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# Liquidity Risk: the Insurance Industry's Elephant in the Room

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Understanding liquidity requirements

2

How do we think about managing liquidity risk ?

3

Opportunities – leveraging your liquidity management framework



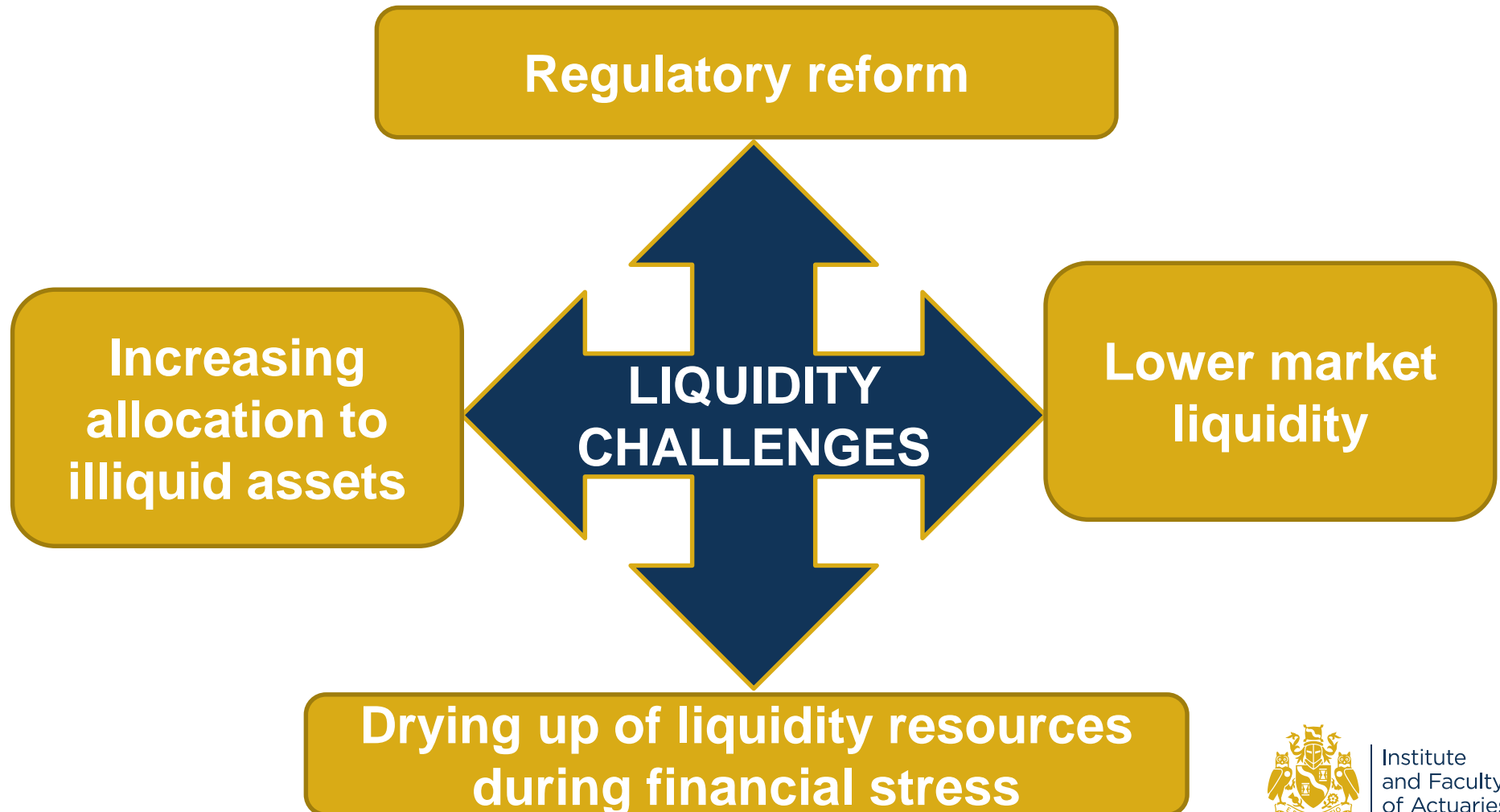
Section 1

# Understanding liquidity requirements



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# Current liquidity challenges for insurers



