



# Investments in Insurance Challenges

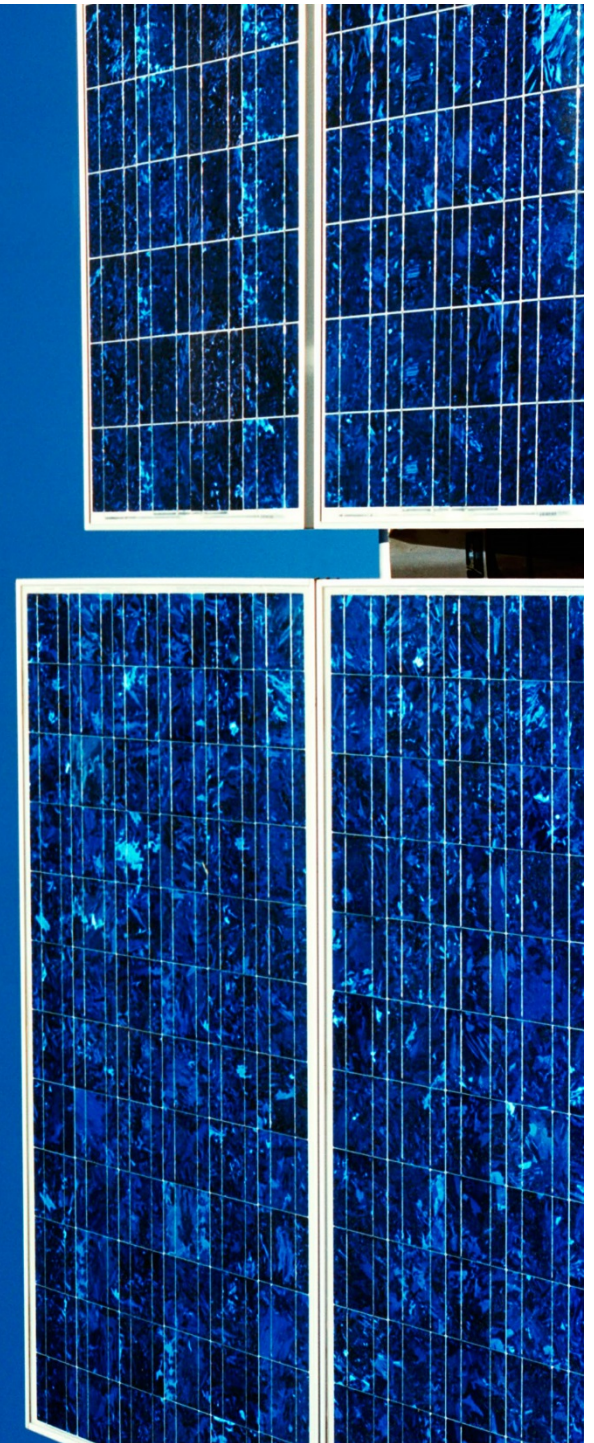


**Hieronymus T.  
Dormann**

Partner  
Head Segment Insurance  
KPMG Switzerland

Tel: +41 58 249 35 03

ETH Risk Day  
16 September 2016



# Content



**Introduction**

---

**Regulatory  
Environment**

---

**Market Conditions**

---

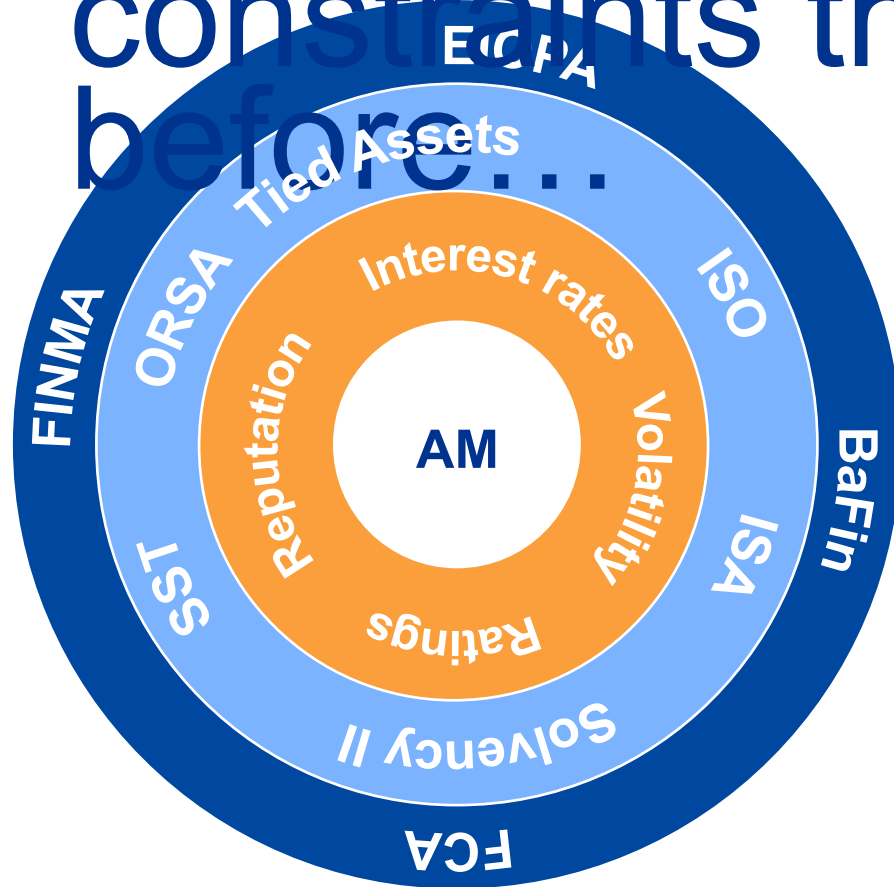
**Impact on  
Investment  
Behaviour**

---

**Summary &**



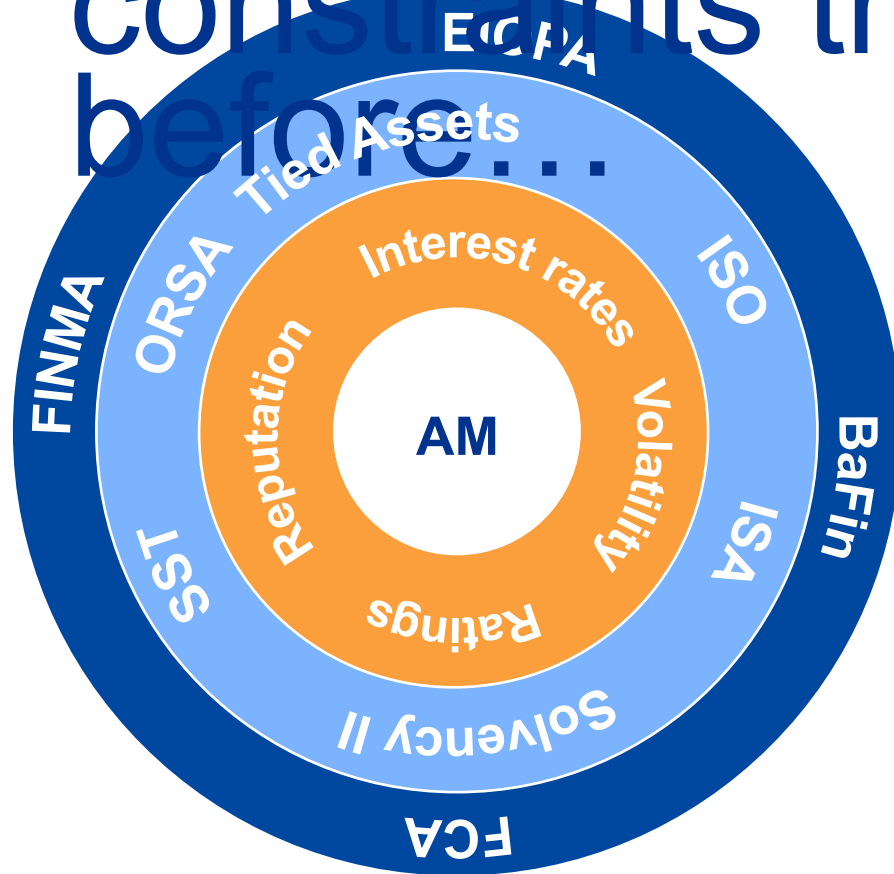
# Asset management is subject to more constraints than ever before...



