



Chile

Insurance Solvency Reform

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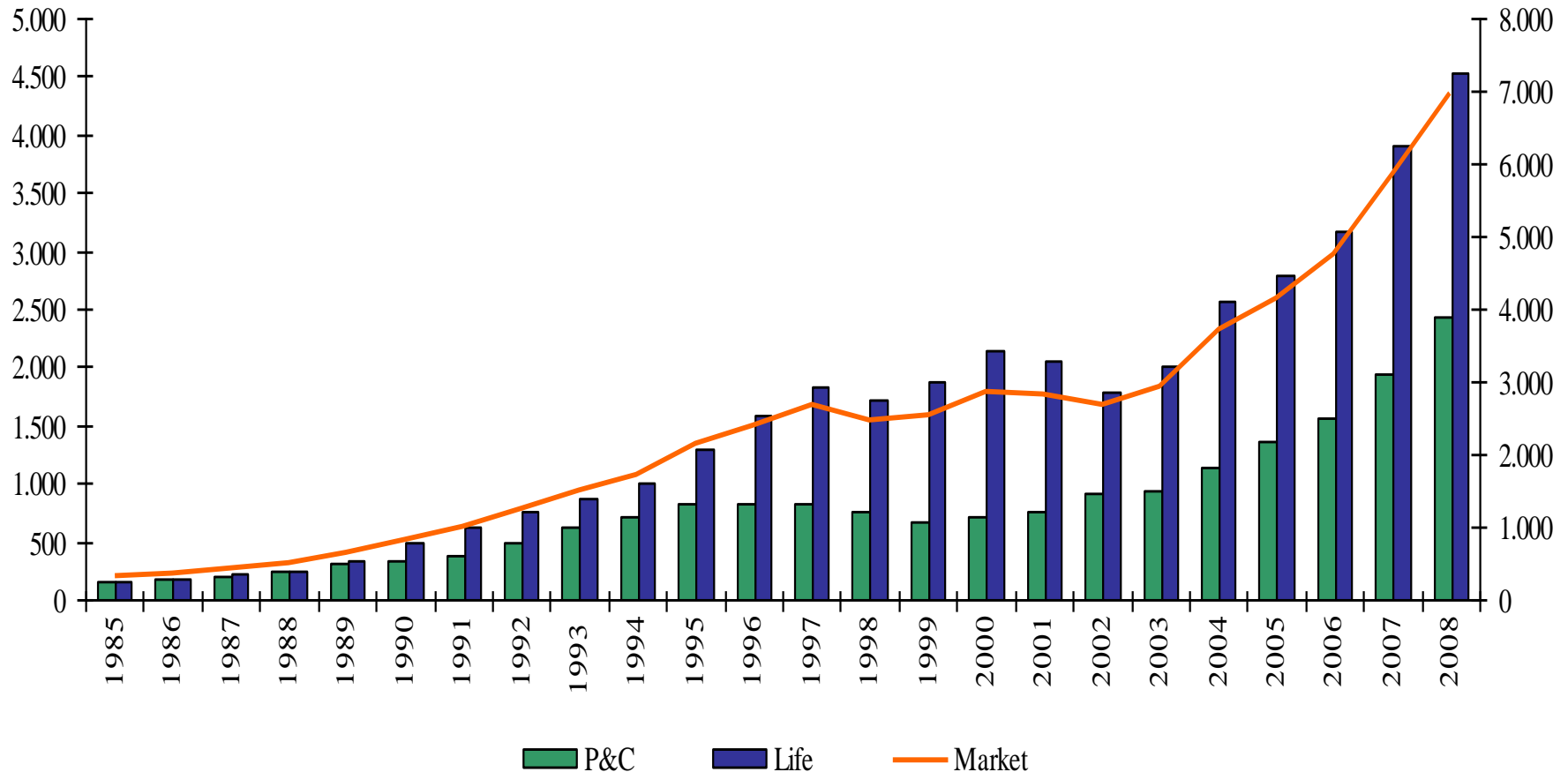
Superintendencia de Valores y Seguros
April 2009

1. Market evolution
2. The reasons behind success
3. The dynamic regulatory framework
4. The Impact of the International Financial Crisis