# The regulatory requirements

## Governance

Monitoring

## Reporting to Regulator

Stress Testing/ Scenario Analysis

## Specific Limits

Cash Flow Projections

## Liquidity Needs & Buffer

Contingency Funding Plan



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# Key notions and examples

## Liquidity Risk

Is covered by cash or cash equivalents to meet obligations in the *immediate future* (up to 12 months)

## Capital

Portfolio of assets structured to meet long-term obligations under base and stress scenarios

## Collateral

Often government bonds, AAA corporate bonds and cash

## Examples of stress scenarios

Lapse rates on illiquid unit-linked are temporarily heavier

Reserving bases are strengthened

Interest rates rises require collateral to be posted against interest rate swaps



# Possible liquidity resources

*Sale of assets: changing asset composition*

*Cancellation of planned purchases of assets*

*Usage of committed bank lines*

*Repurchase agreement*

*Cash pooling transfer of funds*

*Contingent liquidity facility*

*Debt or equity issuances*

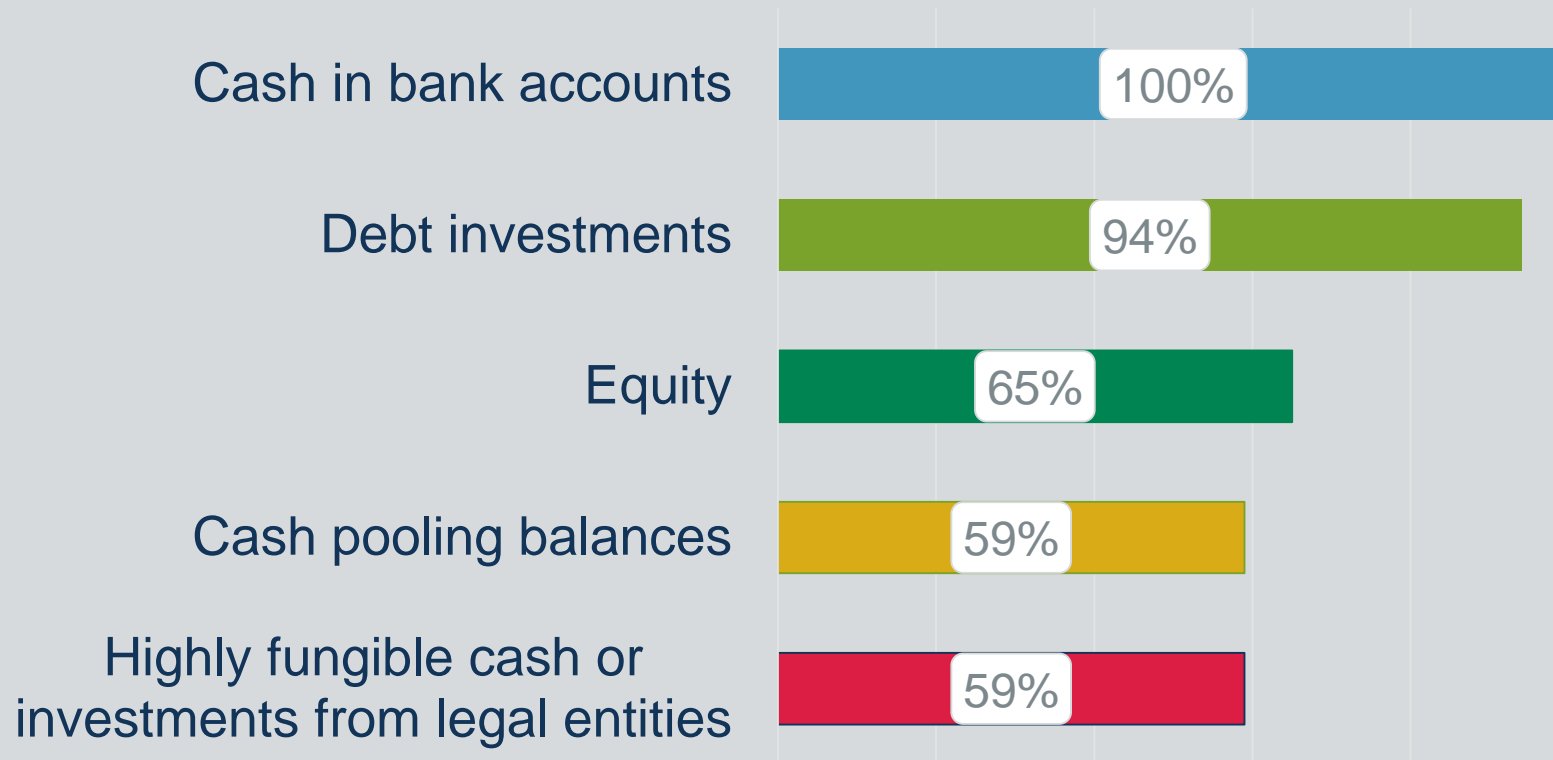
*Intercompany loans*

*Short-term revolving loans*



# Typical sources of liquidity for insurers

What are the main sources of liquidity used for ongoing management of the firms liquidity position? \*



\* Source: EY survey



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## Section 2

# How do we think about managing liquidity risk?



# Components of the LMF Framework



0

## Strategy and ambition

- Liquidity specific risk appetite statements to specify how much risk the company is willing to take
- Linkage to overall risk appetite



# Components of the LMF Framework



1

## Risk identification

Identifying the precise liquidity risks such as:

- ▶ collateral calls
- ▶ expected / unexpected defaults in annuity fund
- ▶ mass lapses, etc.

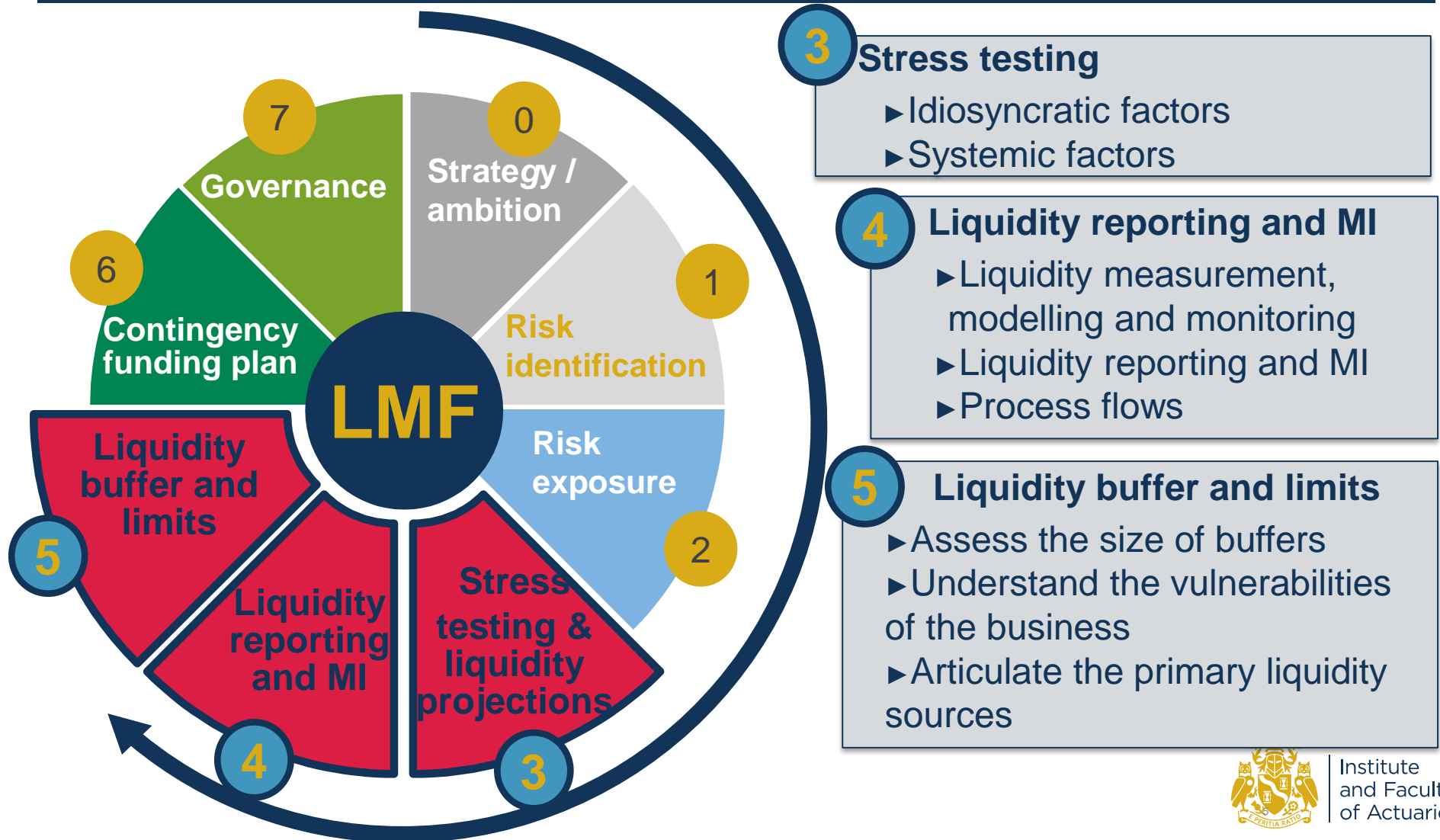
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## Risk Exposure