**Regulators are increasingly active in supervising the asset management of insurers...**



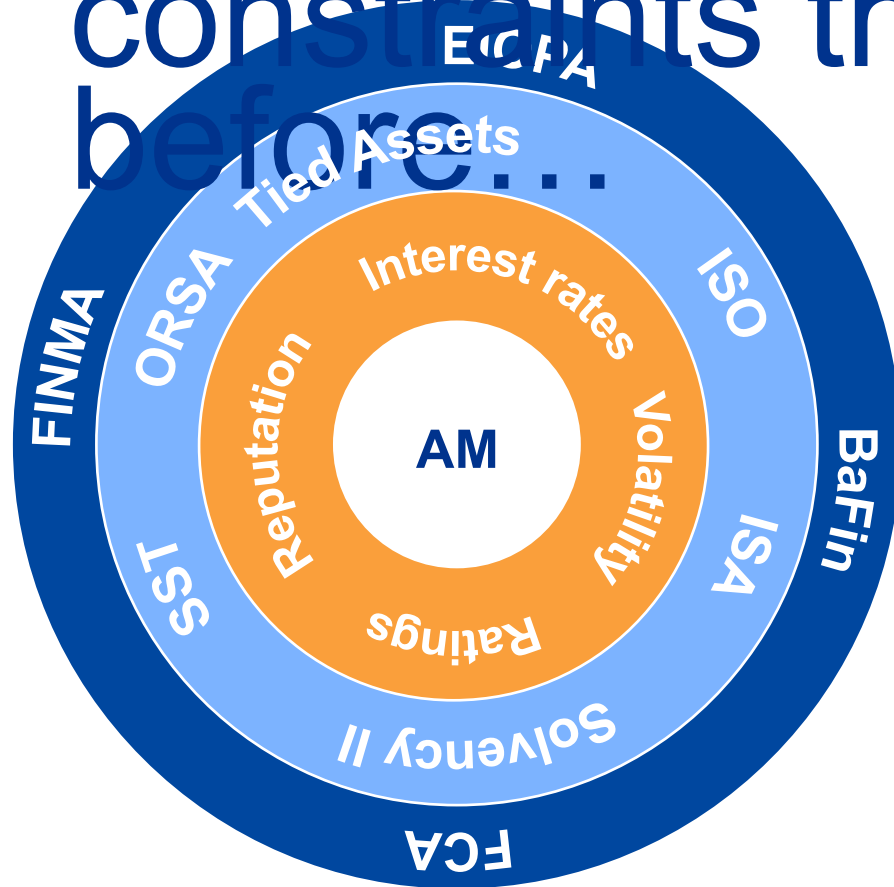
# Asset management is subject to more constraints than ever before....



...introducing more rigorous and extensive regulation frameworks.



# Asset management is subject to more constraints than ever before....



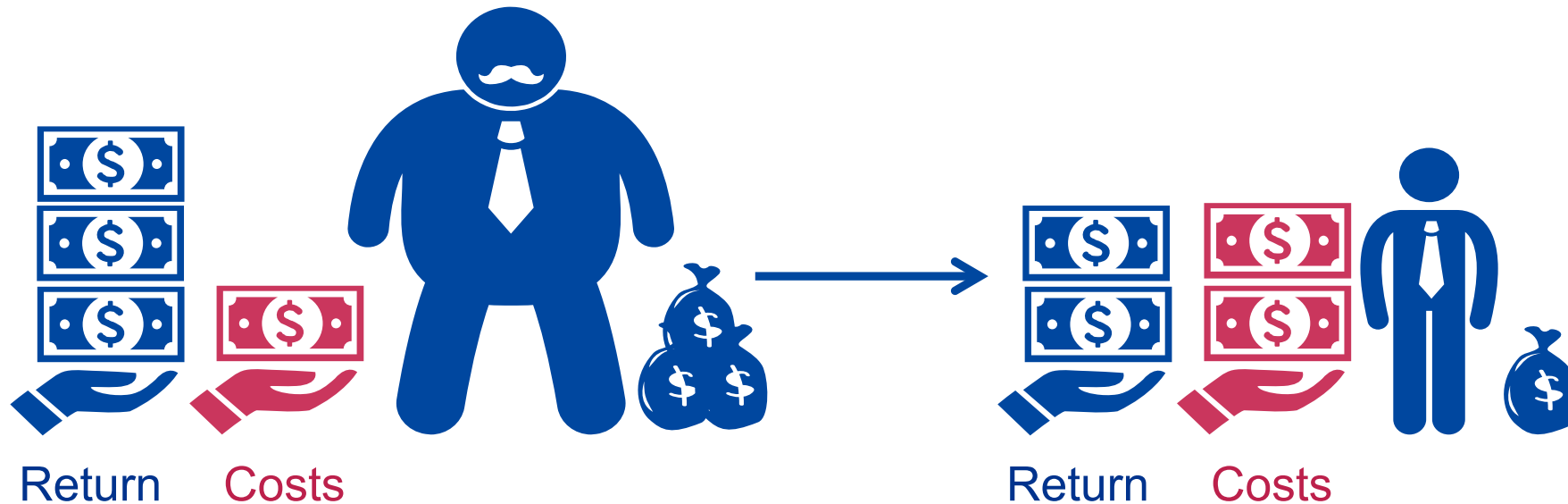
Internal and external constraints are increasingly challenging to cope with.

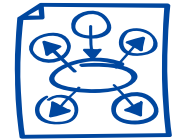
# ...leading to slimmer net performance today



Yesterday

Today





# What factors affect investment decisions?

Investment decisions

Type of liabilities

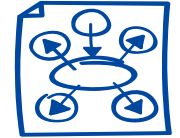
Regulation

Market and economic factors

Internal policies and investors

- **Asset and Liability Matching (ALM)** meaning that the assets must match the liabilities with regards to:
  - **Timing (long & short-term)**
  - **Size**
  - **Currency**
- **Liquidity risk**

# What factors affect the investment decisions?



**Investment  
decisions**

**Type of liabilities**

**Regulation**

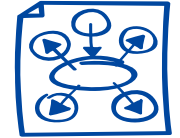
**Market and  
economic  
factors**

**Internal policies  
and investors**

- **Constraints around what investments are allowed**
  - **FINMA investment guidelines**
  - **Tied assets regulation**
- **Capital requirements for investment categories (e.g. default risk)**



# What factors affect the investment decisions?



**Investment  
decisions**

**Type of liabilities**

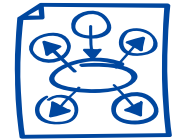
**Regulation**

**Market and  
economic  
factors**

**Internal policies  
and investors**

- **Central banks' behaviour**
- **Interest rates**
- **Stock market volatility**
- **Risk of default (ratings)**
- **Underwriting Risk**

# What factors affect the investment decisions?



**Investment  
decisions**

**Type of liabilities**

**Regulation**

**Market and  
economic  
factors**

**Internal policies  
and investors**

- **Risk appetite**
- **Expertise**
- **Corporate social responsibility**
- **Dividend payments / return on equity**
- **Sustainability**