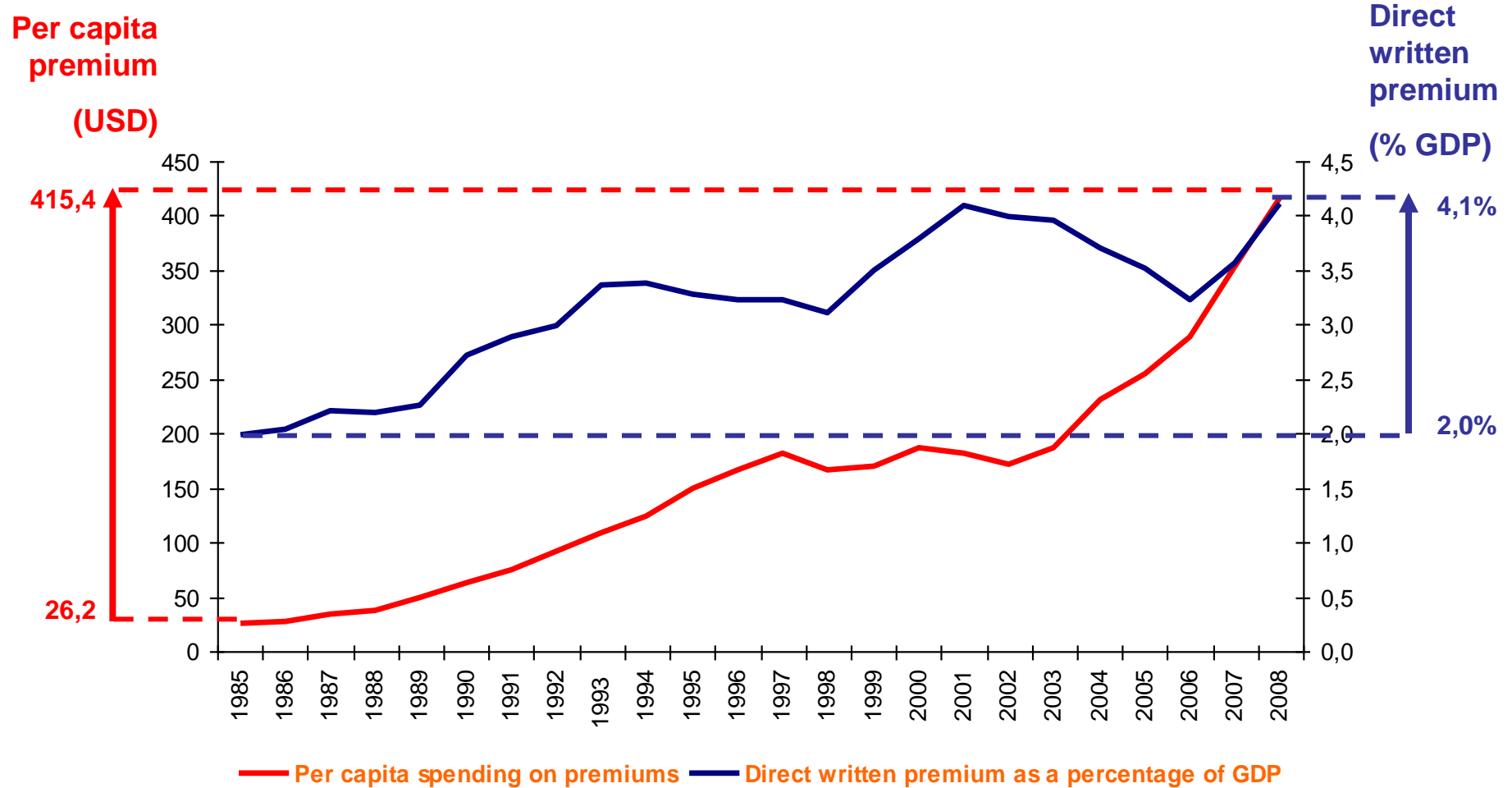
Market evolution: Premium



(Millions of USD of each year)



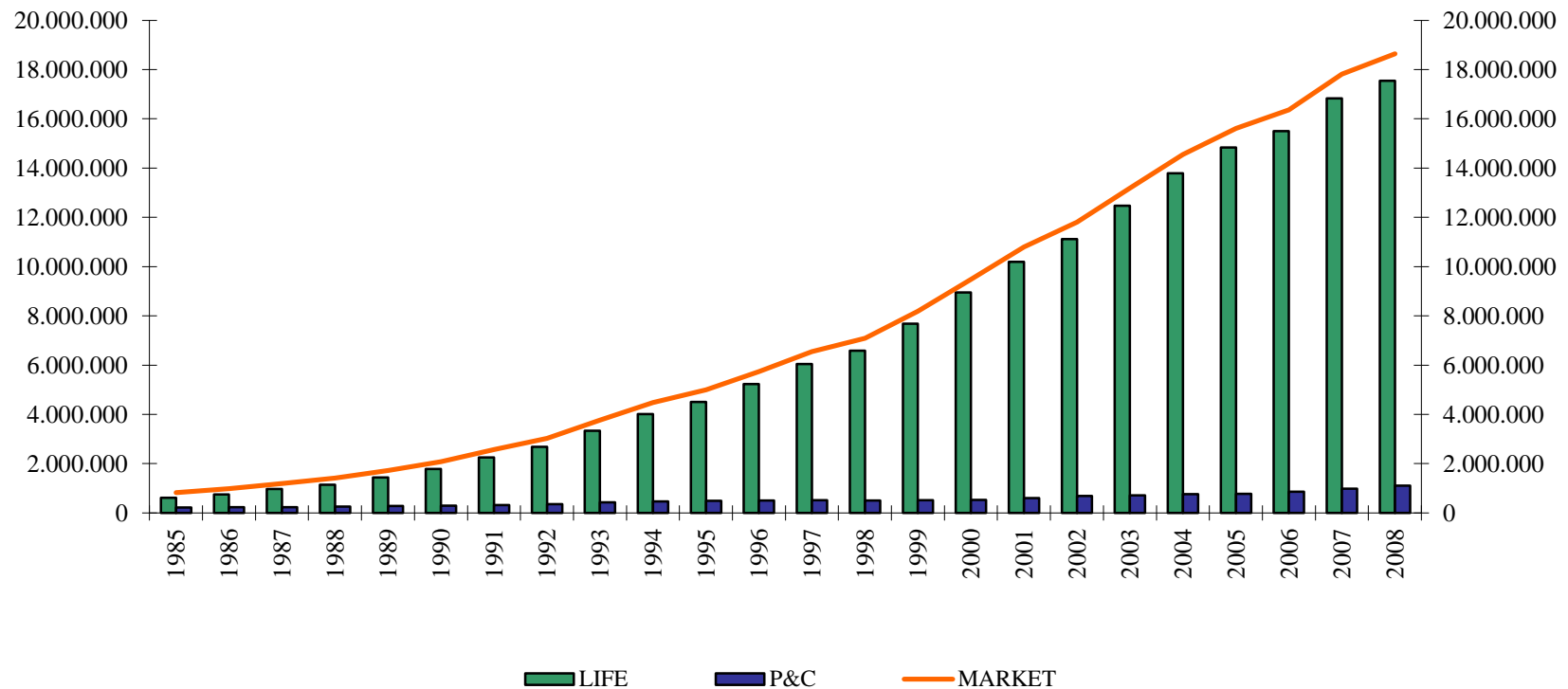
Premiums per capita and direct written premium as a percentage of GDP



