

# Adaptation Strategies to Regulatory Uncertainty Perception and Performance Implications: Evidence from Insurers' Reactions to Solvency Regulation in Europe

Survey results – M. Kreutzer and J. Wagner

The new and upcoming solvency regulation in the European insurance industry affects all insurers and is commonly referred to as one of the most important strategic threats. In order to better understand how insurance companies' executives perceive the new regulation – Solvency II in European Union countries, Swiss Solvency Test (SST) in Switzerland – and how their perception has changed over time two surveys have been carried out. The results from a first survey in 2011 are discussed in two other publications [1] and [2]. In this document we report the results from the 2014 survey including the answers from 45 different firms' senior executives. We have also written a longer academic paper [3], wherein we analyze whether and how the perception of the regulation influences incumbent firms' adaptation scope, speed, sites of business model adaptation and their performance. The sequential survey design, enables us to link the perceptions in 2011 with the adaptation and performance assessed in 2014.

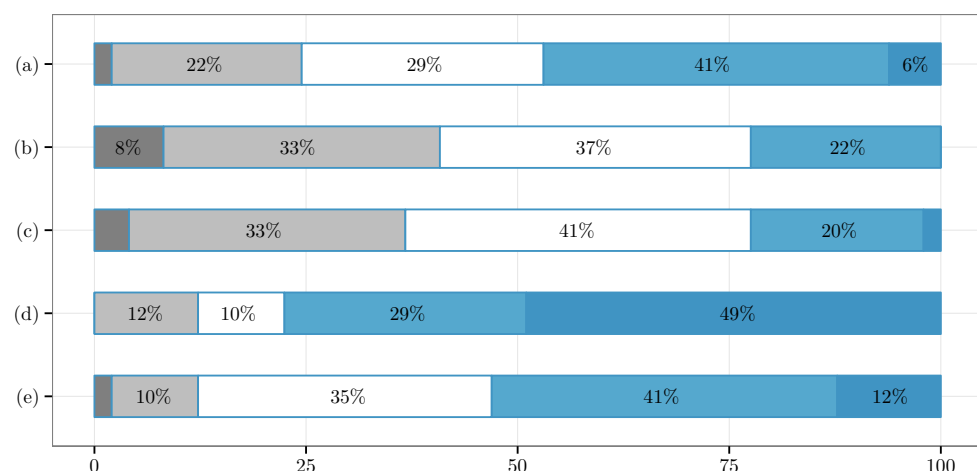
## A. Perception of the environment

To what extent do you agree/disagree with the following statements?  
(scale from 1 = strongly disagree to 5 = strongly agree)

### 1. General environment

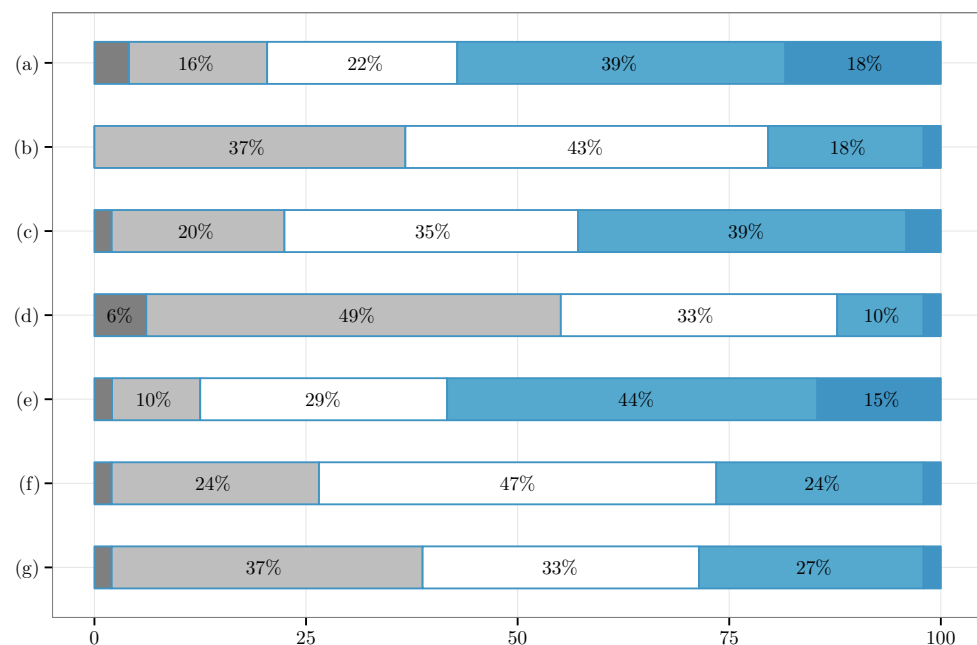
The following dimension represents a very substantial threat ...