# Content



Introduction

---

**Regulatory  
Environment**

---

Market Conditions

---

Impact on  
Investment  
Behaviour

---

**Summary &**



# Reasons for recent legislative development



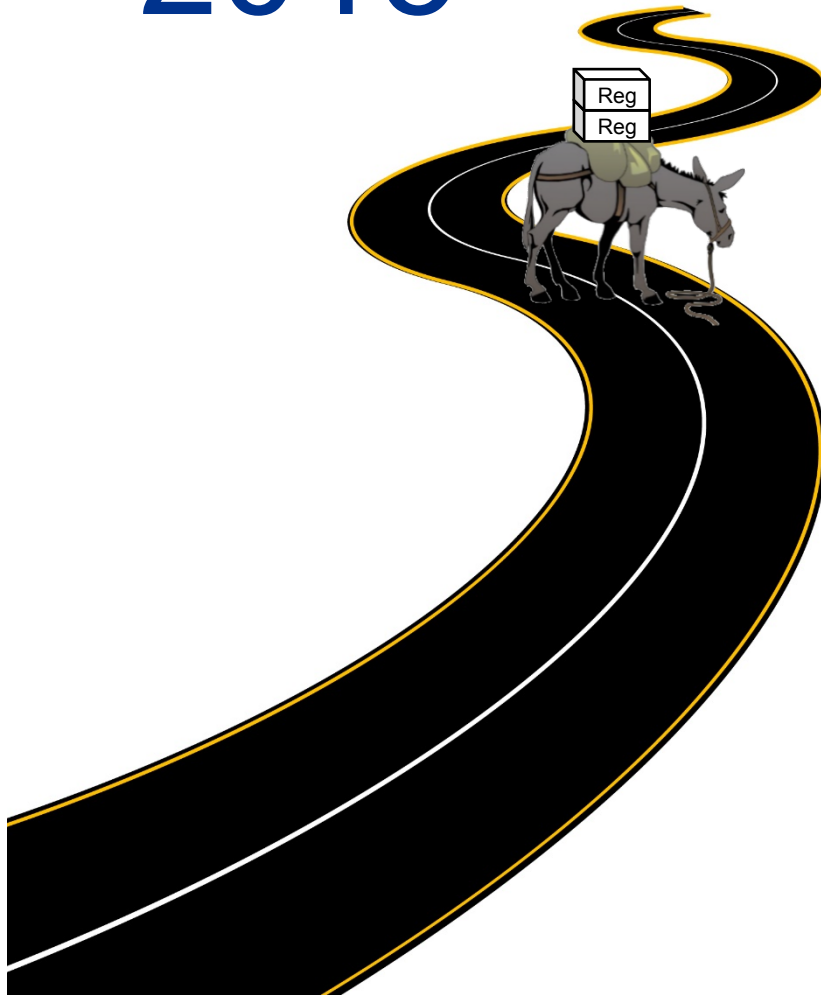
2011 - 2013

Need for revision of ISO identified

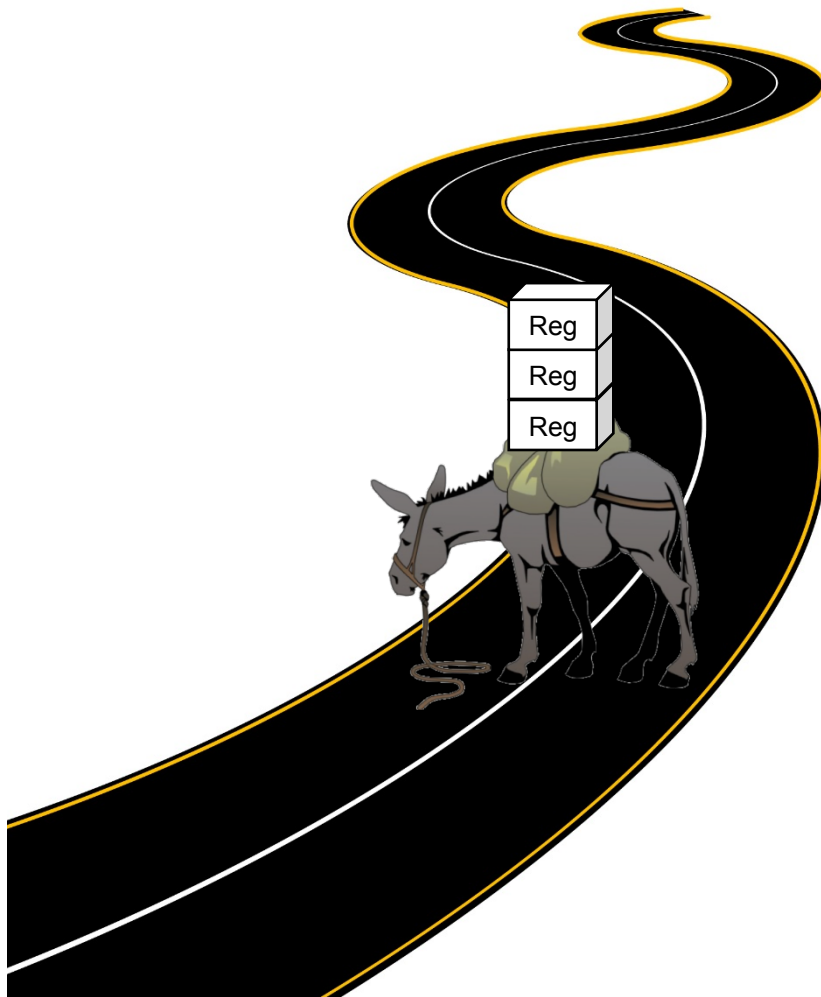
Regulator identified need for changes in regulatory due to gaps between Swiss supervisory law and practice with proper international regulations (Solvency II, IAIS):

- Solvency requirements **AM**
- Qualitative risk management **AM**
- Public disclosure **AM**

# Legislative development 2015



# Legislative development 2016



## 1. Jan 2016

First circular revision

Circular 16/2 Disclosure (new) **AM**

Circular 16/3 ORSA (new) **AM**

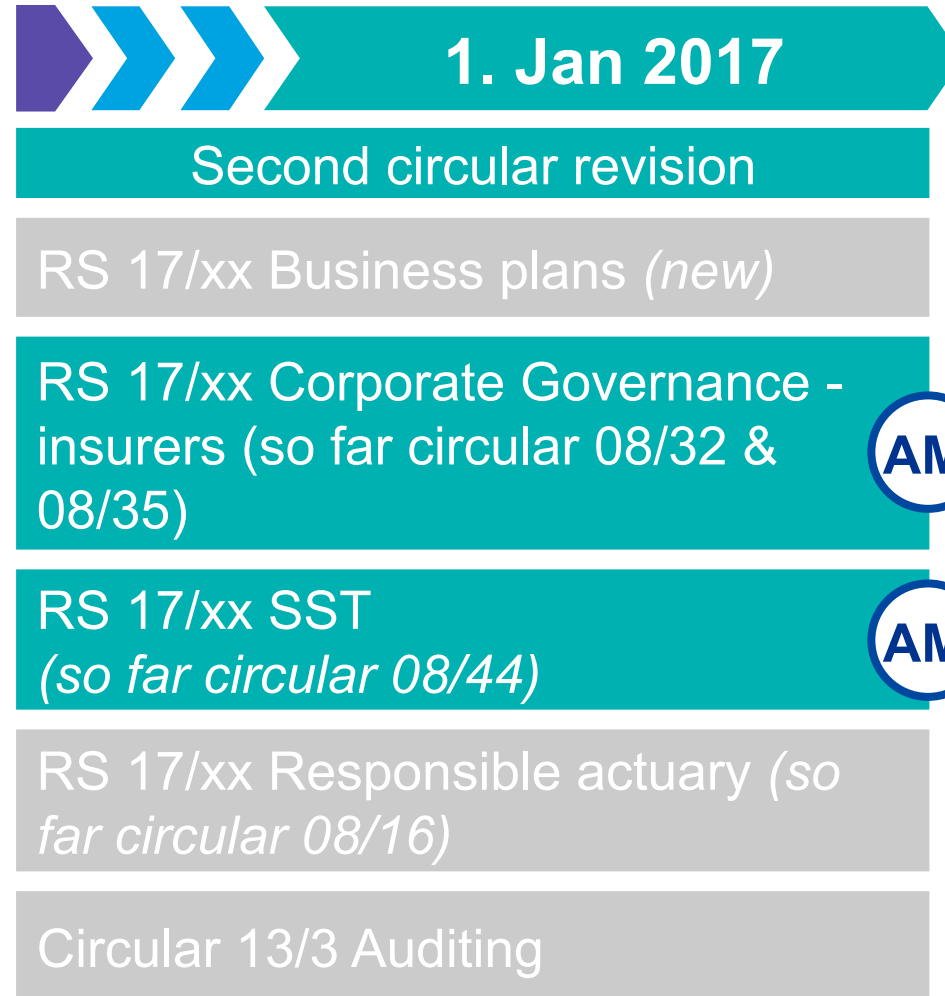
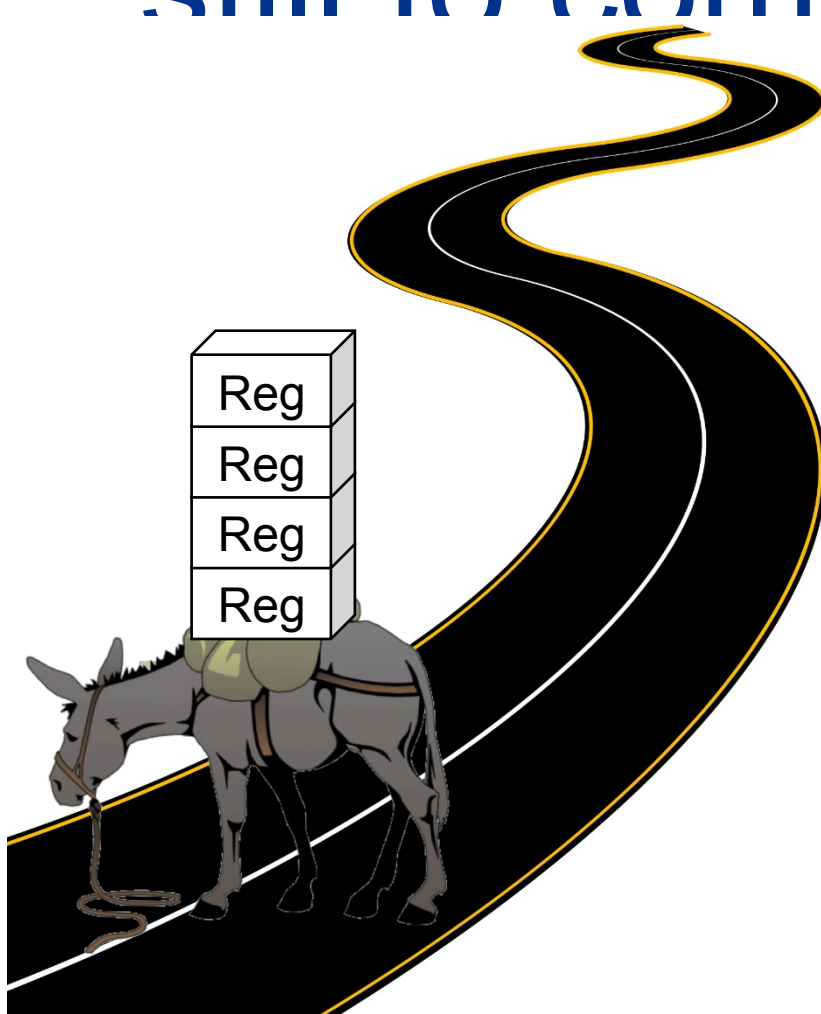
Circular 16/5 Investment Guidelines (revision) **AM**

