

# **MACROPRUDENTIAL SURVEILLANCE *2016 ASSAL CONFERENCE***

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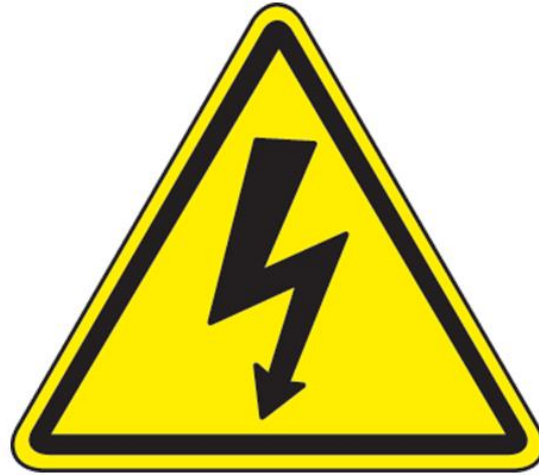
# **INSURANCE CORE PRINCIPLE 24**

## **Macroprudential Surveillance and Insurance Supervision**

The supervisor identifies, monitors and analyzes market and financial developments and other environment factors that may impact insurers and insurance markets, and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize also information from and insights gained by other national authorities

# SOLVENCY MONITORING RISK ALERT

**NAIC** National Association of  
Insurance Commissioners



Solvency Monitoring Risk Alert

Fall 2016

# SOLVENCY MONITORING RISK ALERT



## Changes from Spring 2016 Edition

The following table provides a description of significant changes made to update the document for Fall 2016.

Topic	Category	Description of Change
Cybersecurity	Overall Insurance Industry	Minor change to reference vulnerability assessments and penetration testing.
Mergers & Acquisitions	Overall Insurance Industry	Added a reference to the new Form A Review Best Practices document.
Cybersecurity Insurance	P&C	Updated to reflect results reported in cybersecurity supplement at 12/31/15.
Auto Insurance Trends	P&C	New topic to address negative trends in auto liability line performance with the potential to impact thinly capitalized auto writers.
Pension Buyouts	Life	Updated with new reports and data indicating a continued increase in pension buyout activity.
Fiduciary Rule Change	Life	Updated for information on lawsuits seeking an injunction to stop the rule from going into effect.
Low Interest Rates and Tight Credit Spreads	Investments	Updates to reflect changes in market conditions and address potential 'false positives' in negative spread analysis.
Market Volatility	Investments	Updated to reflect changes in market conditions.
Real Estate Valuation	Emerging Risks	Risk renamed and updated to address broader concerns regarding real estate valuation.

# SOLVENCY MONITORING RISK ALERT

## I. Risks/Concerns Affecting the Overall Insurance Industry

1. Cybersecurity
2. Merger and Acquisition Activity
3. Private Equity Involvement in Insurance
4. Changes in Distribution Systems

5. Federal and International Regulatory Developments
6. Operational Risk

## II. Risks/Concerns Affecting Property and Casualty Insurance

1. Continued Soft Market
2. Climate Change/Variability
3. Alternative Capital in Reinsurance
4. Emerging Underwriting Risks

5. Cybersecurity Insurance
6. Terrorism Risks
7. Auto Insurance Trends

## III. Risks/Concerns Affecting Life Insurance

1. Use of Captives
2. Emerging Products
3. Pension Buyouts

4. Interest Rate Environment
5. Fiduciary Rule Change

## IV. Risks/Concerns Affecting Health Insurance

1. ACA Compliance and Effect on Insurers
2. Market Pressures on New Insurers, Small Insurers and Co-Ops

3. Potential for Pandemic Outbreak
4. Long-Term Care Insurance

## V. Risks/Concerns Affecting Insurer Investments

1. Low Interest Rates and Tight Credit Spreads
2. Investment Management

3. Increased Exposure to Non-Traditional Investments
4. Market Volatility

## VI. Emerging Risks/Concerns

1. Advances in Automotive Technology
2. Drones
3. Health Provider Consolidation
4. Sharing Economy

5. Price Optimization
6. Political Risk
7. Real Estate Valuation



# NAIC CAPITAL MARKETS BUREAU

- Risk Alert Bulletin
- Capital Markets Special Reports
- Hot Spots
- Capital Markets Conference Calls

