



AFRIC



THE CONTRIBUTION OF SA INSURERS TO SYSTEMIC RISK

A Framework for Identification and Classification

Rob Rusconi





2. RATIONALE FOR REGULATING FINANCIAL MARKETS



CBNZ(undated); Fohlin(2014); Merton(1985); OECD(2010) and World Bank(2012)





2. RATIONALE FOR REGULATING FINANCIAL MARKETS



They are increasingly integrated, potentially contributing to instability

They take on a number of forms but are complex, global in reach and intertwined

CBRNZ(undated); Detzer(2014); ECB(2012); Fiskline (2014); Fohlin(2014); Merton (1996); OECD(2010); Tagoe (2016); Vitols (2001); World Bank(2012)



2. RATIONALE FOR REGULATING FINANCIAL MARKETS



They are increasingly integrated, potentially contributing to instability

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Financial markets cause substantial (not easily quantified) damage when they fail

Coates (2015), Cochrane (2014); Posner & Weyl (2013b); Reinhart & Rogoff (2008 & 2011)



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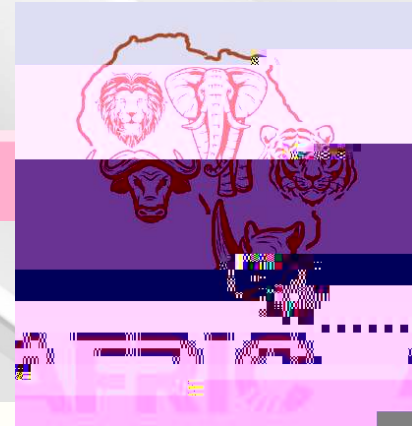
Financial markets cause substantial (not easily quantified) damage when they fail

These failures (or imperfections) can have a range of forms and consequences

Bar & Diamond (2006); Bunnemeier et al (2009); Carvajal et al (2009); CHNZ (undated); De la Dehesa (2010); FCA (2013); Gintis (2009); Grochulski & Morrison (2014); Healy & Palepu (2001); MF (2013, 2014b and 2018); Khwaja & Mian (2011); Laffont & Martimort (2002); OECD (2010); Paiker, (2002)



2. RATIONALE FOR REGULATING FINANCIAL MARKETS





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FINANCIAL MARKETS PLAY CRITICAL ROLES IN THE ECONOMIES SERVED

They are increasingly integrated, potentially contributing to instability

They take on a number of forms but are complex, global in reach and intertwined

Financial markets cause substantial (not easily quantified) damage when they fail

These failures (or imperfections) can have a range of forms and consequences

And the possibility of regulatory failure should not be excluded

Regulation is typically justified on efforts to correct market failures



APRA (2014); Australian Government (1997); Baldwin & Black (2016); Black (2012 and 2013); Black & Baldwin (2010); Cochrane (2014); Falkena et al (2001); Feasibility (2010); ISA (2006 and 2012); Knot (2014); Ilewellyn





3. THE CONTRIBUTION OF INSURANCE TO DEVELOPMENT



“A sound national insurance and reinsurance market is an essential characteristic of economic growth”

United Nations Conference on Trade and Development (UNCTAD, 1984/5)





3. THE CONTRIBUTION OF INSURANCE TO DEVELOPMENT

Insurance theoretically benefits society in a number of ways

Evidence of causal link between insurance and economic growth is not clear



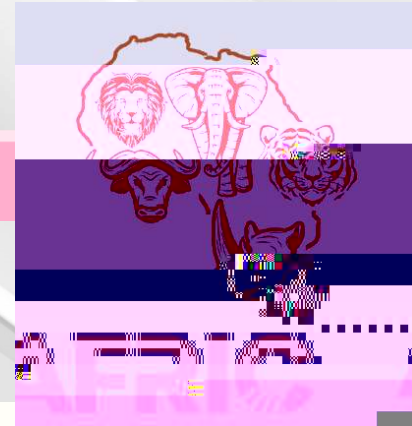




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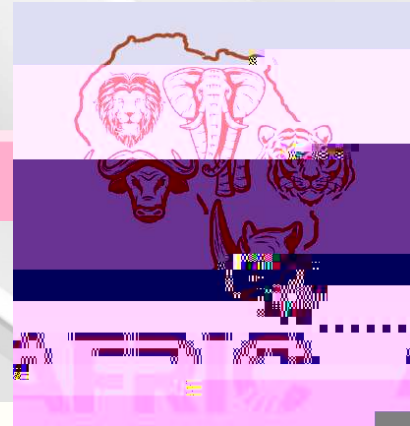
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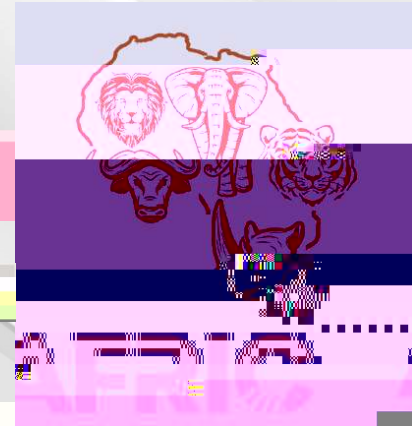


KEY MESSAGES





4. SYSTEMIC RISK



What is systemic risk?