Circular 16/6 Life Insurance

Adjustment of further circulars

Circular 16/7 Video and online identification (AML, new)

# Legislative development still to come



# Content



Introduction

---

Regulatory  
Environment

---

**Market Conditions**

---

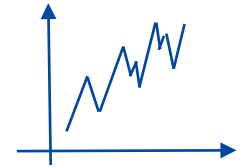
Impact on  
Investment  
Behaviour

---

Summary &

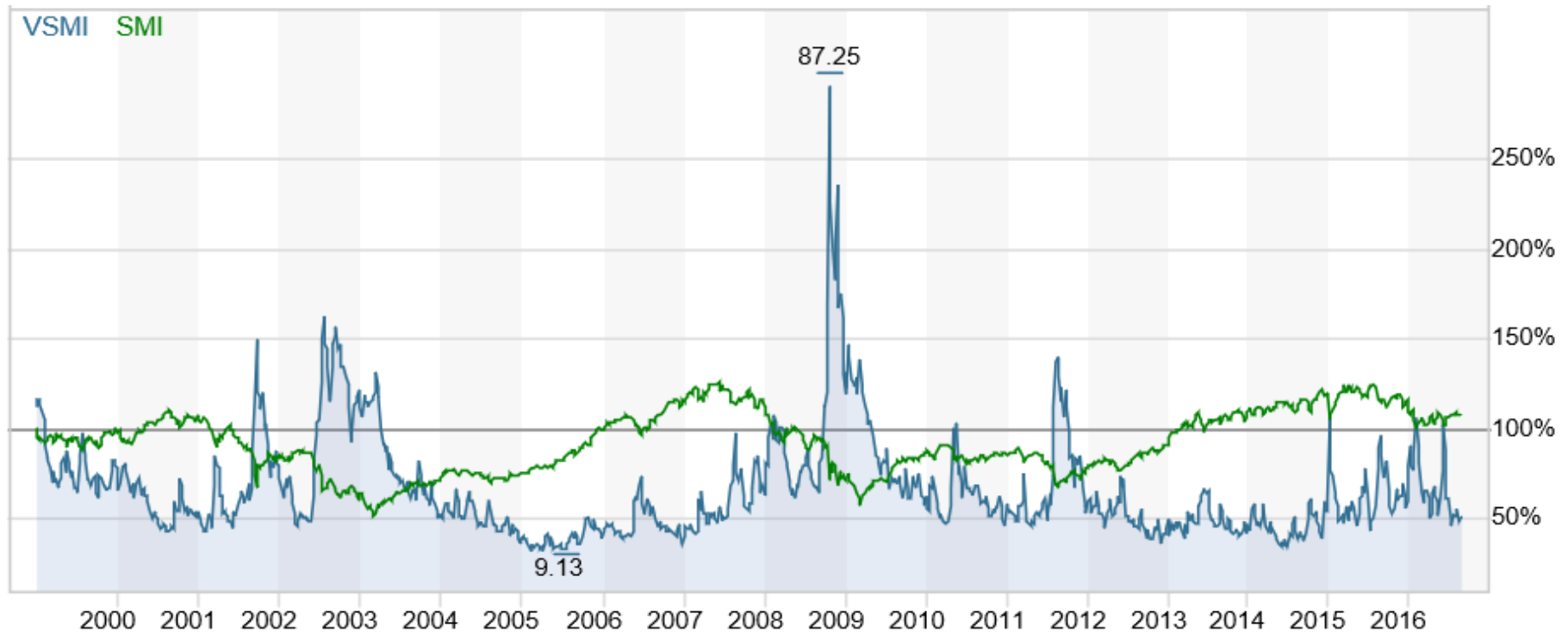


# Stock market volatility

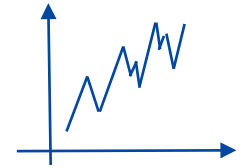


- Discourages investing in shares due to uncertainty
- While yields are higher, insurance sector still burned by the IT stock bubble around 2001

### SMI Volatility Index vs SMI Index

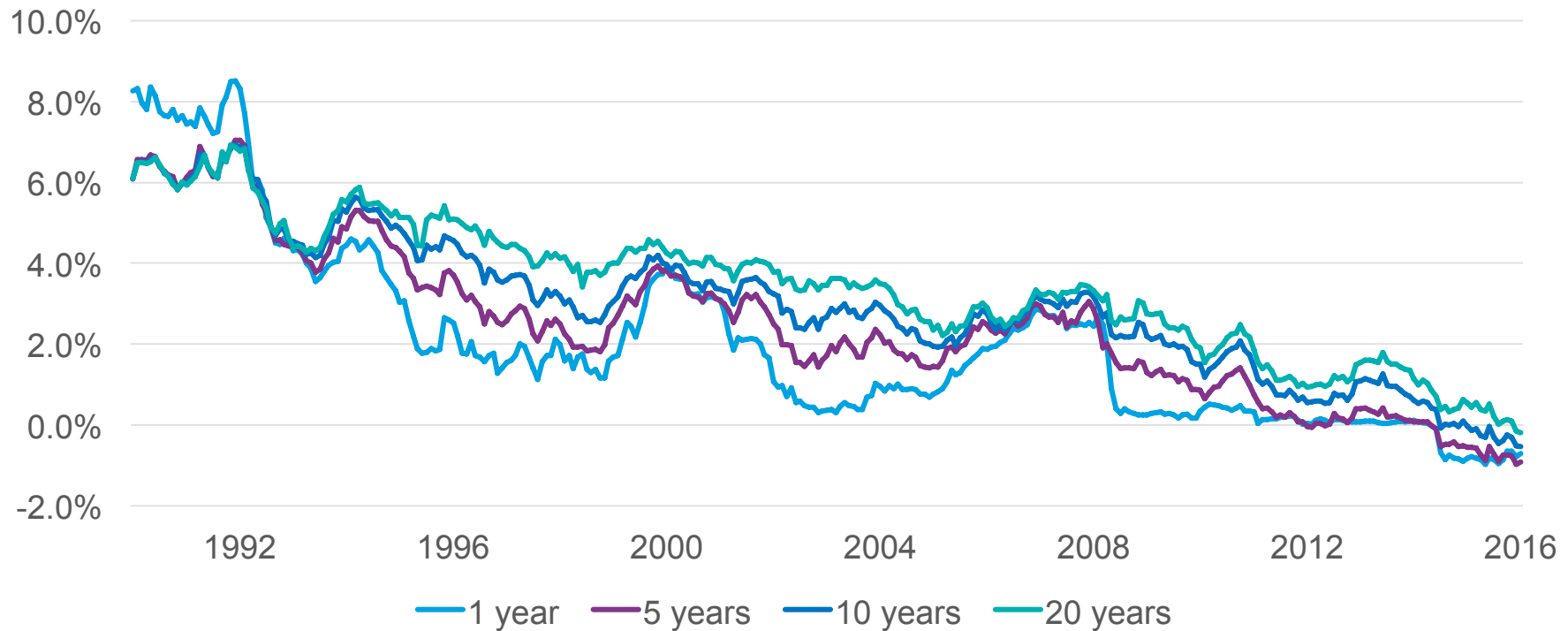


# Low interest rates



- Bonds producing very low yields, causing problems especially for long-term insurance business
- Negative yields in some countries for some durations