Assess liquidity risk exposure over different time horizons

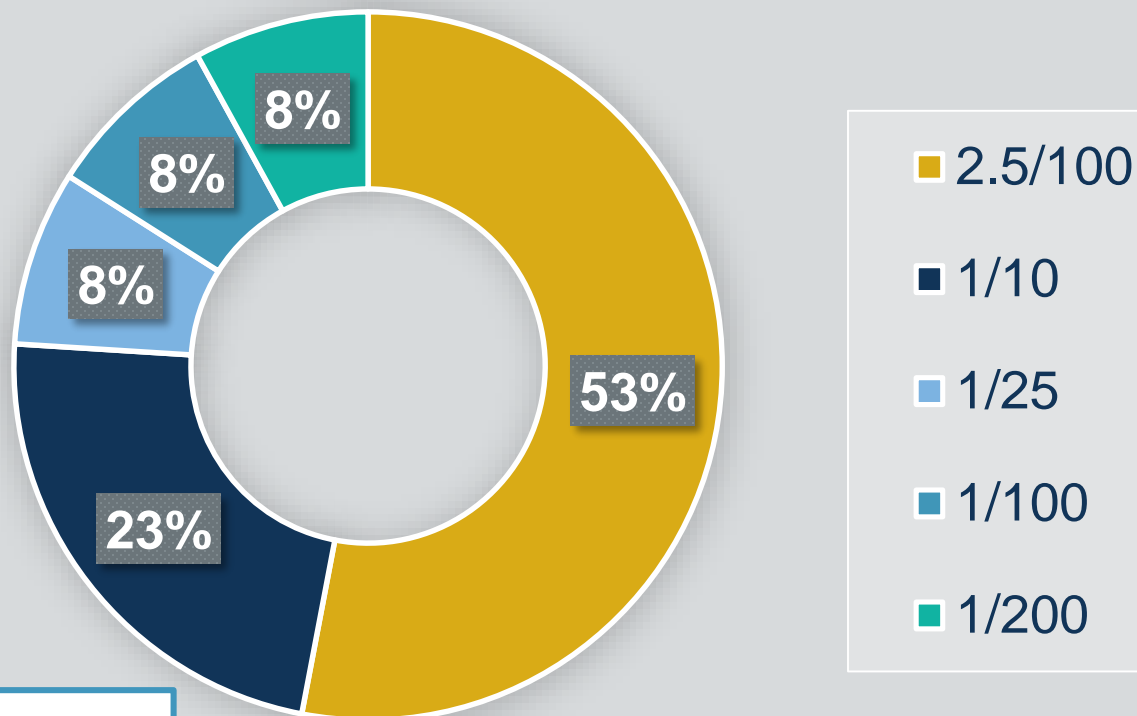


# Components of the LM Framework



# Confidence levels for stress scenarios

What level of confidence is the group liquidity requirement calibrated to? \*



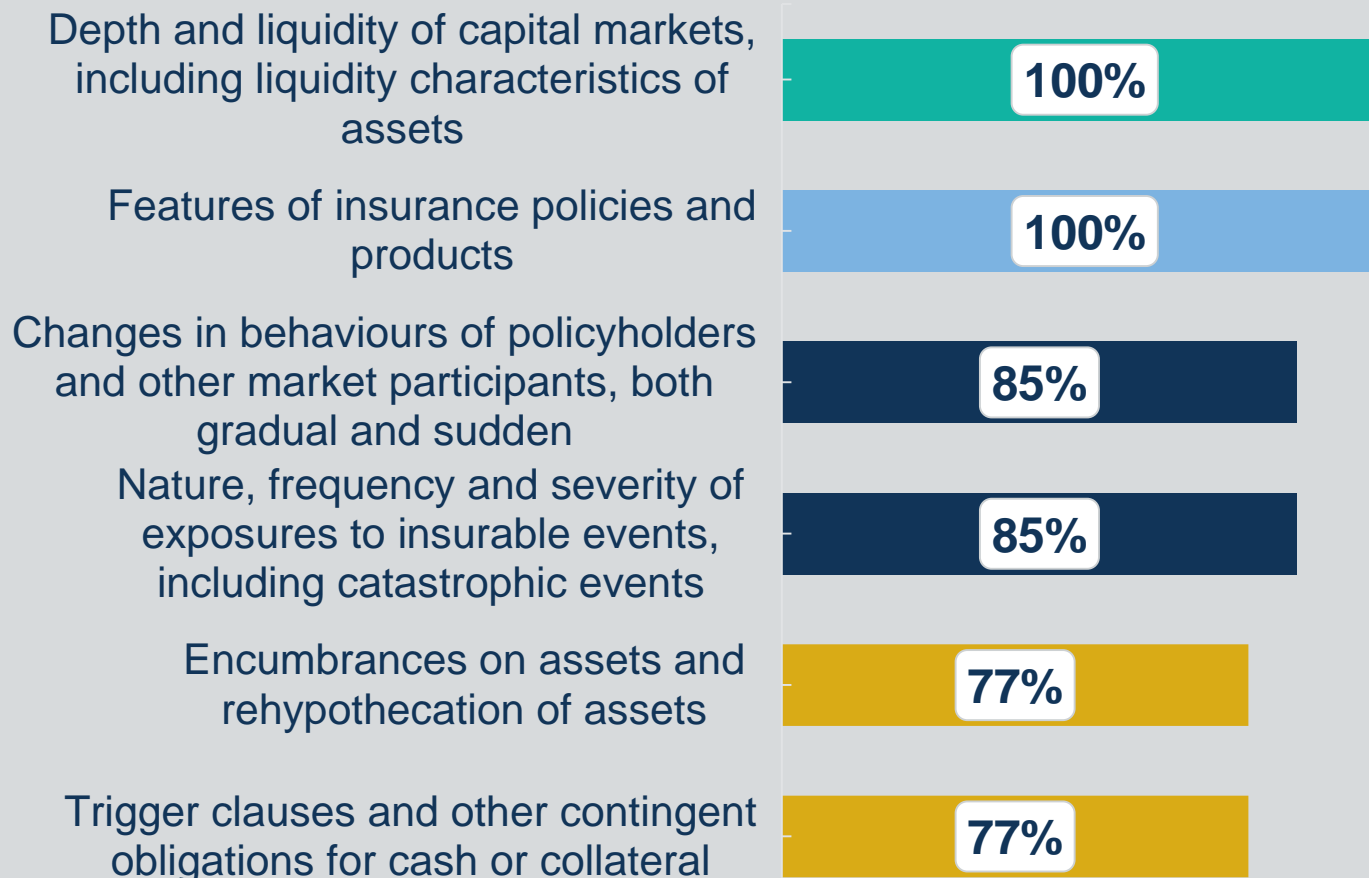
\* Source: EY survey



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# Setting stress scenarios