- |   |                              |
|---|------------------------------|
| (a) The general business environment.               | <b>Average</b><br><b>3.3</b> |
| (b) Scarce supply of labor.                         | <b>2.7</b>                   |
| (c) Shrinking markets for products and/or services. | <b>2.8</b>                   |
| (d) Lower interest rates.                           | <b>4.1</b>                   |
| (e) Higher volatility in financial markets.         | <b>3.5</b>                   |



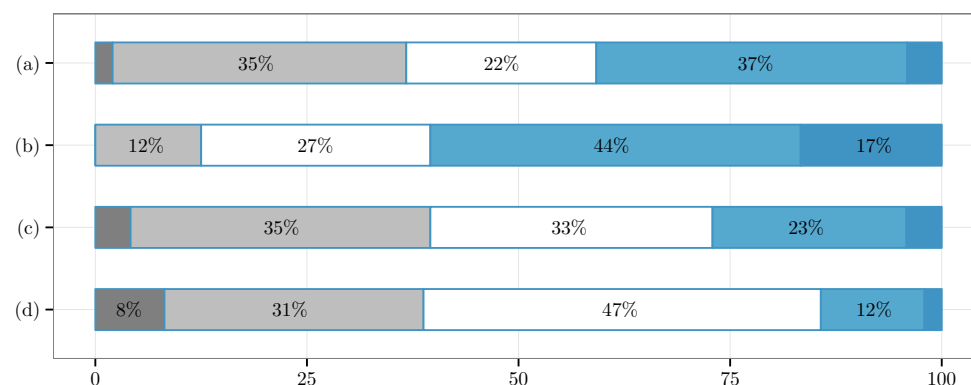
### 2. Insurance demand

- |   |                              |
|---|------------------------------|
| (a) Changes in our market environment are intense.                            | <b>Average</b><br><b>3.5</b> |
| (b) Clients in our markets regularly ask for new products and/or services.    | <b>2.9</b>                   |
| (c) The markets in which we operate are constantly experiencing changes.      | <b>3.2</b>                   |
| (d) Demand fluctuates rapidly and frequently in our markets.                  | <b>2.5</b>                   |
| (e) The rate at which products and/or services are becoming obsolete is slow. | <b>3.6</b>                   |
| (f) Product demand is easy to forecast.                                       | <b>3.0</b>                   |
| (g) Customer requirements are easy to forecast.                               | <b>2.9</b>                   |