# RISK ALERT BULLETIN

Through the first two months of 2016, the markets across virtually every major asset class experienced a substantial amount of volatility. While perhaps not unprecedented, its occurrence at the close of 2015 raises potential questions about year-end valuations. Also, though the markets have generally recovered from “correction” levels, the volatility has occurred based on relatively little concrete news, leaving concerns that downside risk may still be high. Weakness earlier in the year was largely attributed to frailty in China’s economy and declines in commodity prices, particularly oil. Global equity markets - especially in Asia – dropped significantly, and credit spreads spiked, particularly for below investment grade bonds. Meanwhile, prospects of a weakening economy and investors seeking safety in U.S. Treasuries drove yields on longer-dated U.S. Government bonds down even further. As reported in two Capital Markets Bureau Hot Spots published in February 2016, the differential between 30-year and 1-year Treasuries dropped to 205 basis points, and government bond yields in Europe and Japan turned negative.

# NAIC CAPITAL MARKETS BUREAU

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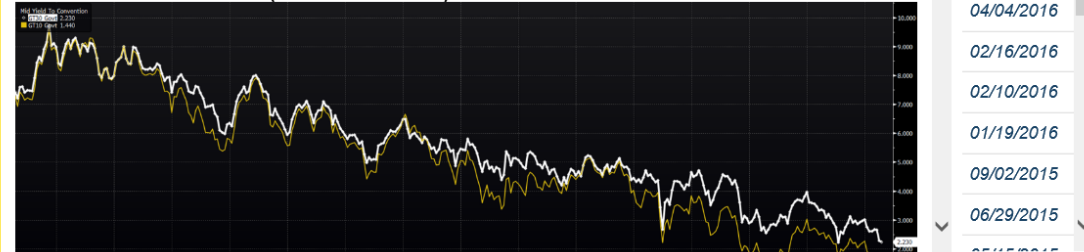
- Preliminary Investment Analysis Report
- Investment Analysis Report

## The SPOT

### Government Bond Yields Reach a 30-Year Low (07/05/2016)

Beginning the second half of 2016, government bond yields have continued their decline and have reached their lowest point in 30 years. As a result, yield curves have flattened, with differentials between the 30-year and one-year at 180 basis points (bps) in the U.S. and only 42 bps in Japan. Japanese and German government bond yields are negative going out past the 10-year point in the curve, and the European Central Bank (ECB) curve is negative out to the 5-year point. Estimates indicate that there are currently more than \$11.7 trillion in government bonds globally with a negative yield.

### U.S. Government Bond Yields (30-Year and 10-Year) Since 1986





# CAPITAL MARKETS

## *SPECIAL REPORT INDEX*

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9/13/16	U.S. Insurer Exposure to the Federal Home Loan Banking System as of Year-End 2015
9/09/16	U.S. Insurance Industry Year-End 2015 Exposure to Securities Lending and Repurchase Agreements and Regulatory Update
8/24/16	Capital Markets Update: Mid-Year 2016
7/29/16	Update on the U.S. Insurance Industry's Exposure to the Financial Sector
7/19/16	U.S. Insurer Exposure to U.S. Common Stock as of Year-End 2015
6/06/16	U.S. Insurance Industry Cash and Invested Assets at Year-End 2015
6/02/16	Interest Rate Impact on Fair Value of U.S. Insurer Investments
5/05/16	Credit Derivative Index Products: An Overview and Their Role in Insurer Investment Portfolios
4/19/16	U.S. Insurers' Role in the Investment Ecology
4/4/16	Diverging Economies and Correlated Markets: The Impact of Economic Trends and Capital Flows on the Global Investment Landscape
3/31/16	Capital Markets Update: First Quarter 2016
3/4/16	U.S. Insurer Exposure to Schedule BA (Other Long-Term Invested Assets): Focus on Private Equity, Hedge Funds and Real Estate
1/26/16	Analysis of the U.S. Insurance Industry's Exposure to Below-Investment Grade Investments
1/21/16	Year-End 2014 Foreign Exposure in the U.S. Insurance Industry