## What features are reflected in scenarios? \*



\* **Source: EY survey**



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# What others include in the LM Framework?

## What is included in the liquidity reporting framework? \*

Liquidity targets, limits of usage (e.g. group, legal entity)

94%

Available liquidity following impact on stress scenarios (behavioural CFs)

94%

Excess (available) liquidity

88%

Cash flow and outflow projections (operating, investment and funding)

88%

Liquidity coverage ratio

82%

Contingency funding sources

82%

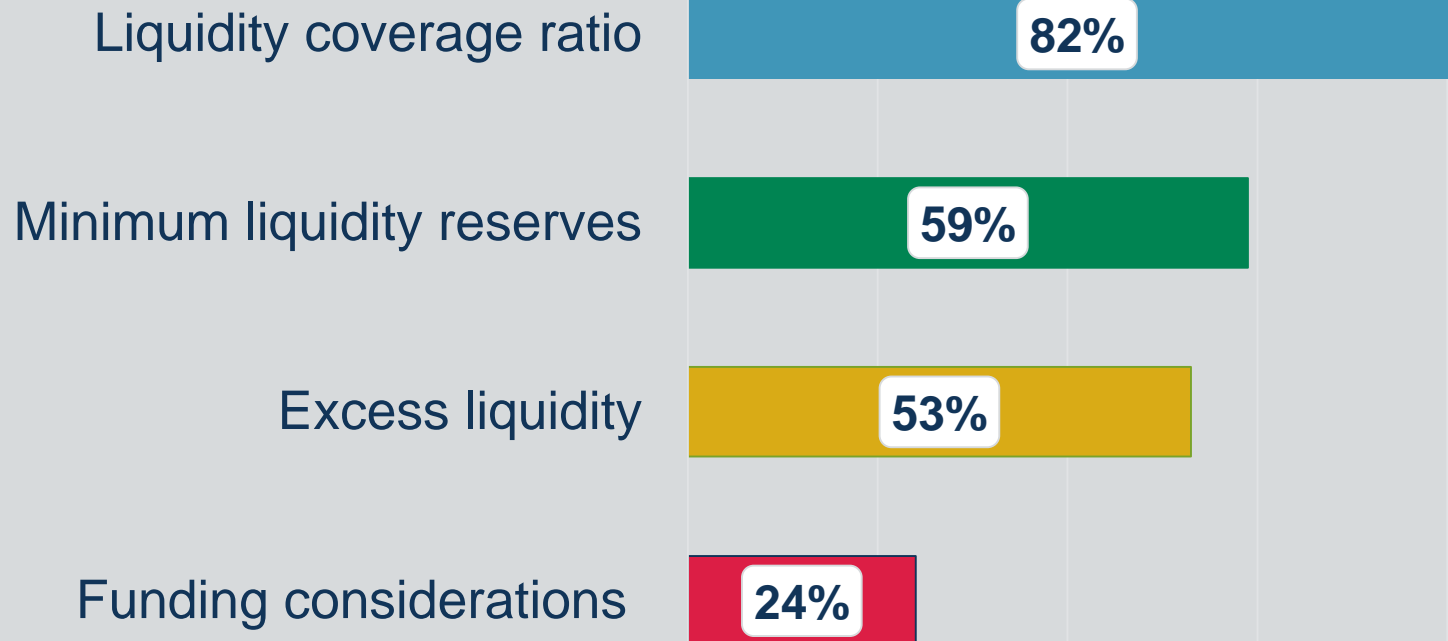
\* Source: EY survey



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# Metrics used for controlling liquidity