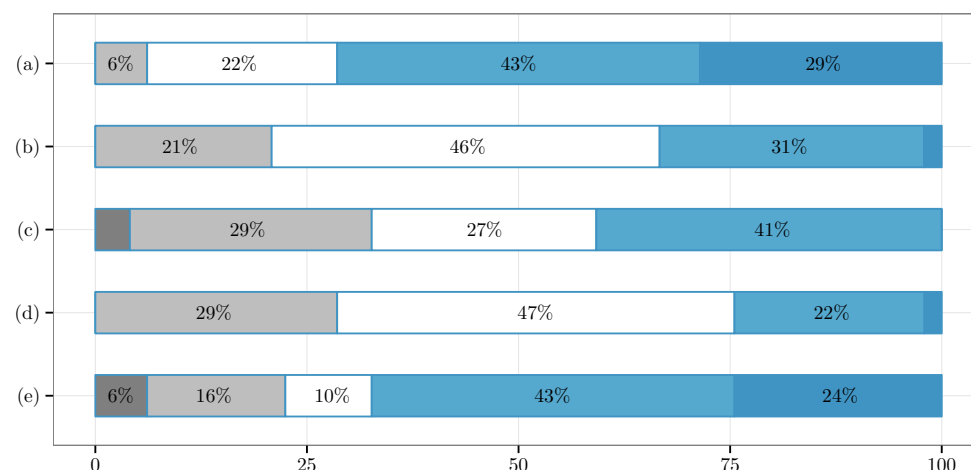
### 3. Technology

- |  |                              |
|--|------------------------------|
| (a) The technology in our industry is changing quite rapidly.                                  | <b>Average</b><br><b>3.1</b> |
| (b) Technological changes provide big opportunities for our industry.                          | <b>3.6</b>                   |
| (c) There have been major technological breakthroughs in our industry.                         | <b>2.9</b>                   |
| (d) Product ideas have been made possible through technological breakthroughs in our industry. | <b>2.7</b>                   |



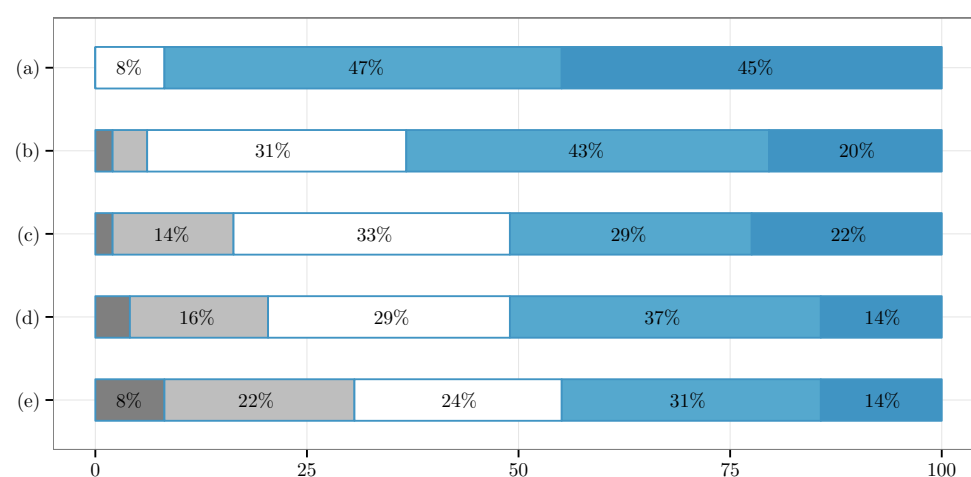
### 4. Competition

- |  |                              |
|--|------------------------------|
| (a) Tough price competition is a very substantial threat.                                  | <b>Average</b><br><b>3.9</b> |
| (b) Competition in product quality or novelty is a very substantial threat.                | <b>3.1</b>                   |
| (c) Our firm must rarely change its marketing practices to keep up with competitors.       | <b>3.0</b>                   |
| (d) Actions of competitors are easy to predict.  | <b>3.0</b>                   |
| (e) The set of our competitors has remained relatively constant over the last three years. | <b>3.6</b>                   |



### 5. Regulation

- |   |                              |
|---|------------------------------|
| (a) Governance and political interference.                            | <b>Average</b><br><b>4.4</b> |
| (b) Reporting standards (e.g., IFRS 4).                               | <b>3.8</b>                   |
| (c) Tax regulation and directive (e.g., FATCA).                       | <b>3.6</b>                   |
| (d) Consumer protection (e.g., insurance guarantee scheme).           | <b>3.4</b>                   |
| (e) Transparency for consumers (e.g., insurance mediation directive). | <b>3.2</b>                   |



