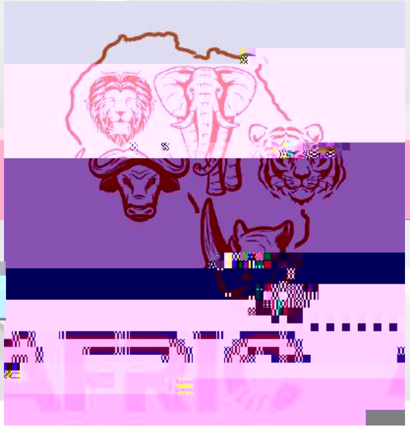
THE CONTRIBUTION OF SA INSURERS TO SYSTEMIC RISK

A Framework for Identification and Classification

Rob Rusconi

2. RATIONALE FOR REGULATING FINANCIAL MARKETS



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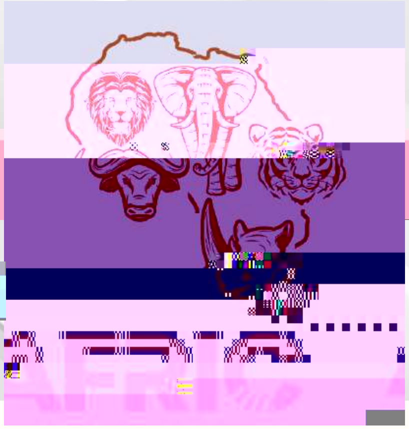

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They are increasingly integrated, potentially contributing to instability

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

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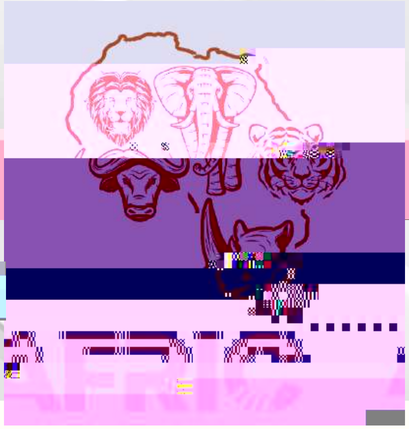

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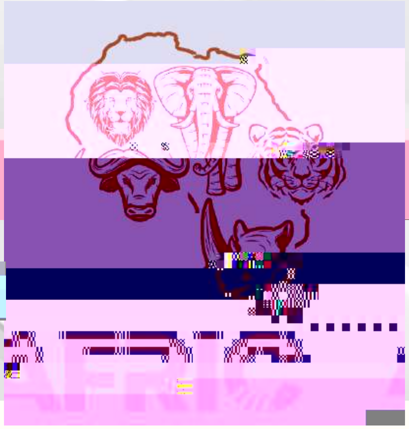

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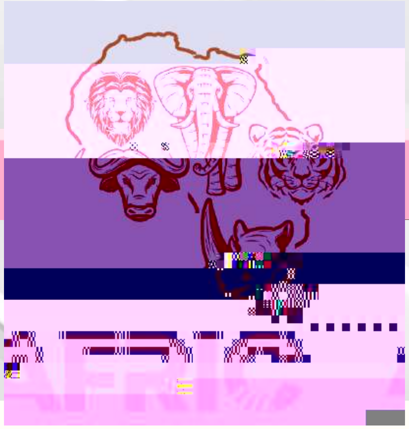

FINANCIAL MARKETS PLAY CRITICAL ROLES IN THE ECONOMIES SERVED

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

3. THE CONTRIBUTION OF INSURANCE TO DEVELOPMENT

INSURANCE CONTRIBUTES TO ECONOMIC AND

"A sound national insurance and reinsurance market is an essential characteristic of economic growth."