Which liquidity measures are included in the group liquidity policy? \*



\* Source: EY survey



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# Components of the LM Framework



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## Contingency funding plan

- Strategy Drivers
- Quantitative and qualitative triggers
- Escalation procedures
- Recovery planning
- Key Assumptions

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## Governance

- Clear definition of roles and responsibilities at group and legal entities levels
- Clear allocation of tasks across the three lines of defence



# Contingent liquidity sources, EY survey

What contingent liquidity sources may be used to manage the firms liquidity position? \*

Committed credit or liquidity facility

44%

Lines of credit

44%

Uncommitted credit lines

31%

\* Source: EY survey



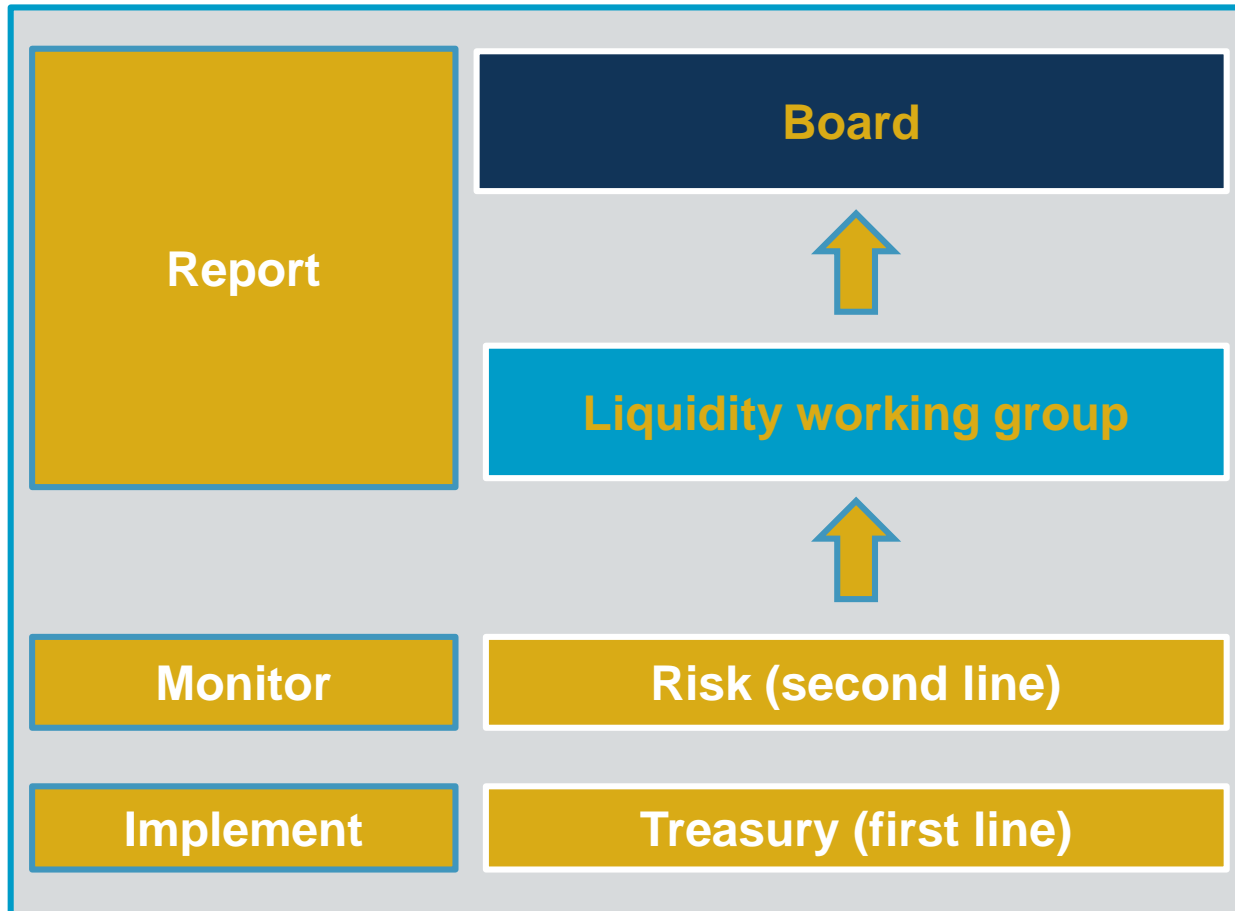
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# Potential contingent liquidity options