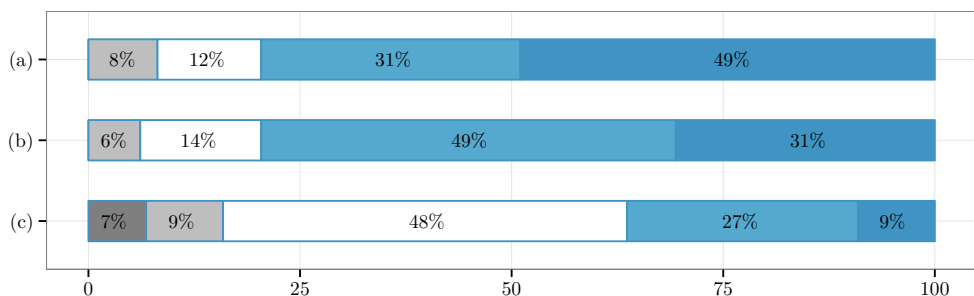
## B. Solvency regulation: Perception and adaptation

### 1. Perceived magnitude and scope of solvency regulation

To what extent do you agree/disagree with the following statements?  
(scale from 1 ■ = strongly disagree to 5 ■ = strongly agree)

*Average*

- (a) The impact we face from solvency regulation is high. **4.2**
- (b) Solvency related regulatory requirements (will) affect a large part of our activities. **4.0**
- (c) The intensity of solvency regulation we face varies widely across countries. **3.2**

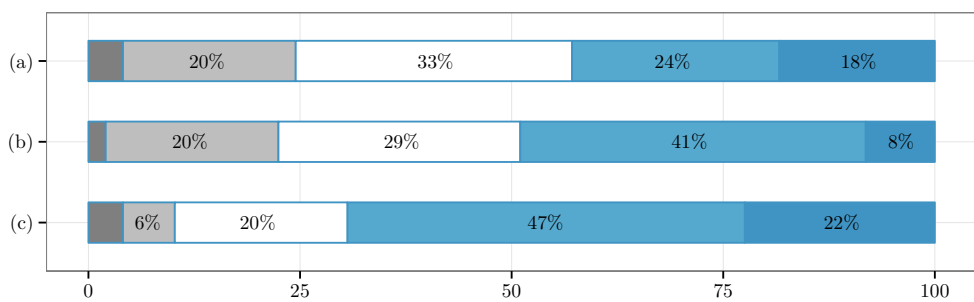


### 2. Perceived pace of solvency regulation

To what extent do you agree/disagree with the following statements?  
(scale from 1 ■ = strongly disagree to 5 ■ = strongly agree)

*Average*

- (a) We have had enough time to prepare for new solvency regulation. **3.3**
- (b) Our business activities are quickly affected by (new) solvency regulation. **3.3**
- (c) We face a rapidly changing regulatory environment due to solvency regulation. **3.8**