Market evolution: Assets of the Insurance Industry

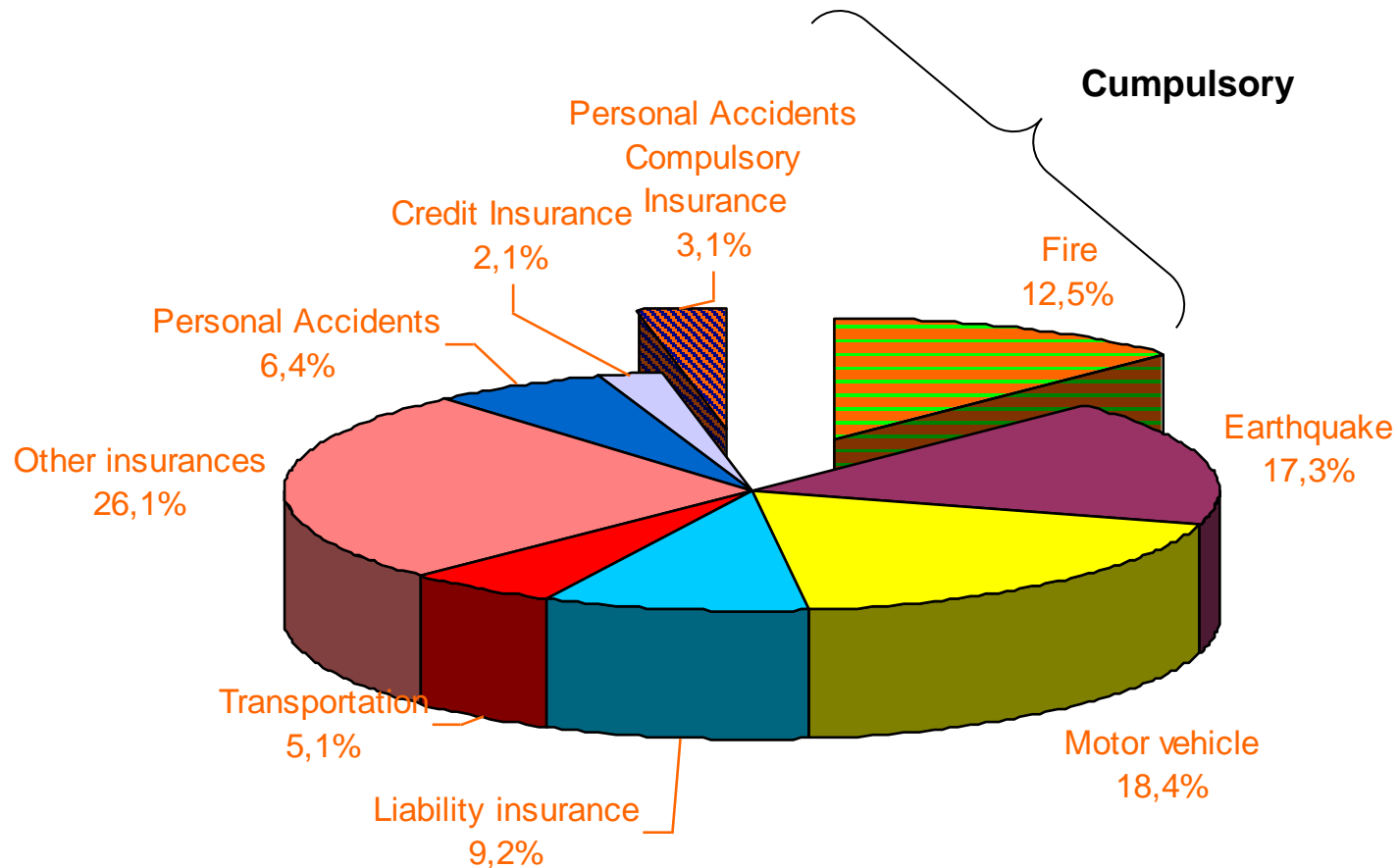


Asset Evolution (In million 2008 CLP)