“One possibility is simply to concede that systemic risk is not something that is amenable to quantification. Instead it is something that becomes self evident under casual observation.”

Las Peter Hansen (2013)





4. SYSTEMIC RISK

INSURANCE MAY CONTRIBUTE MATERIALLY TO SYSTEMIC RISK

What is systemic risk?

Are regulators effectively mitigating or managing systemic risk?

“Existing policies appear adequate to contain individual firm and systemic risks both now and in the intermediate term”

Group of Ten (2001: 7 and 18)





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Are regulators effectively mitigating or managing systemic risk?



Aaaten & Turner (2013); Boyd & Heitz (2016); Chen & Sun (2019); Fung & Yeh (2018); Jobst (2014); Kim (2011);
Moenninghoff et al (2015); Ötler-Robe et al (2011); Ueda & Di Mauro (2013); Weiß & Mihov (2014)







4. SYSTEMIC RISK

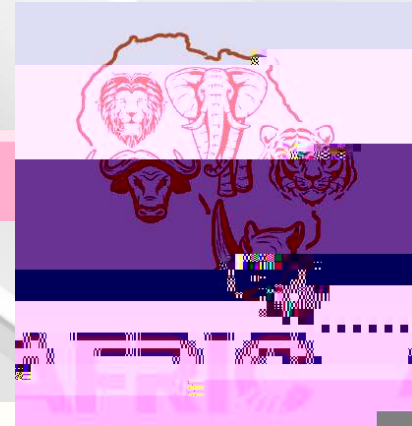
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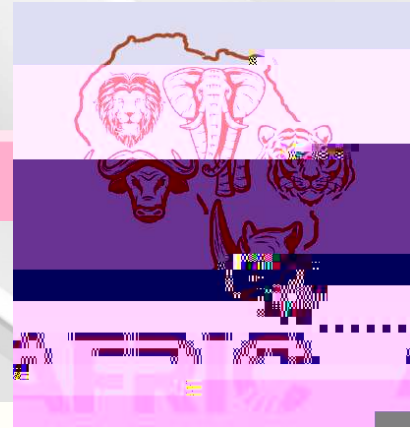
What of the insurer contribution to systemic risk

Under what conditions are insurer contributions to systemic risk significant?





KEY MESSAGES



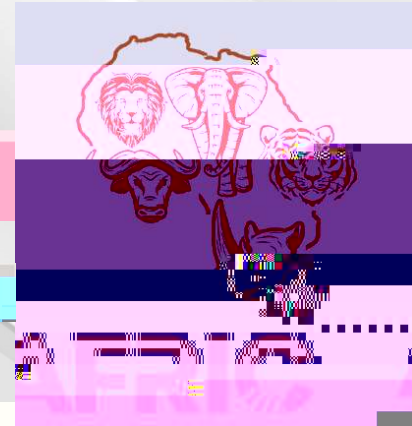


5. PRUDENTIAL REGULATION OF INSURERS

SOLVENCY II HAS BEEN THOROUGHLY EVALUATED

Europe's Solvency II approach is establishing itself as the global standard

Regarded as an improvement on its predecessors and many of its peers



Cummins(1998); Doff(2008and 2016); Eng & Hblmiller(2009); Hblmiller(2009); Klein(2012a); Liu et al (2019); Rae et al (2017)



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Casarano et al (2017); Cerchiaro & Demarco (2016); Christiansen & Nemeyer (2014); Foughi (2012); Frölich & Weng (2015 and 2018); Hing et al (2007); Hing & Holzmueller (2008); Gatzert & Wesler (2012); Laas & Siegel (2017); Liu et al (2019); Martin (2013); Swaup (2012)



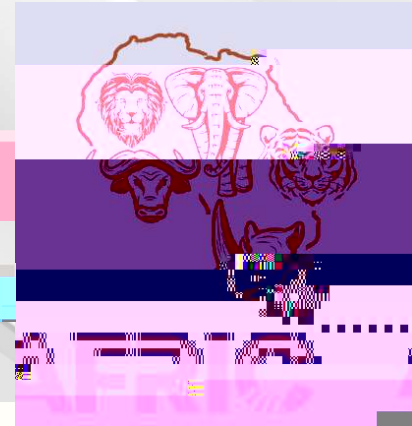
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Al-Darwish et al (2011); Barth (2000); Boren (2017); Bing & Holzmueller (2008); Horeani (2013); Rae et al (2017); Swanup (2012); Wagner (2014)