## CHF Swiss Confederation bond issues



# Content



Introduction

---

Regulatory  
Environment

---

Market Conditions

---

**Impact on  
Investment  
Behaviour**

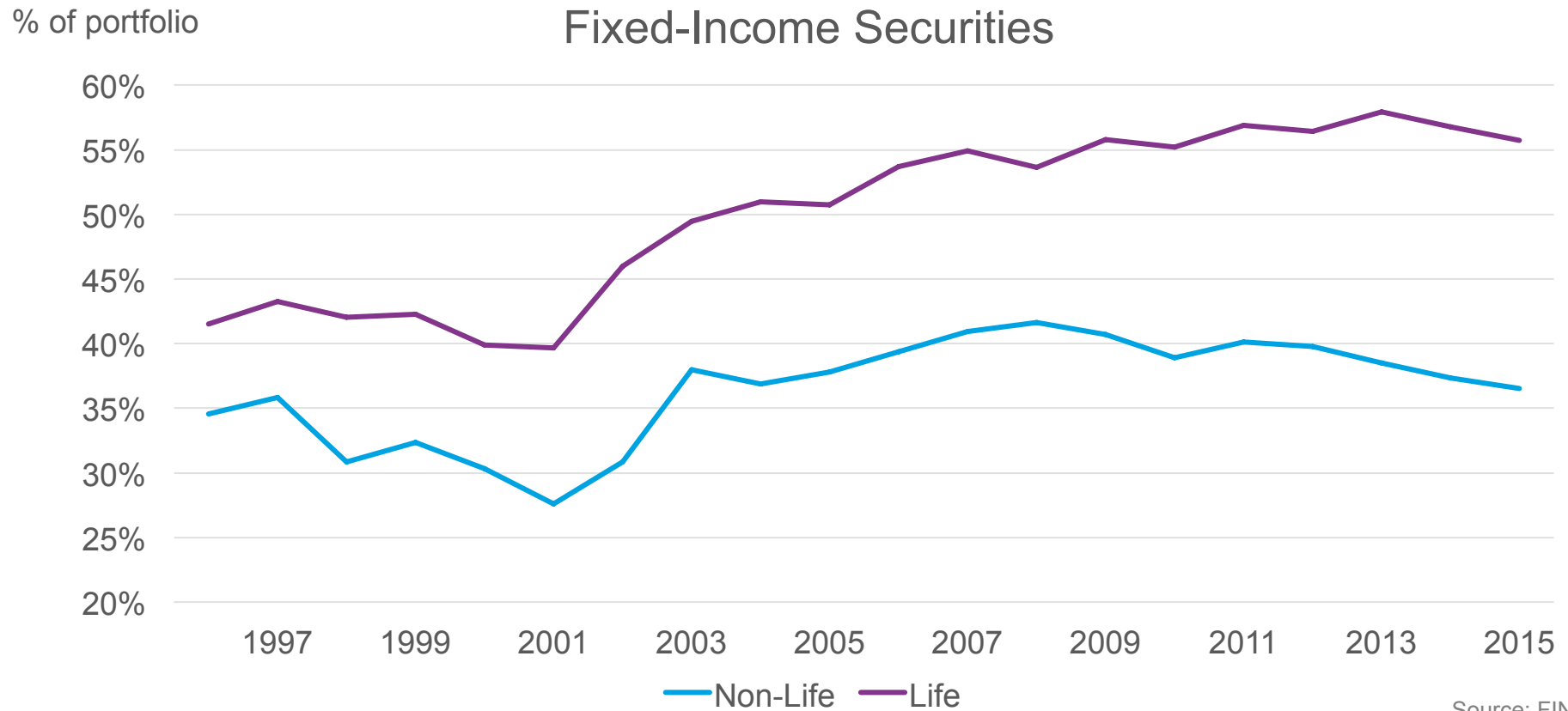
---

**Summary &**

# Market development



- Insurance companies are looking for alternative investments due to decreasing yields for fixed-interest assets.