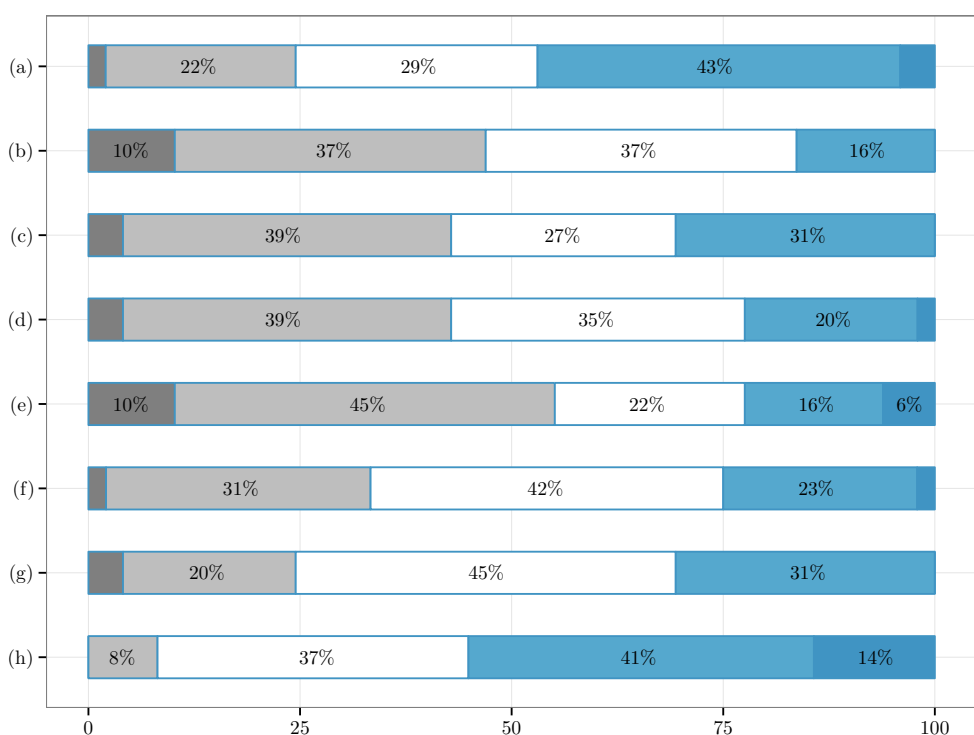
### 3. Perceived certainty of solvency regulation

Please indicate how certain your company is about the following features of solvency regulation.

(scale from 1 ■ = highly uncertain to 5 ■ = highly certain)

*Average*

- (a) The target state of solvency regulation is ... **3.2**
- (b) Political consensus among policy-makers and interest groups on how to reach the target is ... **2.6**
- (c) Specific measures and rules of forthcoming regulation are ... **2.8**
- (d) Competence of regulators in implementing solvency regulation is ... **2.8**
- (e) The interdependence with other regulations and reporting requirements is ... **2.6**
- (f) Incentives solvency regulation creates for our company's behavior are ... **2.9**
- (g) Strategic responses of our major competitors are ... **3.0**
- (h) Impact on our company is ... **3.6**

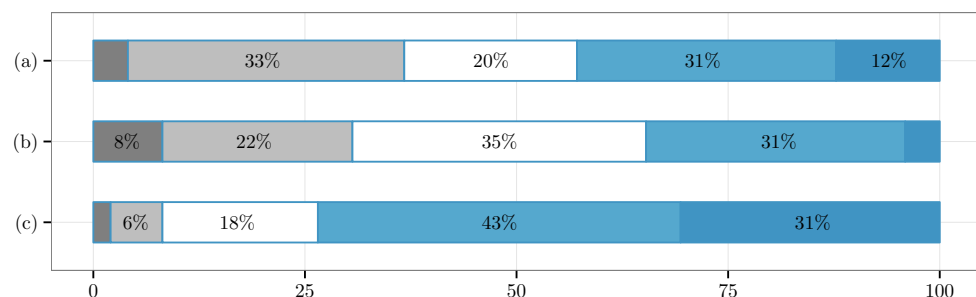


### 4. Solvency regulation perceived as opportunity and/or threat

To what extent do you agree/disagree with the following statements?  
(scale from 1 ■ = strongly disagree to 5 ■ = strongly agree)

*Average*

- (a) We perceive solvency regulation as an opportunity for us (positive future implications for us). **3.1**
- (b) We perceive solvency regulation as a threat for us (negative future implications for us). **3.0**
- (c) We feel we have the capabilities to address solvency regulation. **3.9**