# The T SPOT

Moody's Lowering City of Chicago Debt Rating to 'Junk' Status Has Small Impact on Overall Insurance Industry Holdings (5/15/2015)

Greece and Puerto Rico Turmoil – Minimal Impact on U.S. Insurer Investments (6/29/2015)

Equity Markets' Volatility and U.S. Insurance Industry Exposure (9/2/2015)

Market Update: A Turbulent Start to 2016 (01/19/2016)

Complications for U.S. Insurers Caused by Flatter Yield Curve (02/10/2016)

Negative Interest Rates and Market Implications (02/16/2016)

Year-End 2015 U.S. Insurer Exposure to Private Equity Funds Decreases; Hedge Funds Increases (04/04/2016)

U.S. Insurance Industry's YE 2015 Exposure to the Energy Sector: Warrants Continued Monitoring, But No Cause for Immediate Concern (04/26/2016)

Recent Developments in the Puerto Rican Debt Crisis (05/17/2016)

Implications of a Potential Brexit (06/07/2016)

Implications of the United Kingdom Referendum to Leave the European Union (6/24/2016)

Government Bond Yields Reach a 30-Year Low (07/05/2016)

# Capital Markets Conference Call

The Capital Markets Bureau is comprised of a team of experienced financial services professionals who provide support to state insurance departments in terms of capital markets research and insurance company investment activities. We will begin the conference call with some comments about recent trends and developments in the financial markets. After that, we will open up the call for questions. Questions can either be about the topics discussed or any other topic of interest. The objective is to give you the benefit of insight and experience from experts following the capital markets, especially as they relate to insurance companies and insurance regulation.

For this call, possible topics may include the current financial news headlines:

Capital Markets Update;

Overview of the Hedge Fund Market and Alternative Investments;

Performance/Returns of Hedge Funds and Alternative Investments Over the Last Few Years;

U.S. Insurance Industry Year-End 2015 Exposure to Hedge Funds and Alternative Investments; and

Risks of Hedge Fund and Alternative Investments and How Insurers Can Mitigate These Risks

# MACROPRUDENTIAL POLICY & SURVEILLANCE WORKING GROUP

- 2016 Topics
- 2015 Global Insurance Market Report
- 2016 Global Insurance Market Report
- Risk Categories

# 2016 TOPICS

- Emerging Insurance Markets
- Brexit
- Operational Risk
- Reinsurance and Alternative Risk Transfer
- Internal Modeling
- AM Best Capital Model

# 2015 GIMAR

- Mergers & Acquisitions in the Insurance Sector
- Corporate Bond Liquidity
- Reaching for Yield by Insurance Companies
- Changes in the Insurance-Linked Securities Market
- Dedicated Global Reinsurance Capacity
- Derivatives Use by US Insurance Companies
- External Investment Managers

# 2016 GIMAR

- Disaster Relief Management of Emerging Markets
- Stress Tests
- Interconnectedness
- Market Volatility
- Risk Transfer to Capital Markets
- Climate Change

# RISK CATEGORIES

<b>Liquidity</b>	<b>Catastrophe modeling</b>
<b>Credit</b>	<b>Interconnectedness</b>
<b>Market value volatility</b>	<b>Reserves adequacy</b>
<b>Longevity</b>	<b>Macro-economic risk</b>
<b>Mortality</b>	<b>Market risk</b>
<b>Access to capital</b>	<b>Profitability &amp; solvency</b>
<b>Interest rate</b>	<b>Regulatory gaps/issues</b>
<b>Market dislocations</b>	<b>Operational Risk</b>
<b>Excessive leverage/valuations for assets</b>	<b>Foreign exchange rate volatility</b>
<b>Inflation</b>	<b>Reputation</b>
<b>Policyholder behavior</b>	