

International Pension and Insurance developments

A Belgium perspective

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Agenda

1. The past (until 2008)
2. The current (2009-2020 pre Covid)
3. The future (after Covid)
 - Worldwide
 - Curacao
 - Risks
 - Opportunities
4. Conclusion

The past (until 2008)

Low risk high return



Risk&Return

Risk free gov bonds
High yields
Asset liability matching



Longevity

#Young > # Old
Sustainable pay-go pension
Limited health care expenses



Result

Risk free pensions
Indexation
Premium discounts

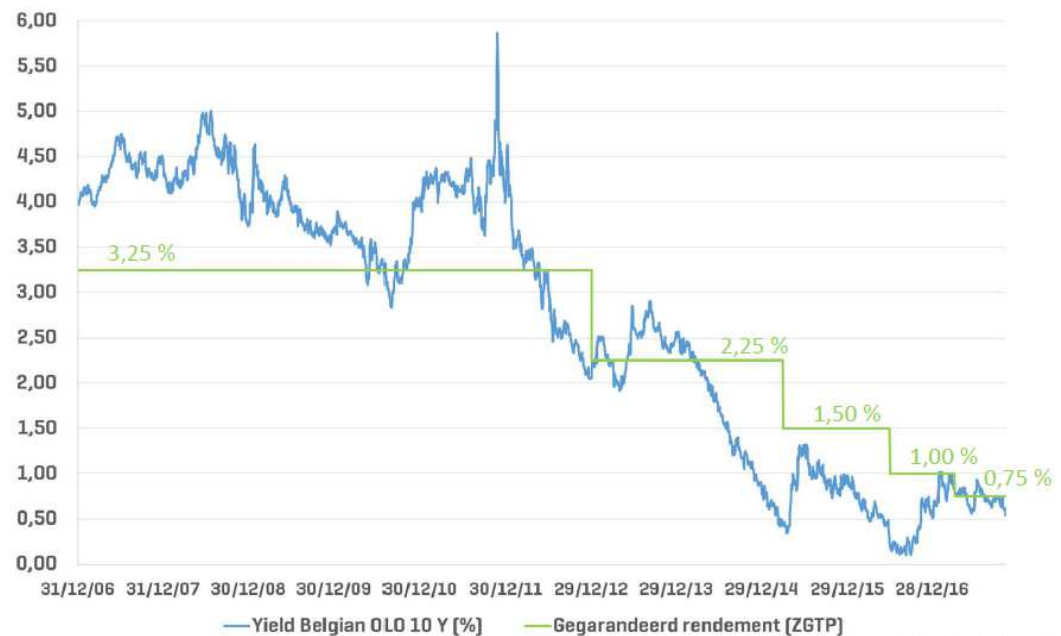
The current (2009-2020 pre Covid)

High risk lower return

- No longer safe-haven government bonds with sufficient returns
- -> search for yield: corporate bonds, real estate, bitcoin, renewable energy
- -> challenges ALM and cash-flow matching
- -> less products with interest guarantees
 - -> more risks shifted to policyholder
- Additional reserves (knipperlichten) at insurance companies required by NBB

FINANCIAL EDUCATION NEEDED!

Environment of low interest rates



Source: Bloomberg

The current (2009-2020 pre Covid) *Ageing population and smaller families*

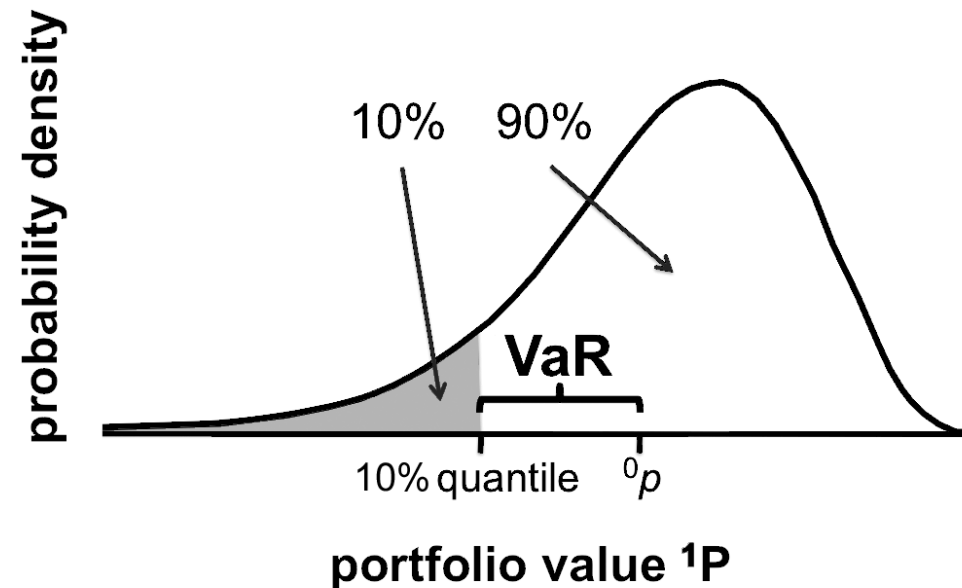


My home is my castle

- Video: [Europe Median Age 1960-2060 - YouTube](#)
- In the past, longevity effects could be compensated by above average returns
- Smaller families result in different housing requirements -> together with low interest rate environment result in increase in housing prices
 - Reduction in spending during Covid19 resulted in increased pressure on housing market

The current (2009-2020 pre Covid) *Increased focus on risk management*

- Introduction of risk based frameworks (Solvency II, Basel III)
- Scenario and stress testing
- New insurance accounting standard (IFRS 17) formalizing option valuation
- IORP II for pension funds



The future (after Covid) - worldwide *Sustainability*



- World economic forum: 4 out of 7 highest risks are related to environment/climate risk
- Financial sector:
 - 2020: Sustainable Finance Taxonomy
 - March 2021: Sustainable Finance Disclosure Regulation
 - Insurance sector: EIOPA guidelines and formalized future Standard Formula and ORSA requirements

The future (after Covid) - Curacao

Risks

- Not incorporating change in interest rates and life expectancy in pricing and reserving
 - State pension (AOV), health expenses
- Outdated CBCS regulations (Solvency I), insufficient early warning signs (Girobank, ENNIA)
 - 60-40 rule resulting in concentration of local assets
 - Lack of diversification/risk concentration
 - Low liquidity assets/valuation error
- Losing “war on international talent”
 - Due to Covid19/WFH even more cross border working
 - Diverse teams needed to cope with changing circumstances



The future (after Covid) - Curacao

Opportunities



- Guilder linked to USD
 - US denominated investments
 - Interest rate hedging (swaps and swaptions)
- CBCS linked to Dutch central bank (DNB)
 - Access to experienced workforce on risk-based regulations (Solvency II, Basel III) -> introduce light regimes (Bermuda)
 - CBCS already providing financial literacy to population
- Sustainability
 - Wind and solar energy
- Covid19/WFH
 - Cross border working more common -> no need for inter island travelling

Conclusion

No hope for “going back to the future”

- Pension and insurance world changed dramatically since 2008
 - Worldwide low interest rates and longevity are here to stay
 - Update reserving and pricing for pension products
- Volatile world requires more focus on risk measurement and management
 - Update regulations: the longer you wait the harder it gets
 - Learn from other small islands (Bermuda)
- Active role CBCS required
 - Financial services not a normal market (bail-outs, too-big to fail)
 - Early warning signs, protect interest clients/policyholders
 - Develop local mortality tables, yield curves
- Dare to fail!
 - Climate risk now developed with little or no data!