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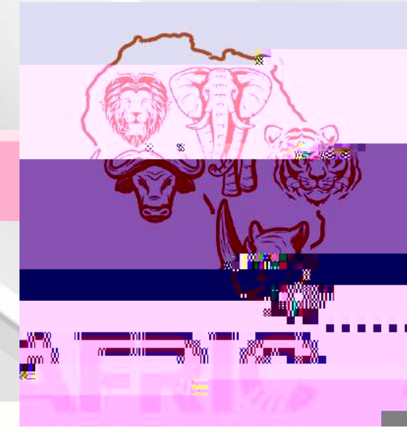

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Evidence of causal link between insurance and economic growth is not clear

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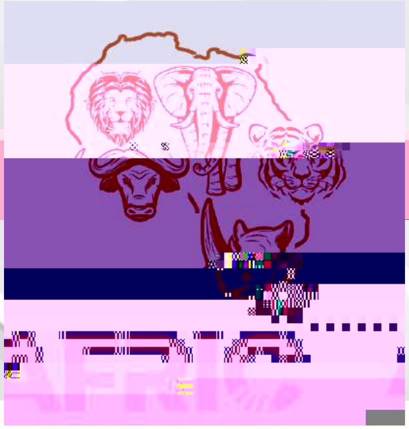

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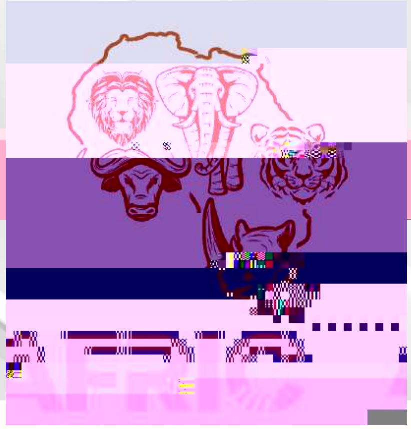


4. SYSTEMIC RISK

INSURANCE MAY CONTRIBUTE MATERIAL…

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."

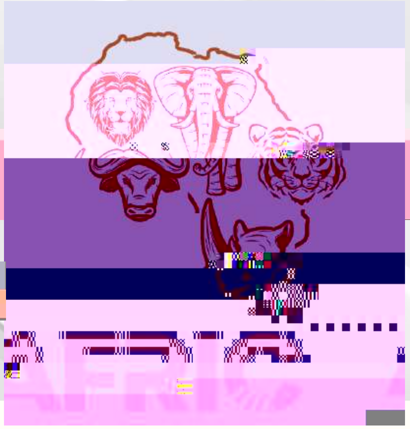
4. SYSTEMIC RISK

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."



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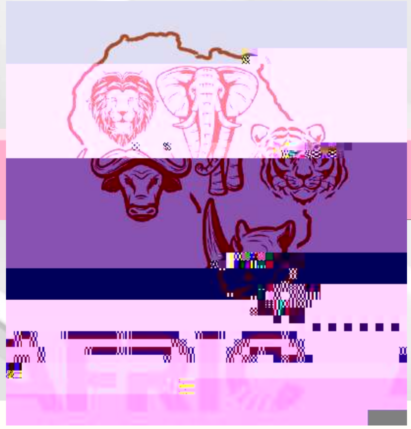

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What of the insurer contribution to systemic risk

Under what conditions are insurer contributions to systemic risk significant?

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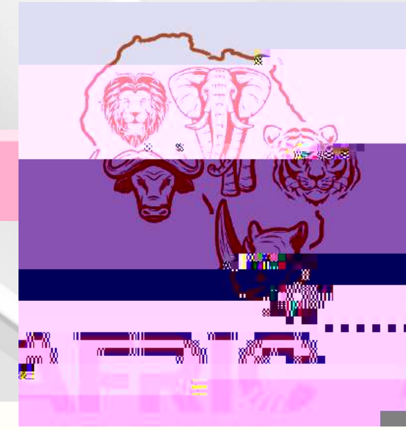
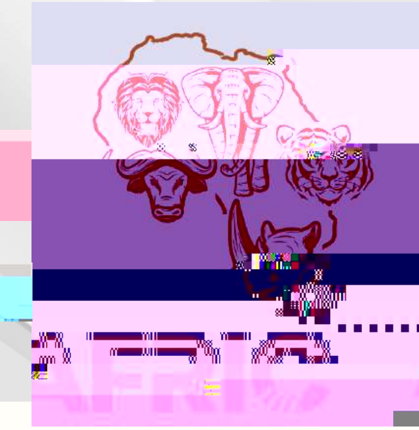