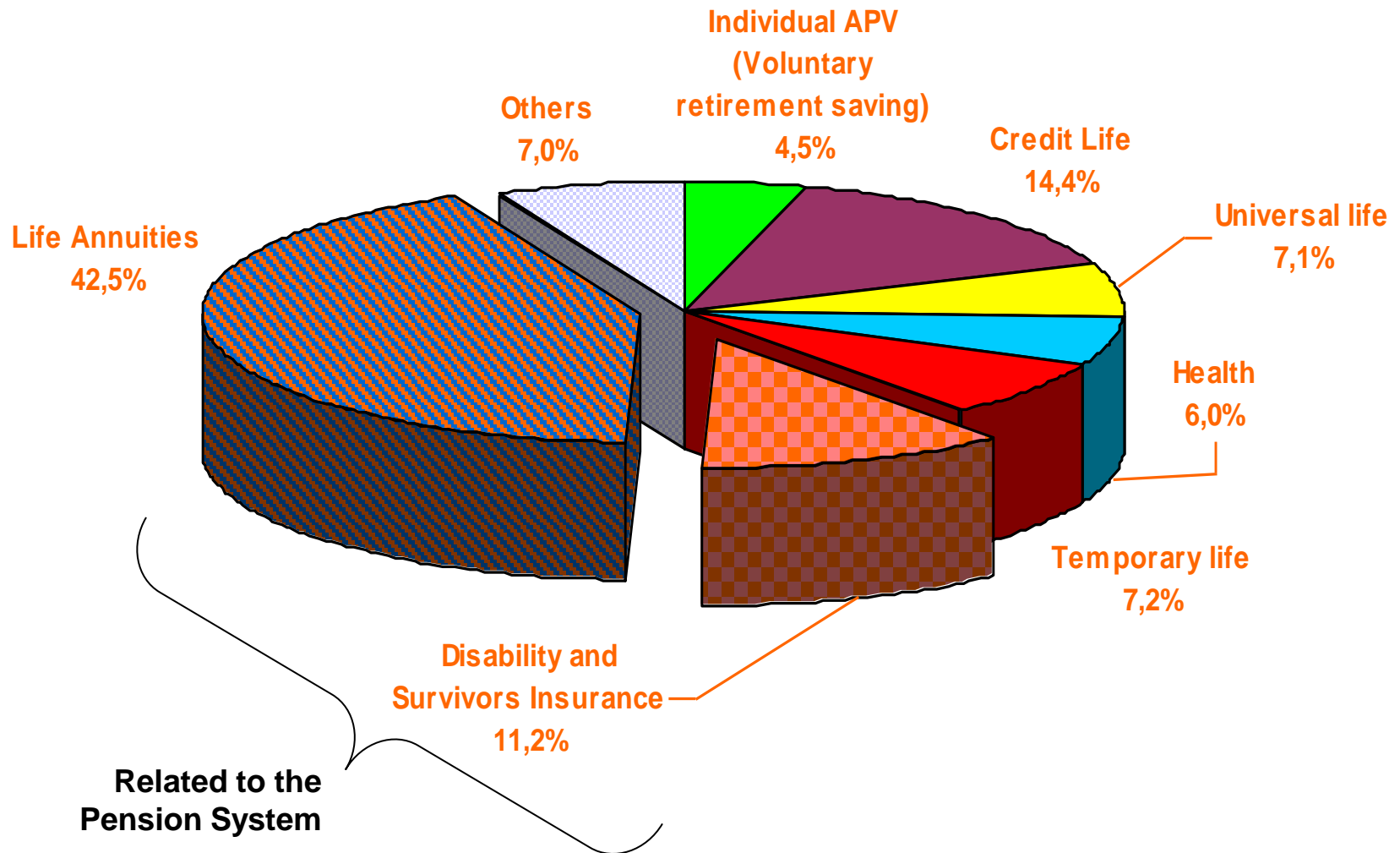
Total assets amounted to USD 29,6 bn in 2008

