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