business.