

# **Longevity Risk and Its Coverage: the Vision of the Regulator**

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**Longevity 10 Seminar- September 2014**



# AGENDA

- Consolidated Balance Sheet of the Life Insurance Industry
- Challenges of the Regulator and the Market with Respect to the Coverage of the Longevity Risk



# Consolidated Balance Sheet of the Life Insurance

## COMPAÑÍAS SEGUROS DE VIDA

Balance al 30 de junio de 2014

Dólar 30 de junio 2014 = 552,72

ACTIVO	MM US\$	%
Inversiones	47.796	97%
<i>Renta Fija</i>	30.999	63%
<i>Renta Variable</i>	3.145	6%
<i>Inv. Exterior</i>	5.610	11%
<i>Inv. Inmobiliarias</i>	6.575	13%
<i>Préstamos</i>	684	1%
<i>Otras Inversiones</i>	784	2%
Deudores por Primas Asegurados	366	1%
Deudores por Reaseguros	330	1%
Otros Activos	997	2%
<b>TOTAL ACTIVO</b>	<b>49.489</b>	<b>100%</b>

PASIVO	MM US\$	%
Reservas Técnicas	43.270	97%
<i>Rentas Vitalicias</i>	36.597	82%
<i>Aporte Adicional SIS</i>	608	1%
<i>Res. Valor del Fondo CUI y APV</i>	3.444	8%
<i>Deudas por Reaseguro</i>	131	0%
<i>Otras Reservas</i>	2.490	6%
Oblig. Instituciones Financieras	684	2%
Otros Pasivos	735	2%
<b>TOTAL PASIVO</b>	<b>44.689</b>	<b>100%</b>
<b>PATRIMONIO</b>	<b>4.800</b>	
<b>TOTAL PASIVO + PATRIMONIO</b>	<b>49.489</b>	

The main risk facing the life insurance industry is the longevity, due to the concentration in annuities.

On the other hand, there is a state guarantee committed of the order of US\$32,000 million.

# Challenge of the Regulator and the Market

- Determine a capital release that is reasonable according to the level of coverage that provides a solution.
- Ensure that the capital requirement is sensitive to the risk of longevity and that the coverage taken by insurers generate an capital release that reflects well the effective risk-reduction (decrease the basis risk).
- Our great challenge is to have a methodology that allows us to incorporate the capital release in line with the reduction of the risk. Today, we do not have this methodology.



# Challenge of the Regulator and the Market

- The challenge of the SVS is working on a methodology that allows effective capital release in accordance and adjusted to the reality of each company.
- As today, there has not been much progress in this area due to the fact that until today there are no new initiatives of coverage of the longevity risk.
- With Société Générale we have started a process of analyzing of a hedge methodology proposal.
- We are interested in reducing the longevity risk of the local market and the SVS will dedicate resources to analyze the methodologies that will be submitted to us.



# Challenge of the Regulator and the Market

- In the Hedge a premium is paid (a cost), it is important that the cost of the coverage of risk could be equated by the industry.
- The cost is key, basis risk must be reduced to a reasonable cost; the process, the way that this hedge or bond is structured must seek to reduce costs as much as possible.
- The point is not that the release of regulatory capital outweighs the cost of the coverage, but that the insurer will be able to adequately assess the cost of the coverage and capital release, related to challenges of complexity and technical analysis.

# **Question & Answers**

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