Source: FINMA

# Traditional investments



Shares



Real-estate

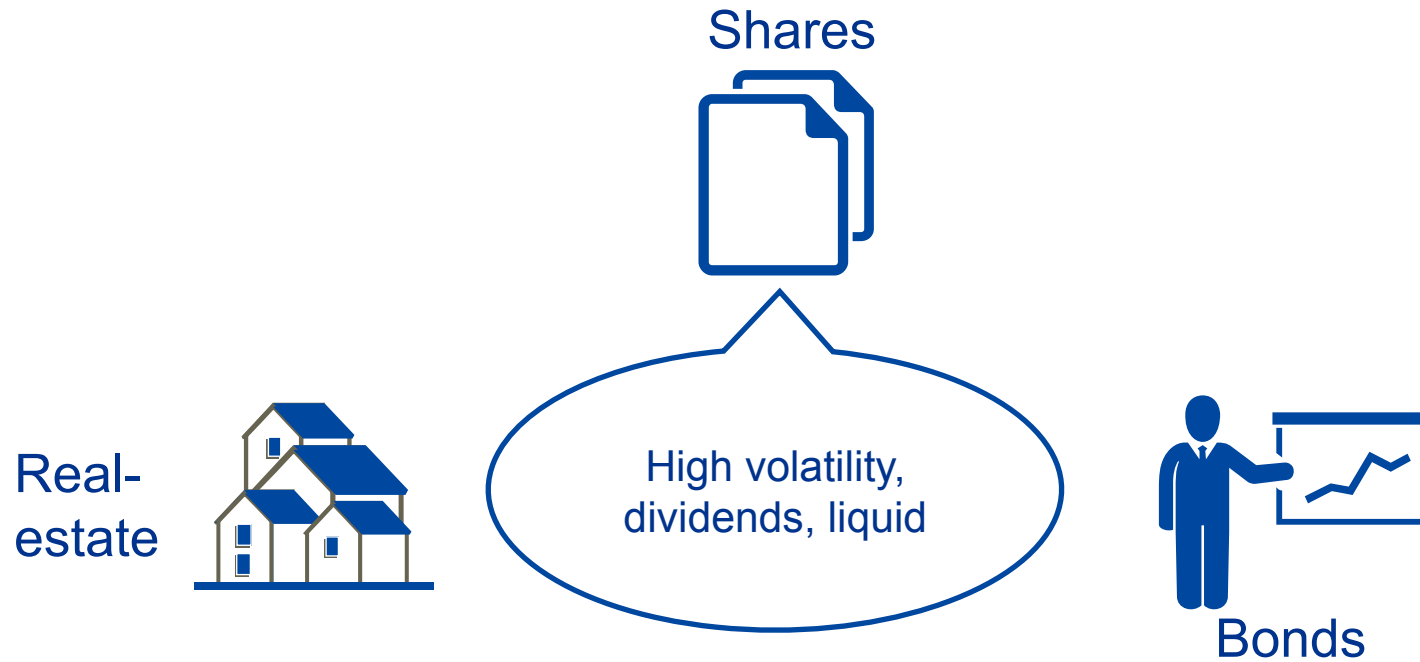


Long-term, rent yield, bad liquidity

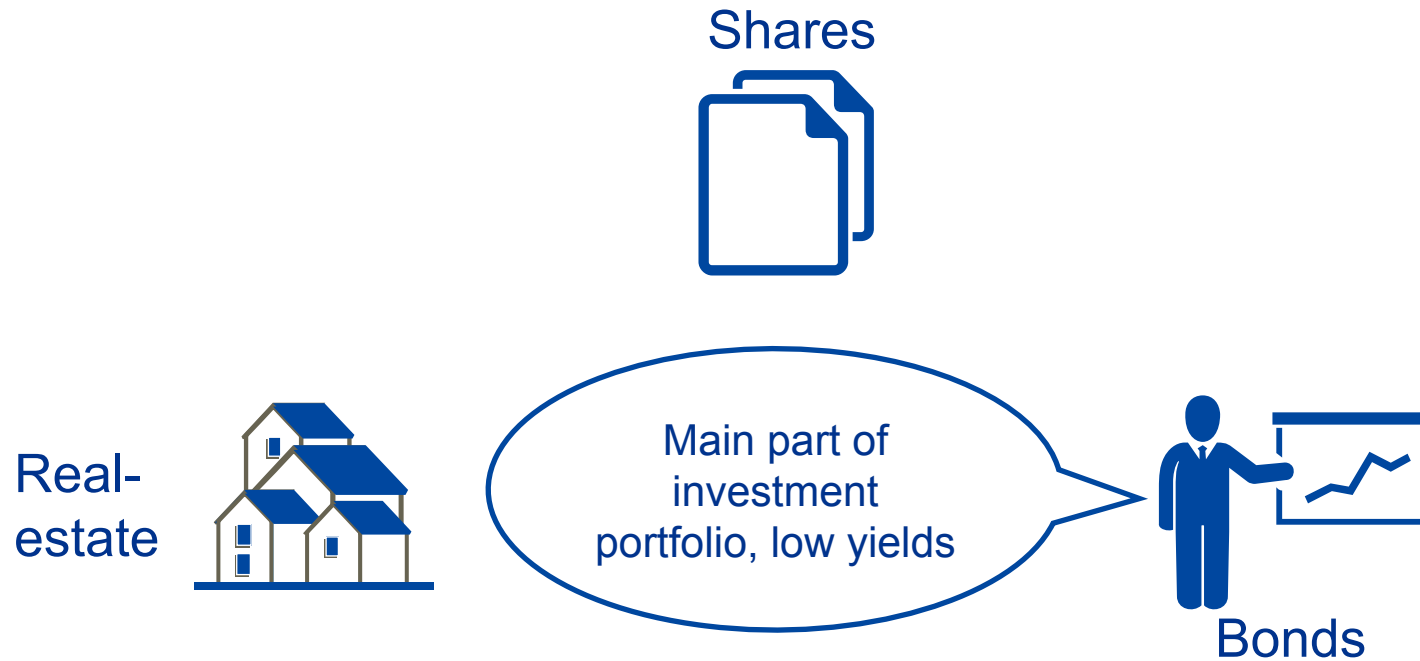


Bonds

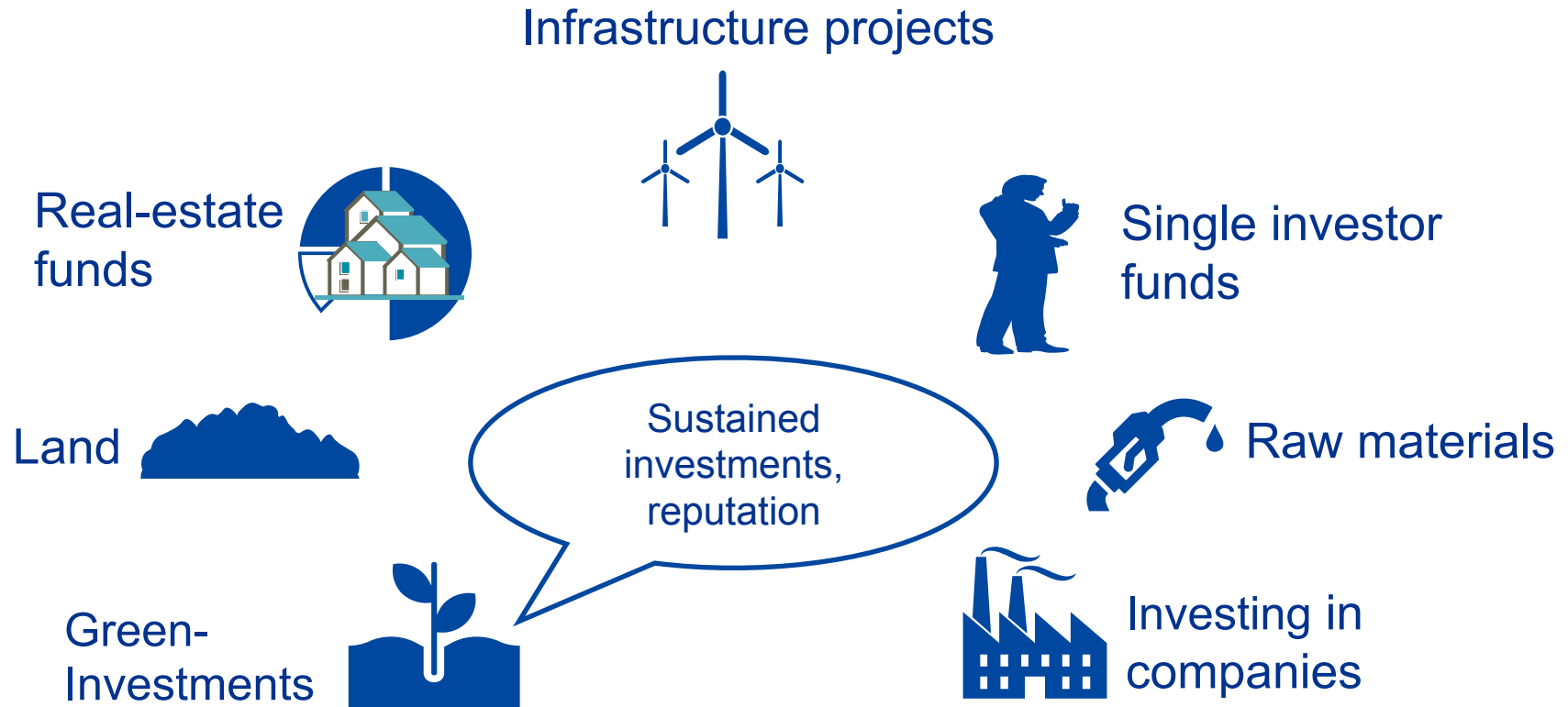
# Traditional investments



# Traditional investments

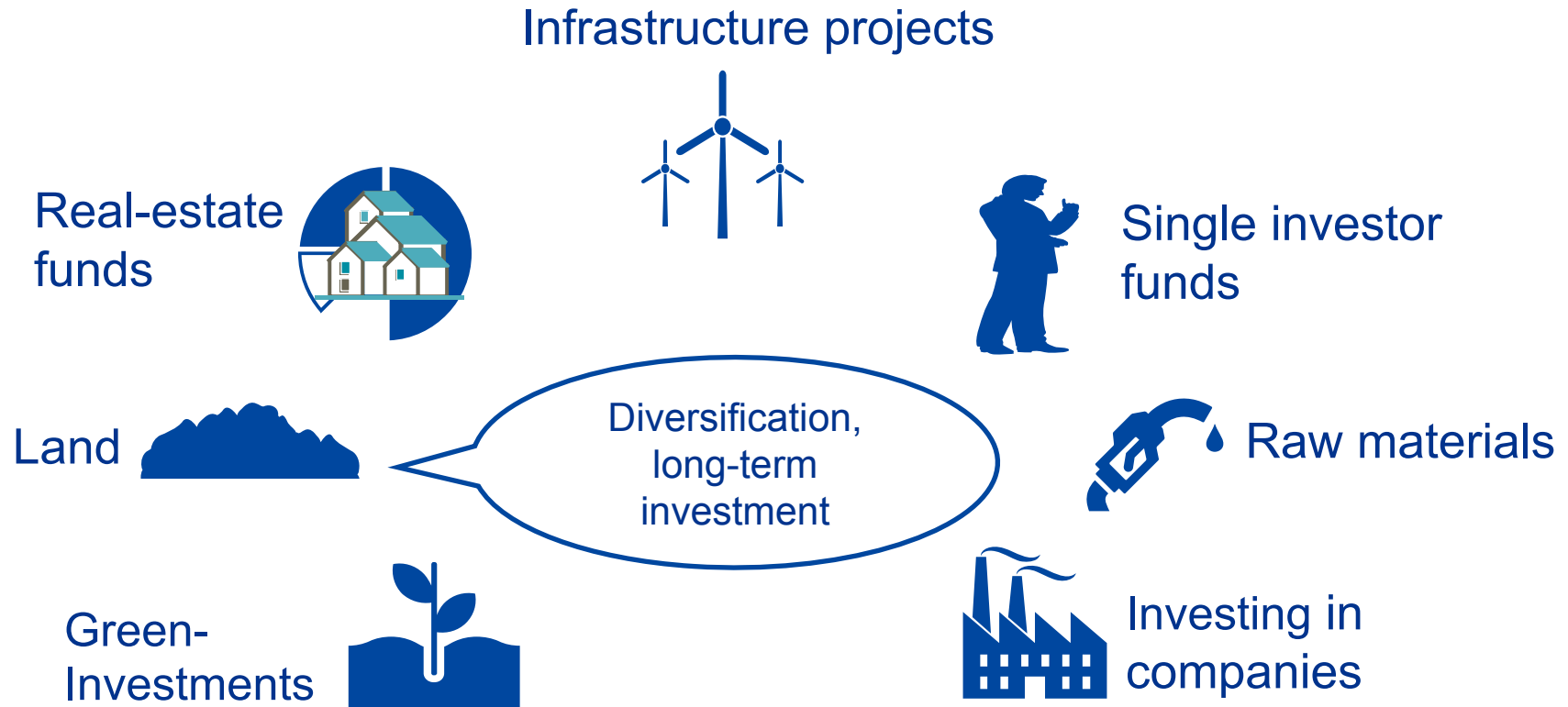


# New types of investments

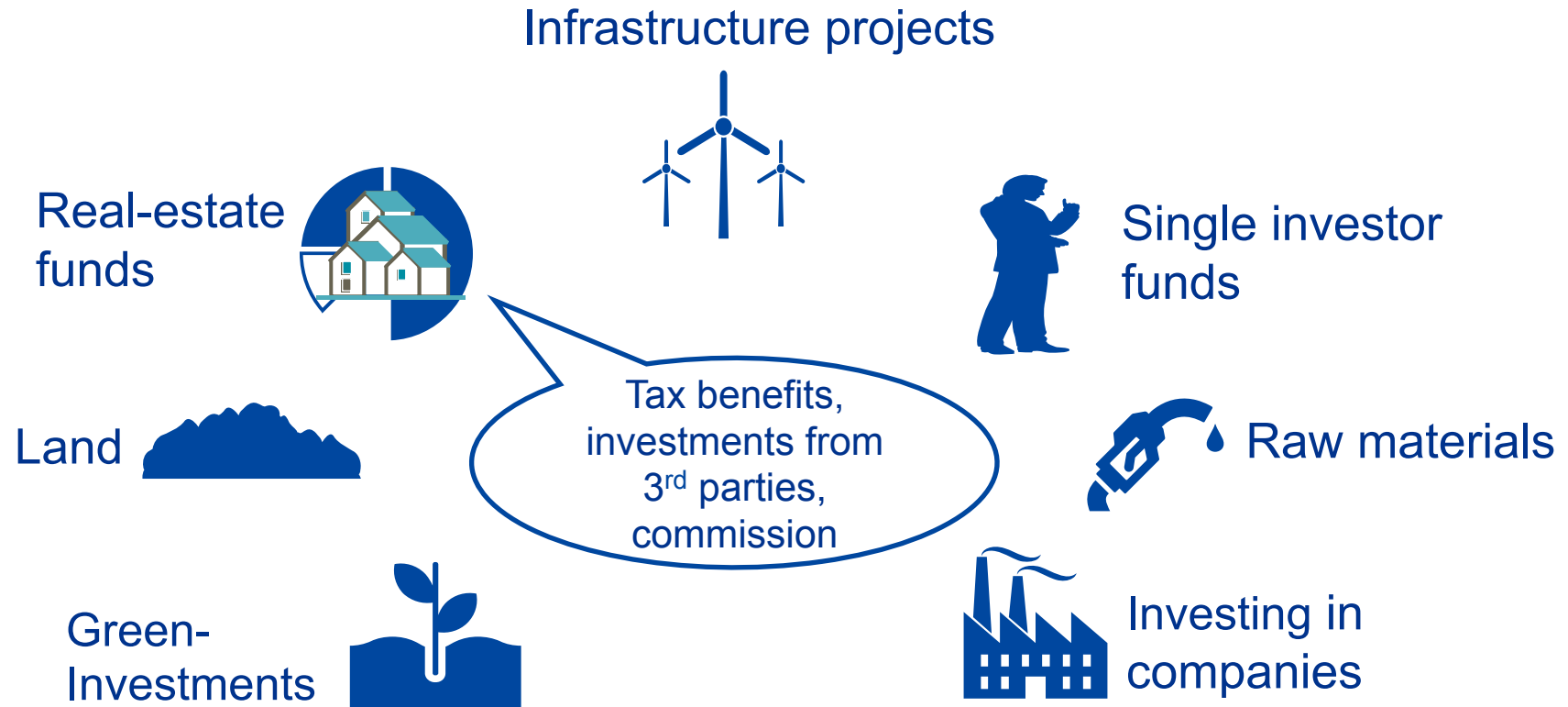




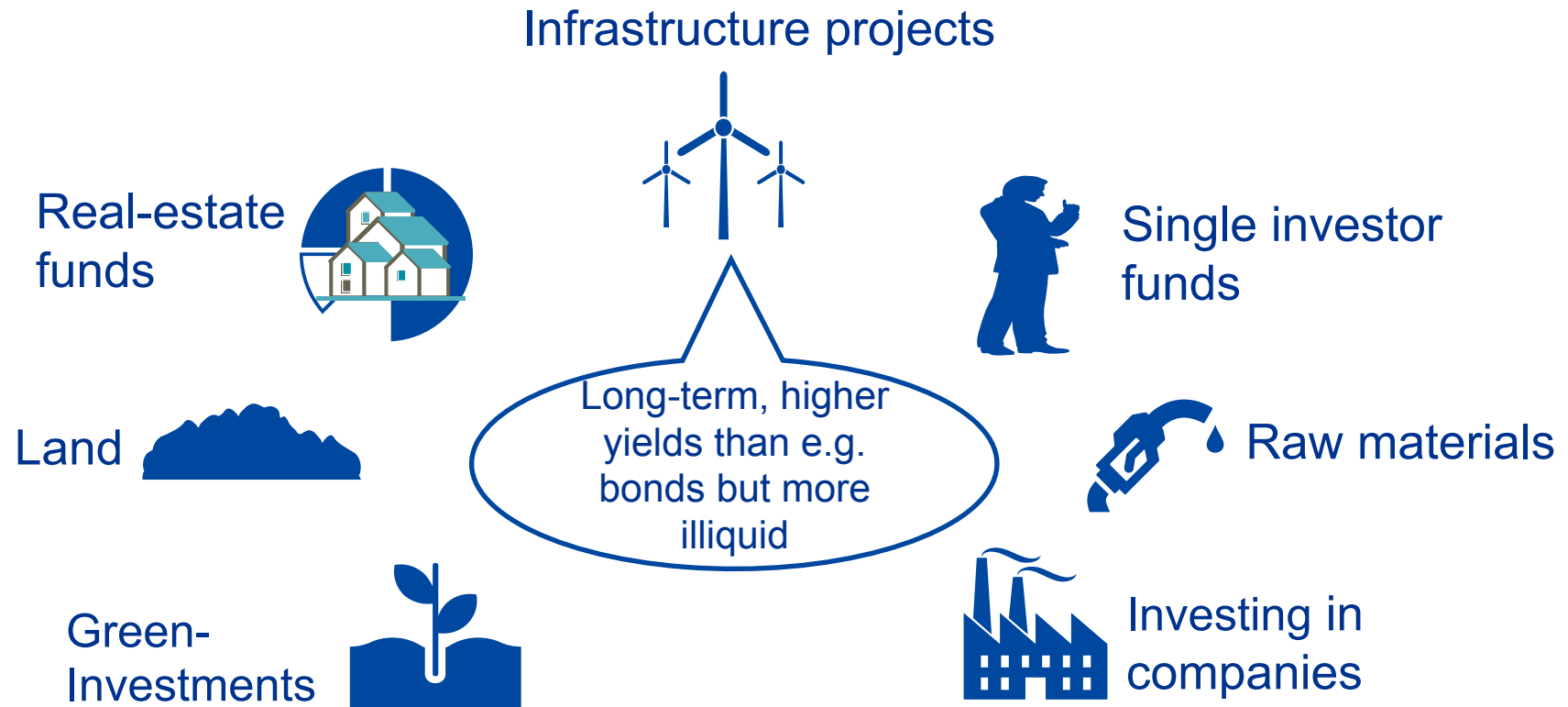