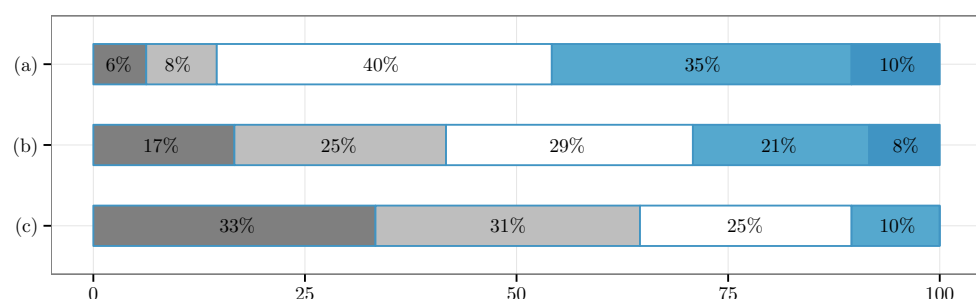


### 5. Lobbying and political activity

Please rate the extent to which your company pursued the following activities to respond to solvency regulation in the last three years:  
(scale from 1 ■ = not at all to 5 ■ = to a very high extent)

*Average*

- (a) We have good connections to the government and/or to regulatory authorities. **3.4**
- (b) We engaged in the policy-making process to influence regulatory processes. **2.8**
- (c) We believe our lobbying and political activities had a significant influence in producing our desired outcome. **2.1**