Premium Distribution by product type: Non Life



December, 2008

Premium Distribution by product type: Life

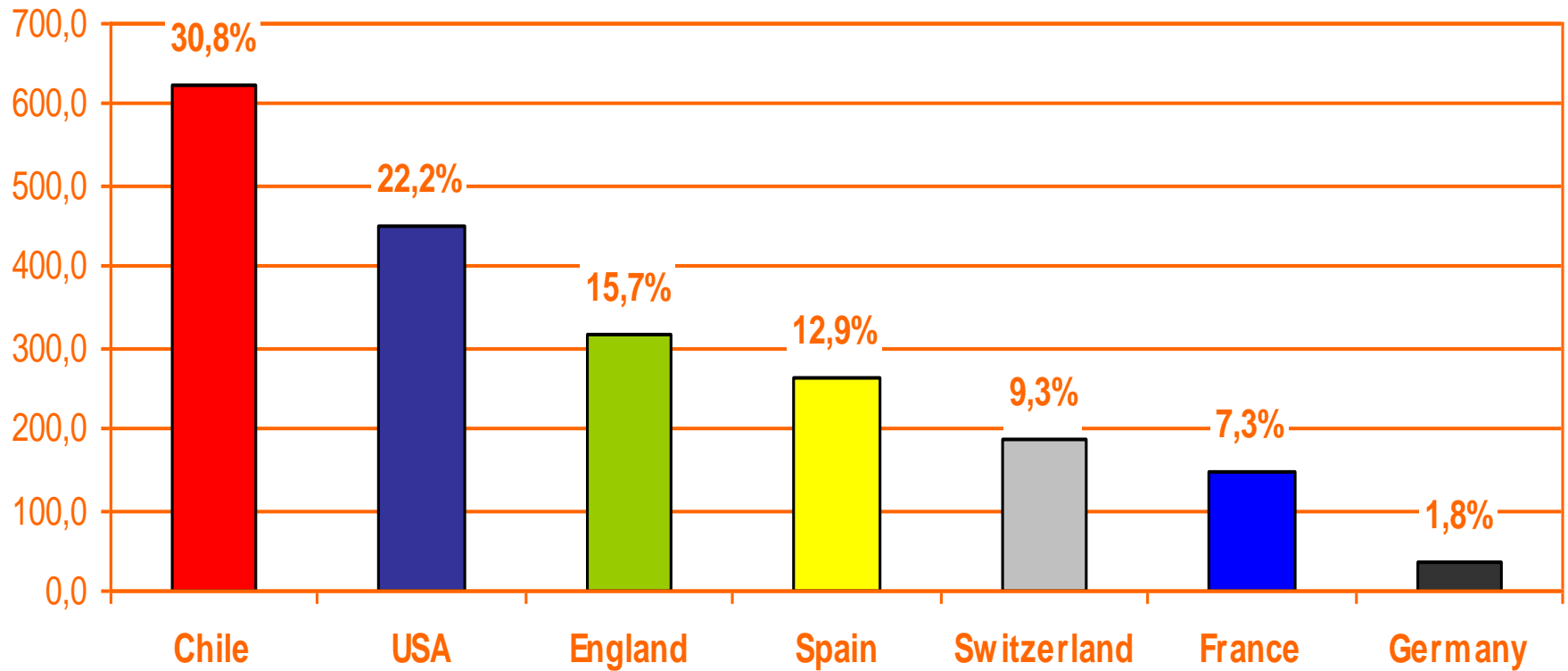


December, 2008

The Chilean Insurance sector is open to foreign competition: premium in Non Life



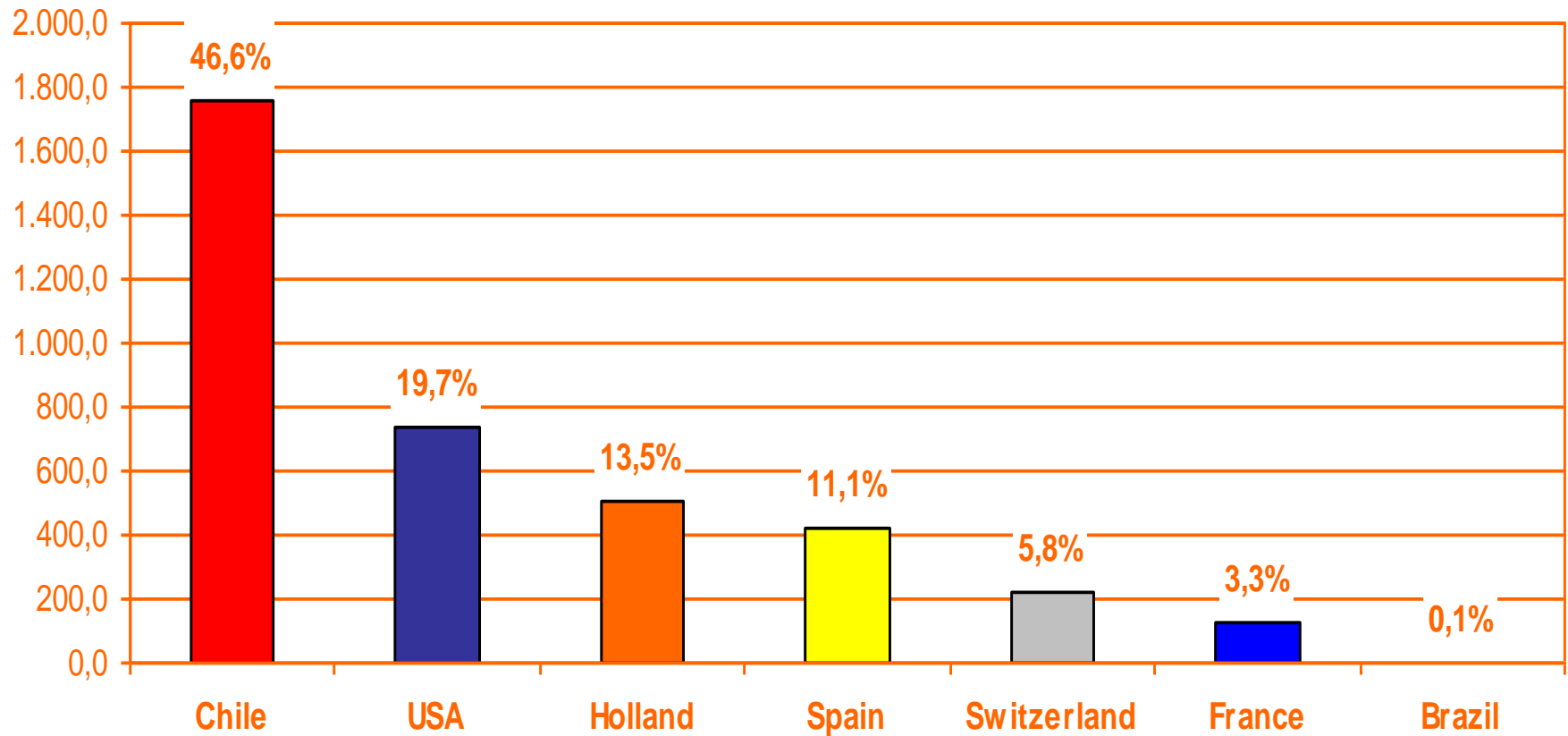
Non Life



The Chilean Insurance sector is open to foreign competition: premium in Life



Life



Chilean Insurance Market: The reasons behind success



- Positive macroeconomic environment. Relatively high growth and a more stable framework based on
 - prudent fiscal policy (structural balance policy),
 - inflation targeting,
 - floating exchange rate and
 - conservative financial regulation with strong enforcement.
- Development of a long term capital market. Role of institutional investors: mutual funds, investment funds, pension funds and insurance companies.
- Pension system
 - Annuities
 - Disability and survivors insurance
 - Electronic market for annuities (SCOMP)
 - Voluntary savings (individual and collective)
- Freedom for
 - setting insurance rates
 - developing insurance products
 - contracting reinsurance
- Sound, prudent regulation...

