Implications Of The Global Financial Crisis For Insurance Regulation Framework

Since the 2007-2008 financial crisis, there have been changing views among both policy makers and regulatory supervisors on financial regulatory frameworks. Prior to the financial crisis, it was emphasized that financial regulation was based on micro-prudential regulation which means that individual prudential regulations would guarantee the stability of a system. In the wake of the crisis, however, increasing attention has been on macro prudential regulation emphasizing the financial stability of system by itself as well as micro-prudential regulation. Against this backdrop, this research motivates the importance of insurance with regard to its contribution toward the stability of finance and real economy with particular emphasis on the special role of insurance. Unlike banks, traditional insurance inherently contributes to the stability of financial system by providing insurance liabilities with the long-term and predictable nature. According to the law of large numbers of identifiable insurance events, insurance pools idiosyncratic insurable risks to provide protection against unforeseen risks, leading to the stability to both the economy and society. On the contrary, banks provide liquidity to the economy which serves as a lubricant to the economy. Provision of liquidity, however, is inherently unstable as it creates maturity transformation by funding short and making long-term lending. This mismatch would lead to bank-run problems.

However, those large financial conglomerates such as AIG and ING
insurance group tend to become banking-like organizations as they extend their business models from traditional insurance toward banking operations. The adoption of business model including both banking and insurance by those insurance groups triggered the financial fiasco as side effects.

Finally, this research offers regulatory implications to the policy maker. The research also provides rationale for domestic regulators to identify domestically systemic important insurers(D-SIIs). In addition, it helps assess the global business strategy by large domestic insurance companies.