		Category of cash
<b>Contingent Liquidity</b>	<b>Contingent</b>	Additional debt
		Funds realisable from sales of businesses
		Alternative investments
		Revolving credit facilities
<b>Available Liquidity</b>	<b>Contingent</b>	Local excess assets
		Bilateral credit facilities
		Letters of Credit
		Global Cash Pool - operational cash pooling (overnight)
	<b>Strategic</b>	Treasury Shares
		Strategic portfolios - unencumbered portfolios of high-grade, liquid securities
	<b>Strategic</b>	Repo eligible securities
	<b>Operating</b>	Cash and cash pooling balances



# Effective governance is crucial



## Board of Directors:

- Tone at the top
- Oversight and reporting

## Senior Management:

- Committee and organization structure
- Escalation



## Section 3

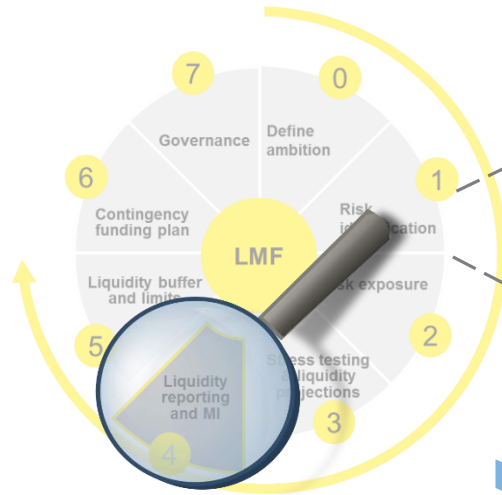
# Opportunities – leveraging your liquidity management framework



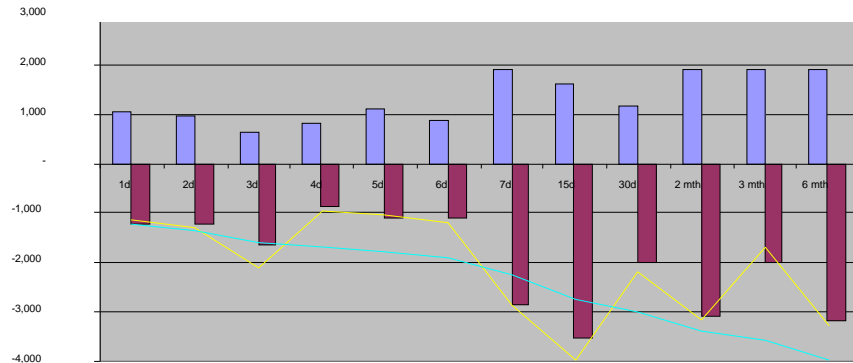
# Extracting additional value from your liquidity framework



# Management of Liquid Resources - Overview



**View of Future Liquidity Position**



**Cash**

High liquidity  
Low return

**Cash-Like Assets**

Similar liquidity  
Higher return



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# Questions

# Comments

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The views expressed in this presentation are those of the presenter.



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