Global Financial Regulatory Trends and Challenges for Insurance & Pensions

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Abstract

The financial system is undergoing an important regulatory overhaul, gradually increased during the last five years. Solvency II and Basel III are two of the most relevant global initiatives that try to reformulate the future landscape for finance. Under this scenario the Insurance and Pensions (I&P) industry, less affected in the crisis, is undergoing important changes that come from different channels. In this regard, this paper focuses on the main global regulatory trends affecting I&P, either directly from its own regulation or indirectly from changes in the banking sector regulation and strategies. After discussing the relevant characteristics of the different pieces of regulation, this study concludes that there is a great disparity among countries in the initial situation of the I&P sectors, both in terms of solvency levels and the diversification/riskiness of investment portfolios, which will cause different effects from a country base perspective: Notwithstanding this, there is a common challenge about how to reconcile more risk-sensitive regulation with the search for a yield in a world with consistently low interest rates. As a consequence of these new pieces of regulation, it is possible to anticipate a scenario of: higher fees; lower appetite for corporate debt; higher cost of derivatives hedging; reduced securitisation activity, an I&P industry more involved in infrastructure funding, and more real estate financing activity from the insurance sector. As regards sovereign debt, the present regulatory statu quo favours a higher demand of these securities by I&P, but the debate on whether to maintain its zero risk weight in Basel III and Solvency II may imply some changes in the future. What is clear in the near future is that regulators of banks, pensions and insurance sectors should analyse the interactions of new regulations; the associated trade-offs and risks and their consistency with a view to avoid creating wrong incentives for the long run.

Keywords: Basel III, Solvency II, Regulation, Insurance, Pensions, Banking.

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