Impact of the International Financial Crisis: Industry portfolio

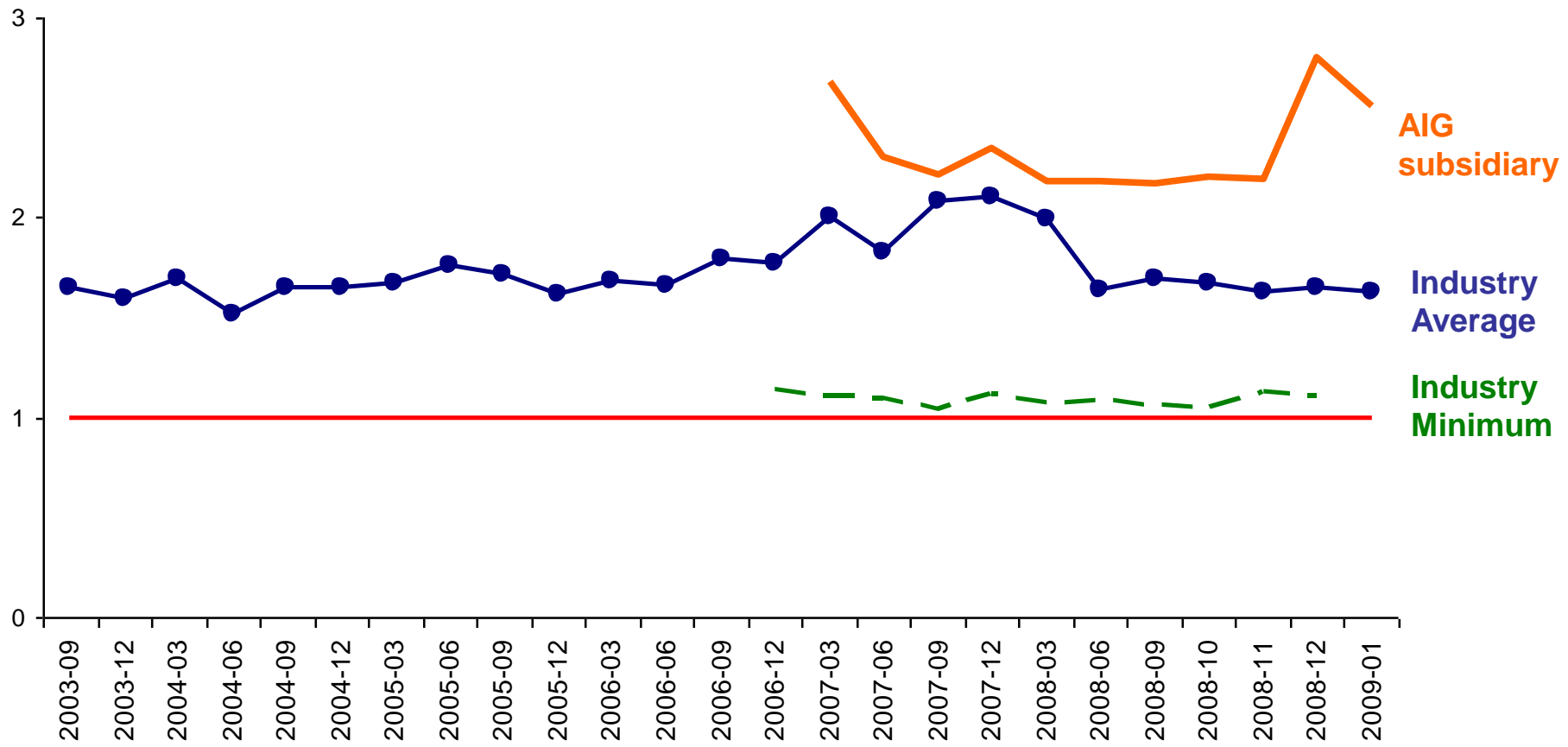


	Life Insurance Companies		General Insurance Companies	
	Million USD	% Portfolio	Million USD	% Portfolio
Domestic Fixed Income	20.957	76%	746	82%
<i>Securitized bonds</i>	439	2%	16	2%
<i>Mortgages</i>	5.389	19%	48	5%
Domestic Variable Income	1.342	5%	47	5%
Real Estate	2.948	11%	44	5%
Other	853	3%	73	8%
Foreign Investments	1.640	6%	3	0%
<i>Structured Notes</i>	524	2%	0	0%
	27.740	100%	913	100%