5. PRUDENTIAL REGULATION OF INSURERS



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

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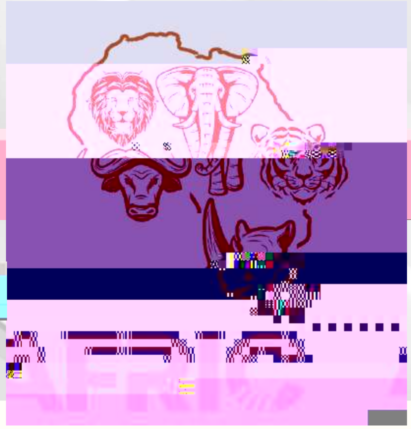

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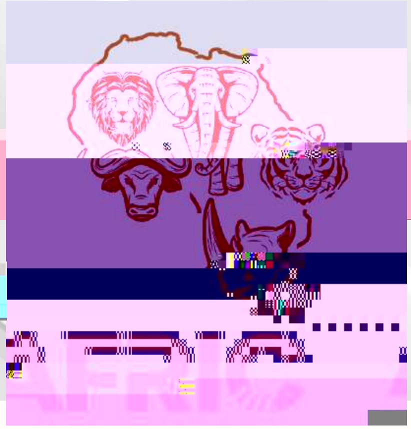

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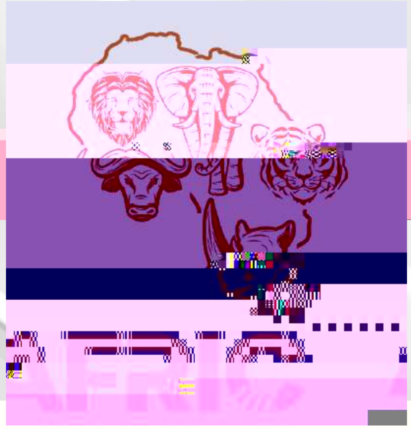

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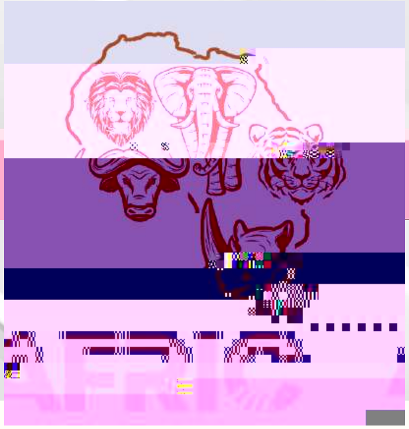

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The real concern: diversification pursued by entities contributes to systemic risk

"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 tttmvwith h

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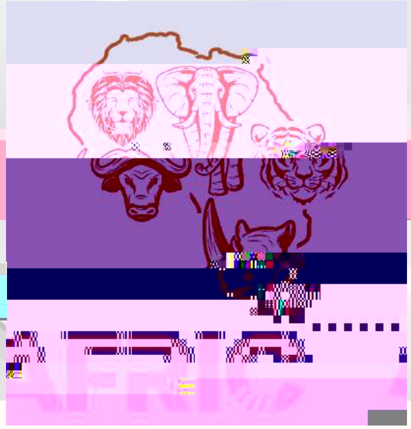

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- The problem has been recognised by the European Insurance & Occupational Pensions Authority (EIOPA)

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

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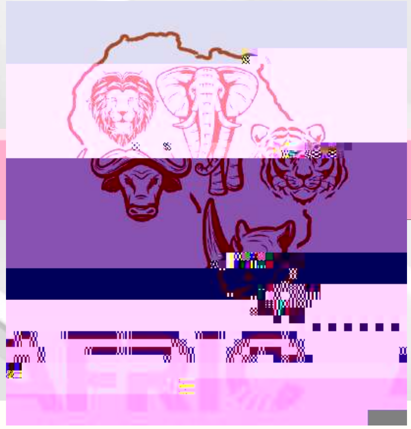

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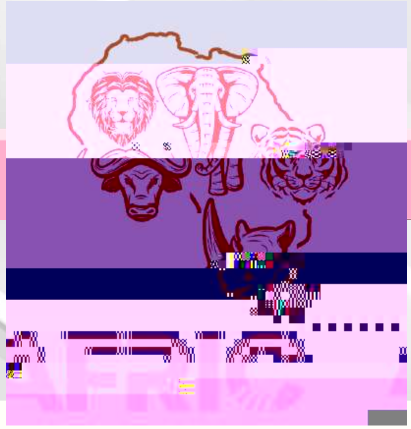