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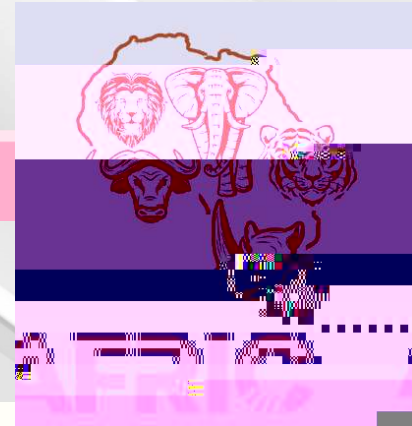
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Acharya (2009); Acharya et al (2012 and 2017); Adams et al (2014); Allen & Carletti (2006); Brownlee & Engle (2017); Bui et al (2017); Checkley (2009); Fong et al (2011); Gauthier et al (2012); Giglio (2016); Hautsch et al (2015); Huang et al (2012); Ibragimov et al (2011); Leukes & Mensah (2019); Sedunov (2016); Segoviano & Goodhart (2009); Wagner (2010); Zhang et al (2015)



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The real concern: diversification pursued by entities contributes to systemic risk

“While it is true that diversification reduces an institution's overall likelihood of failing, it also increases its inclination to fail at the same time as other institutions. Since externalities are typically associated with





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The problem has been recognised by the European Insurance & Occupational Pensions Authority (EIOPA)





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South Africa's insurance market is large and sophisticated, but concentrated





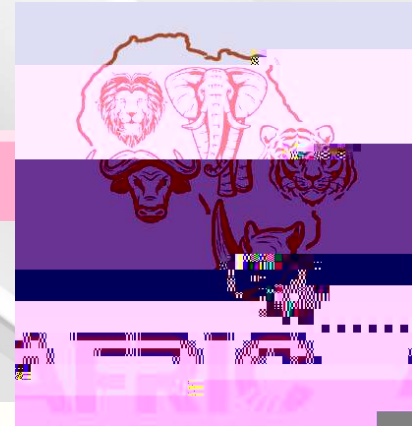
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6. SOUTH AFRICAN REGULATORY MODEL

SA INSURANCE REGULATORS SHOULD GIVE ATTENTION TO SYSTE

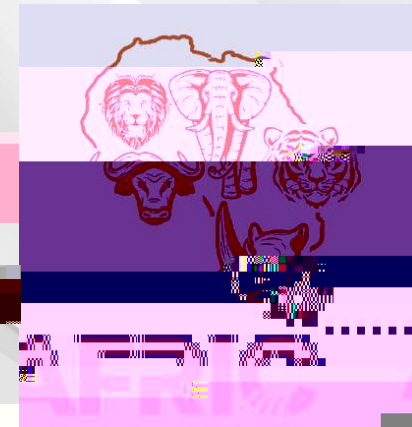
South Africa has a similarly strong rationale for regulating insurers





6. SOUTH AFRICAN REGULATORY MODEL

South Africa has a similarly strong rationale for regulating insurers
Policymakers already focus on improving the economic and social contributions of insurance





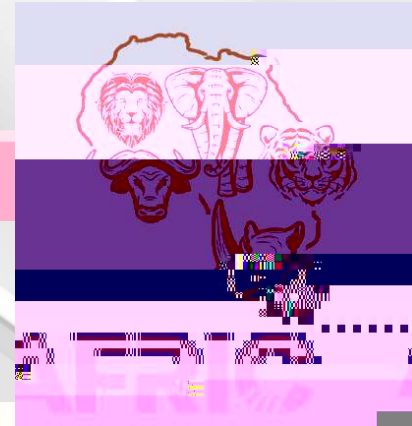
6 SOUTH AFRICAN REGULATORY MODEL

SA INSURANCE REGULATORS SHOULD GIVE ATTENTION TO SYSTEMIC RISK

South Africa has a similarly strong rationale for regulating insurers

Policymakers already focus on improving the economic and social contributions of insurance

Evidence for and against a contribution to systemic risk exists





FAKULTÄT FÜR INGENIEURWISSENSCHAFTEN

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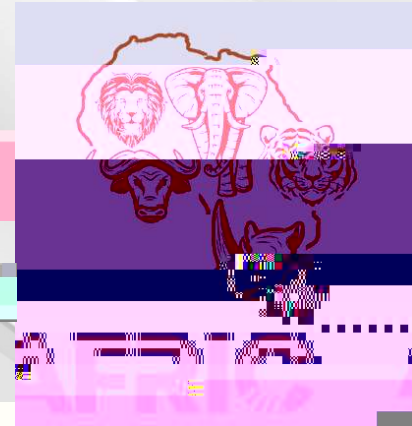
KEY MESSAGES





7. CLASSIFYING SOURCES OF SYSTEMIC RISK

EFFORTS TO CLASSIFY SOURCES OF SYSTEMIC RISK

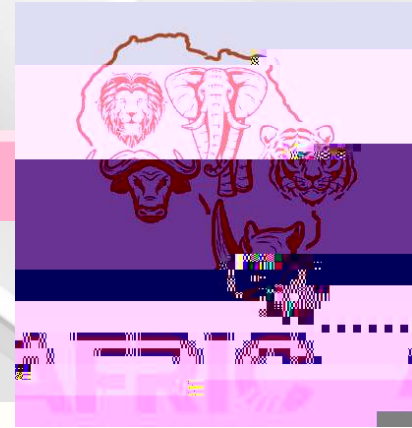




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8 FURTHER RESEARCH



FURTHER RESEARCH MAY BE BENEFICIAL



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