Impact of the International Financial Crisis: Solvency in Life



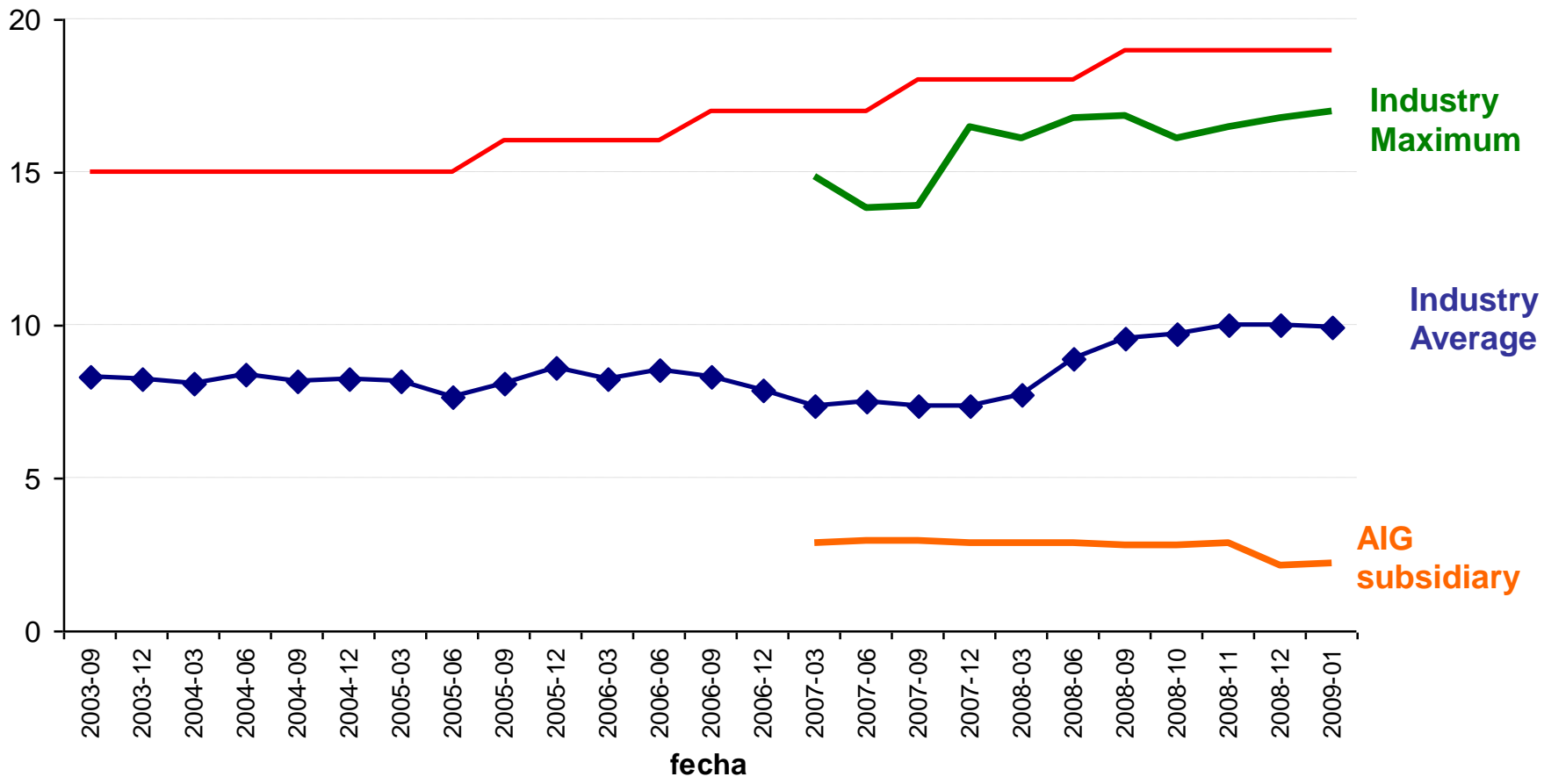
Available capital / Required Capital (Market)



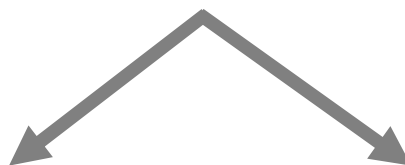
Impact of the International Financial Crisis: Leverage in Life



Leverage (Mercado; Vida)



The Chilean insurance supervisory and regulatory system rests in two key concepts:



SOLVENCY

Insurers have sufficient financial resources to fulfil their obligations with policyholders within a stable and competitive financial system

MARKET CONDUCT

To establish a regulation and supervision allowing the protection of policyholders rights

The dynamism of the solvency regulatory system in Chile



- Until 2005 the solvency supervisory approach was focused in
 - establishing prudential rules,
 - the supervision of the fulfilment of these rules,
 - and the review of financial statements and others financial and technical information.

- Rules and supervision focus in:
 - i) Technical Provisions (SVS standards)
 - ii) Capital Requirements (leverage and solvency margin)
 - iv) Investments (restrictions and limits for diversification of market and credit risk)
 - v) Reinsurance (minimum risk rating)
 - vi) Financial and technical information.

- However, few attention was given to governance and risk management of the insurers



Drivers for Solvency Regulatory Change

1. 2002: Bankruptcy of a Chilean life insurance company due to corporate governance and control system problems
2. 2004: FSAP, finding of weakness in the supervision model

All this suggested the need to advance towards a Risk Based Supervision approach.

3. 2004: Strict self assessment of compliance of IAIS Core Principles (2004)

Revision of compliance of ICPs in several dimension where Chile was partially or no observant. There were improvements across the board

New SVS Risk Based Supervision Approach



Level
2

Supervisory level

Risk Assessment and
Mitigation Activity
Process

- Risk-based Supervision Focus
- Corporate Governance
 - Market Conduct
 - Market Disclosure

Level
1

Regulatory level

Minimum
Solvency
Requirements

- Risk Based Capital ●
- New Investment Regime ●
- IFRS (new assets and liabilities valuation considering economic value)

Since 2005 SVS has been working in the implementation of a new RBS model.