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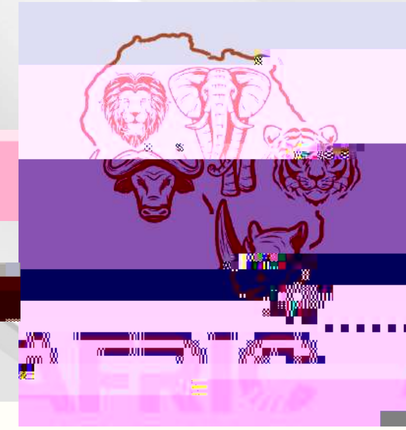

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Policymakers already focus on improving the economic and social contributions of insurance

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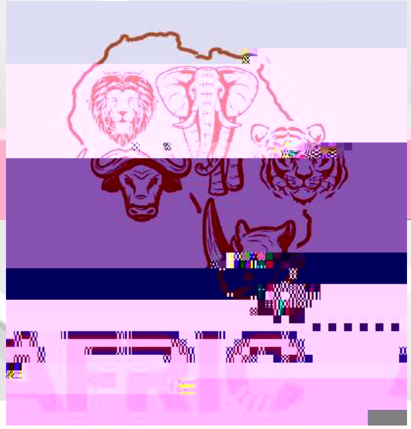


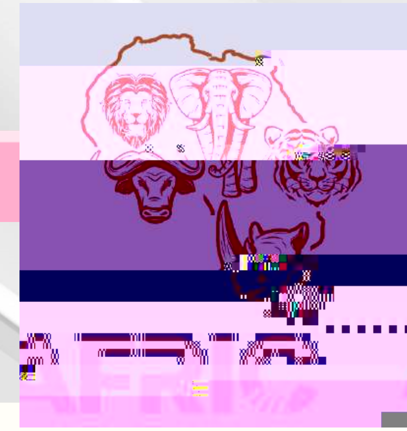
SA INSURANCE REGULATORS SHOULD GIVE ATTENTION TO SYSTEMIC RISK

South Africa has a similarly strong rationale for regulating insurers

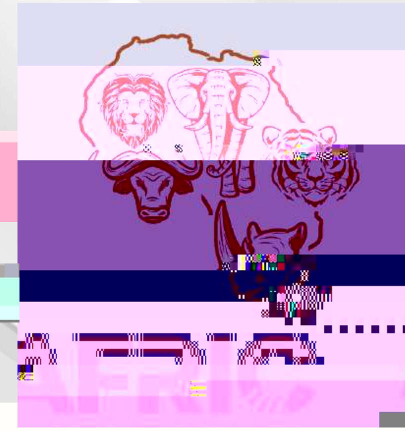
Policymakers already focus on improving the economic and social contributions of insurance

Evidence for and against a contribution to systemic risk exists

KEY MESSAGES



7. CLASSIFYING SOURCES OF SYSTEMIC RISK



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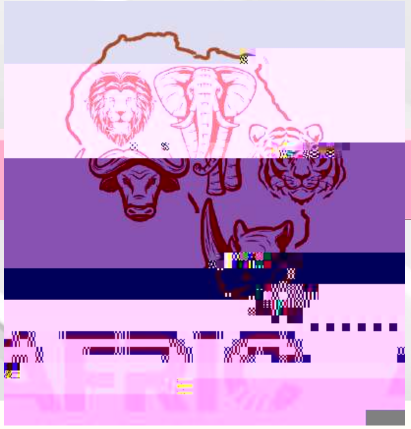

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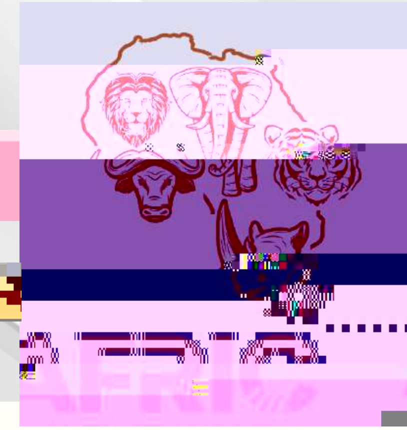
8. FURTHER RESEARCH



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