# New types of investments



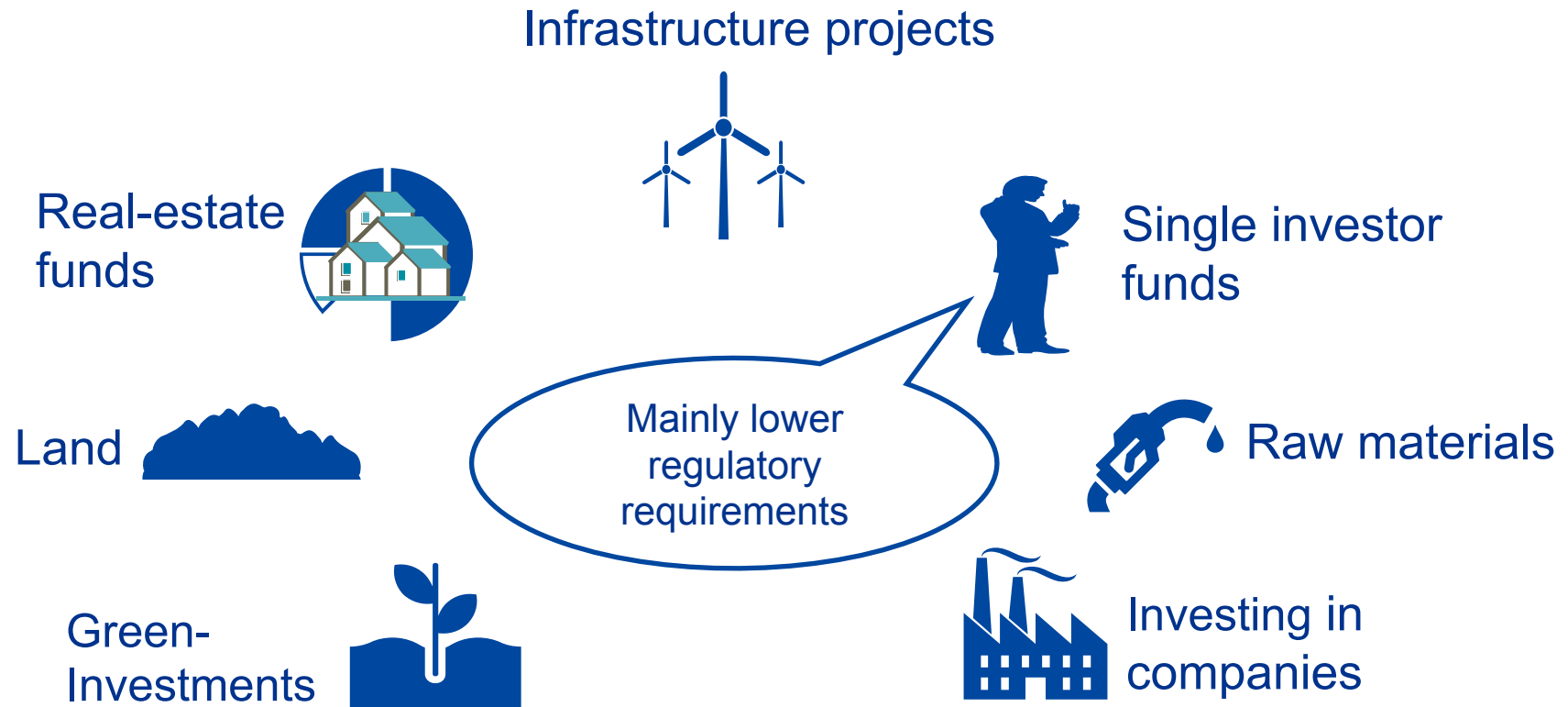
# New types of investments



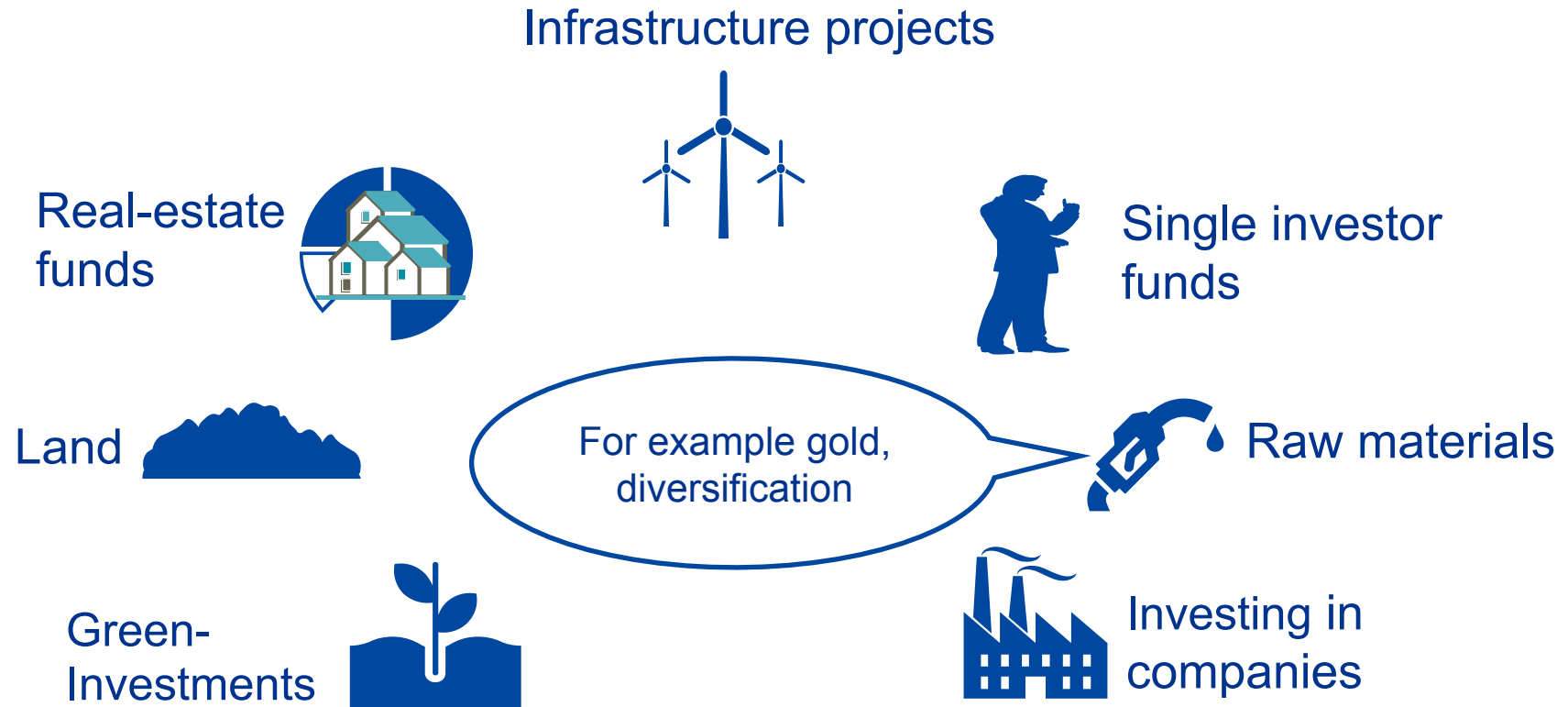
# New types of investments



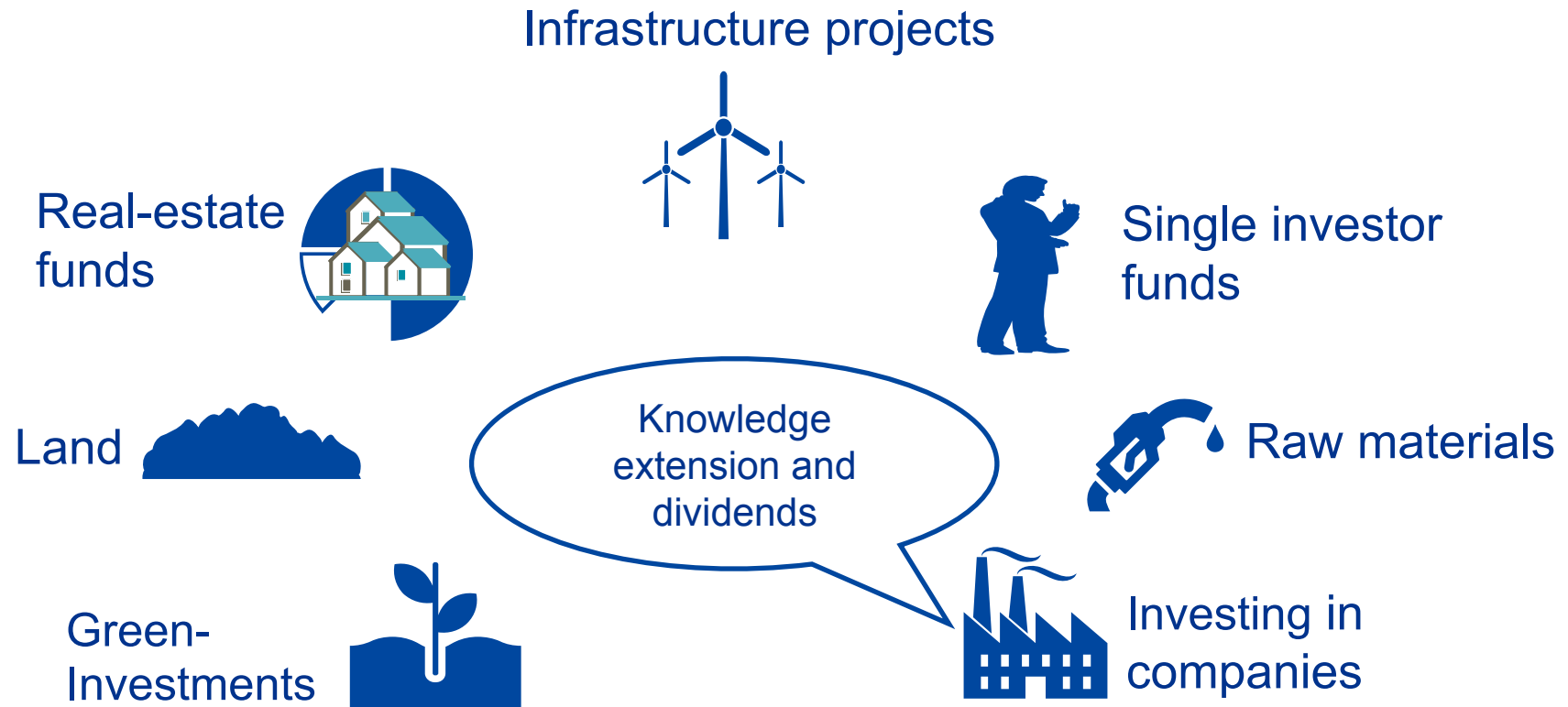
# New types of investments



# New types of investments



# New types of investments



# Content



Introduction

---

Regulatory  
Environment

---

Market Conditions

---

Impact on  
Investment  
Behaviour

---

**Summary &**

# Summary



- Match assets and liabilities
- Adapt to regulation
- Investments innovation

Investor scrutiny

Market volatility

New challenges

Low interest rates

Tougher regulatory requirements



# Questions?



# Appendix



## Acronym

BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FINMA	Eidgenössische Finanzmarktaufsicht
ISA	Insurance Supervision Act
ISO	Insurance Supervision Ordinance
ORSA	Own Risk and Solvency Assessment
SST	Swiss Solvency Test