The process has been divided in two phases:

- Phase I: Research and Planning (2005-2006):
 - International case studies and IAIS recommendations
 - Adapting the model to the Chilean reality
 - Planning and definition of the activities for the implementation process.

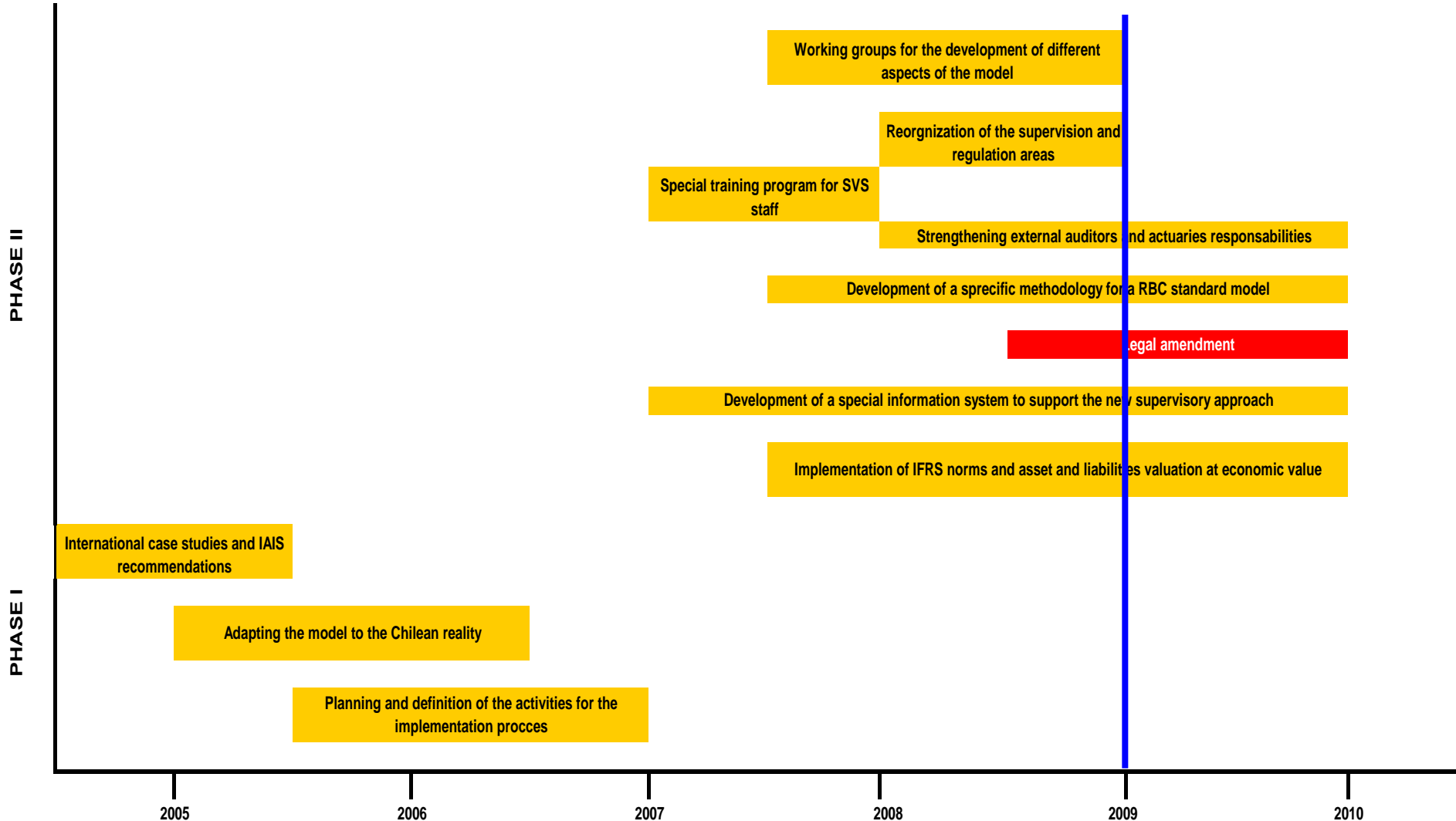
This Phase was done with the support of the Canadian Financial Supervisor (OSFI) and completed according the plan.

New RBS Model. Implementation Process



- Phase II: Implementation (2007-2009):
 - Creating Working Groups for the development of the different aspects of the model (EWS, risk matrix, supervisory manuals, RBC, investment regime, etc.).
→ **Completed**
 - Reorganization of the supervision and regulation areas → **Completed**
 - Special training program for the SVS Staff → **Completed**
 - Strengthening external auditors and actuaries responsibilities → **in course**
 - Development of a specific methodology for a RBC standard model → **in course**
 - Procedure of legal amendment → **in course**
 - Development of a special information system to support the new supervisory approach → **in course**
 - Implementation of IFRS norms and assets and liabilities valuation at economic value → **in course**

New RBS Model. Implementation Process



- Chile has a dynamic and solid insurance sector that has faced well the current crisis. The system is well capitalized, solvent.
- The chilean insurance sector displays some unique characteristics: its developed annuities sector, the original blind electronic system for annuities (SCOMP) and the development of massive distribution channels for insurance products.
- From a regulatory perspective, this has been the outcome of a rule based regulatory approach which is gradually becoming binding for the development of the industry.
- The growing payout phase of the pension system represents a major push for the life annuities industry.
- Chile needs a new approach for solvency regulation. We are in the middle of that process.

Chile – Insurance Solvency Reform

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