

# Issues Unique to Groups

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# Outline

- What is a group
- Nature of (insurance) groups
- Nature of group supervision/regulation
- Implications for group supervision/regulation



# What is a group

- Collection of companies under common ownership/control
- Insurance group – collection of insurers under common ownership/control
- Most important issue for this definition:
  - *Are the operations (and solvency) of one group member materially impacted by others in the group. I.e., are the members of the group interconnected or linked in some fashion in a material (solvency-related) way.*



# What is a group

## **CAUTION**

It is unlikely that any particular characteristic or issue will apply to all groups



# Nature of groups – connections/links - 1

- Governance
  - May be relatively centralized or decentralized, but group senior management will always have some influence.
- Capital – common to have centralized capital management
  - Different structures for different groups
  - Branches, Lloyds, Separate entities for specialized lines/markets?
  - Parent holding company approach – all debt at the top



## Nature of groups – connections/links - 2

- Shared Resources
  - Centralized vs. decentralized
  - Common for some to be centralized (e.g., investment)
  - Can't be totally centralized – regional claim, legal differences
- Business Management structures cross legal entities lines
- Reputation Risk – *(act of one entity can impact the group)*
- Culture - *may be common throughout the group*



# Nature of groups – other relevant issues

- Multiple jurisdictions/sectors
  - Some of these sectors may have common regulators (life, health, property/casualty)
  - But some sectors may have different regulators (banking vs. insurance?)
- Multiple origins/backgrounds (*organic vs. acquisition growth*)
- Multiple environmental pressures
  - Multiple legal environments, currencies, insurance markets, etc.



# Nature of groups – other relevant issues

- Multiple capital levels of interest
  - Group versus legal entity
  - Regulatory vs. Rating Agency vs. Internal capital requirements





# Nature of group supervision/regulation

- Solo (legal entity) vs. Group Supervision
- Supervision by industry sector (life vs. non-life)
- Need for supervisory cooperation
- Cooperation not just across national boundaries
  - Also across sectors, even in same governmental agency
- Top-down vs. Bottom-up
  - May vary by country or even sector within country



# Implications for group supervision/regulation

- Scope of the group supervision
  - May not include all of the group (“investments” vs. group member)
  - Subgroups
  - Minority ownerships
  - Conflicting supervisory approaches (top-down & bottom-up)
- Relevant management
  - Legal entity management and/or group management?
  - In either case, must comply with local law



## Implications - 2

- Business lines cross legal entities
  - Can make pinpoint supervisory actions difficult or problematic
- Capital location
  - Need to comply with local capital requirements – fungibility?
  - Impact of various group actions on capital location
    - Intragroup reinsurance
    - External reinsurance that protects the entire group
    - Intragroup loans
    - Service contracts
    - Tax treaties



## Implications - 3

- Capital access
  - Groups may have better access to capital markets than solo entities
- Group debt
  - If at parent, not an obligation of operating entities
- Group insolvency vs. operating entity insolvency
  - Balance sheet insolvency vs. cash insolvency (fungibility issues)
- ERM – group risk management vs. legal entity risk management
  - For some items easier at group level. For others, easier at legal entity



## Implications - 4

- Stress Testing
  - Not all legal entity stresses are relevant to the whole group
- Diversification benefits of group structure
  - Benefits can be real, but also must address fungibility
  - Diversification is fundamental to the insurance model
- Recovery/resolution
  - Can be eased or complicated by group structure
  - Impact of structural complexity, shared resources, intragroup reinsurance and guarantees



Thank you



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