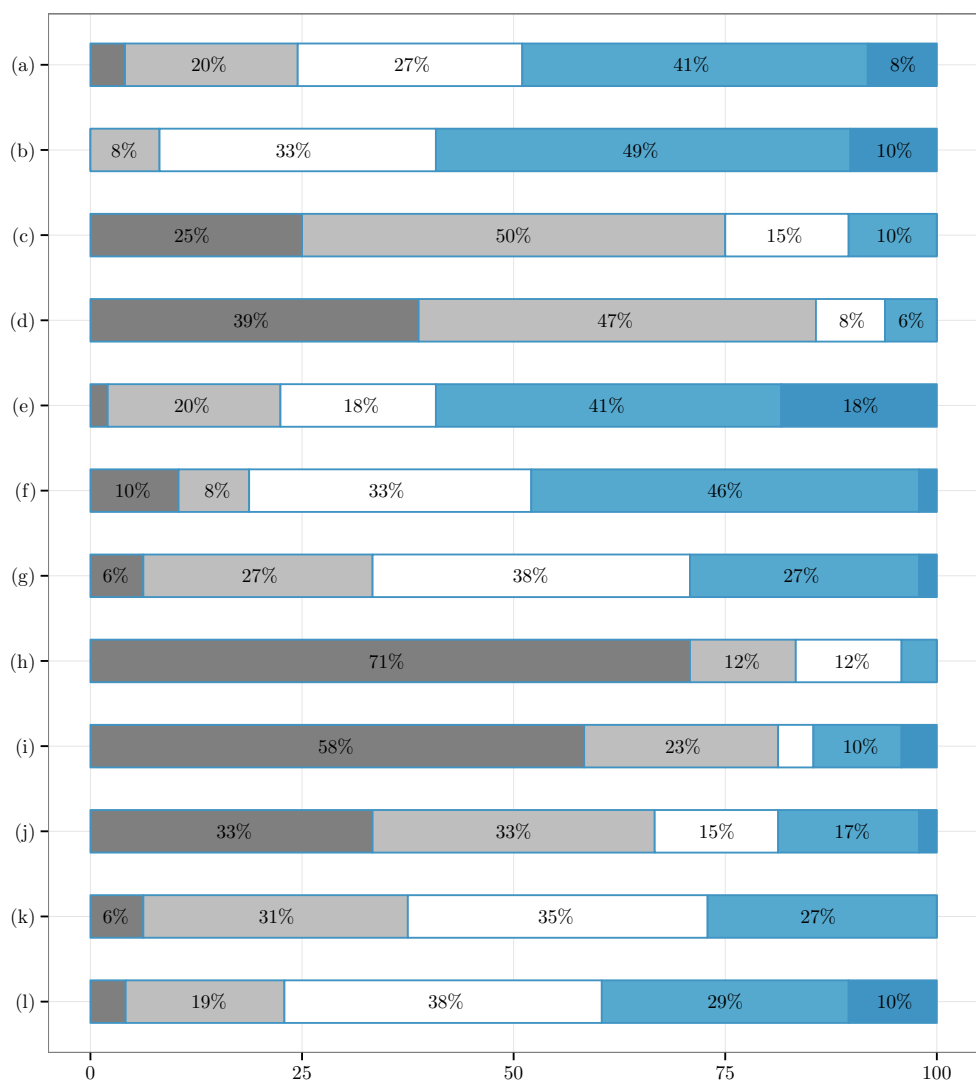


### 6. Managing uncertainty towards solvency regulation

Please rate the extent to which your company pursued the following activities to respond to (upcoming) solvency regulation:  
(scale from 1 ■ = not at all to 5 ■ = to a very high extent)

*Average*

- (a) We anticipated specific government regulation in order to ensure rapid compliance. **3.3**
- (b) We tracked the development of regulation in order to have corporate compliance mechanisms in place by the time legislation is (was) enacted. **3.6**
- (c) We postponed our strategic decisions until we have (had) more certainty. **2.1**
- (d) We delayed investment activities due to regulatory uncertainty. **1.8**
- (e) We systematically searched for additional information (e.g., talk to industry experts, consultants). **3.5**
- (f) We narrowed our focus to critical issues in our business environment. **3.2**
- (g) We prepared for more than one potential outcome of the solvency regulation process. **2.9**
- (h) We shifted our business to markets probably not affected by regulation. **1.5**
- (i) We rearranged our portfolio through mergers, acquisitions, or divestitures to reduce our exposure to regulatory uncertainty. **1.8**
- (j) We joined forces with others, e.g., suppliers, customers, or competitors. **2.2**
- (k) We observed the activities of other companies and follow them if appropriate. **2.8**
- (l) We exceed compliance levels for solvency regulation. **3.2**

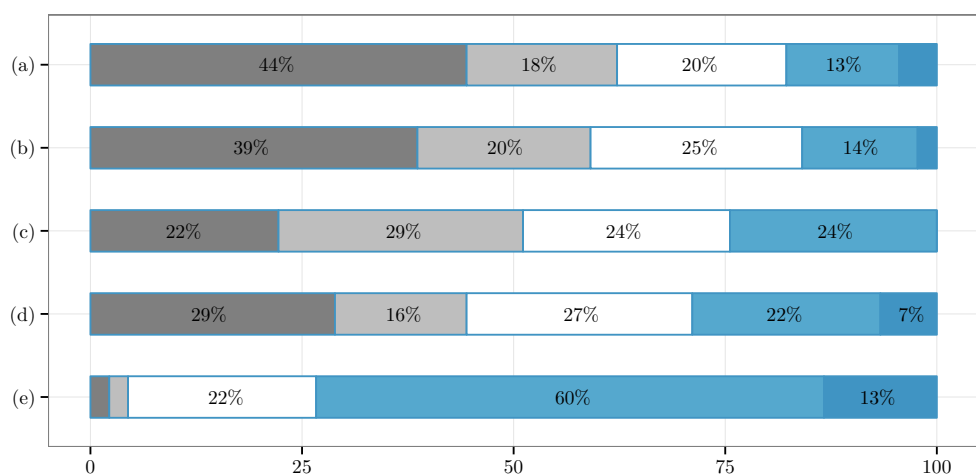


7. Scope of adaptation (absolute, relative, and timing)

Facing solvency regulation, which of the following adaptations did you make ...	(A) in absolute terms?	(B) compared to your major competitor?	(C) time-wise compared to competitors?
(a) Product/service portfolio (e.g., shifts from life to non-life business or vice versa).	2.2	2.8	3.1
(b) Business strategy (e.g., shift from low-cost production to differentiation focus).	2.2	2.9	3.1
(c) Organizational structure (e.g., by increasing decentralization or lowering the degree of formalization).	2.5	2.7	3.0
(d) Internal power distribution (e.g., change in functional backgrounds of our top management team).	2.6	2.8	3.0
(e) Internal control systems (e.g., management information systems and/or risk management).	3.8	3.3	3.3

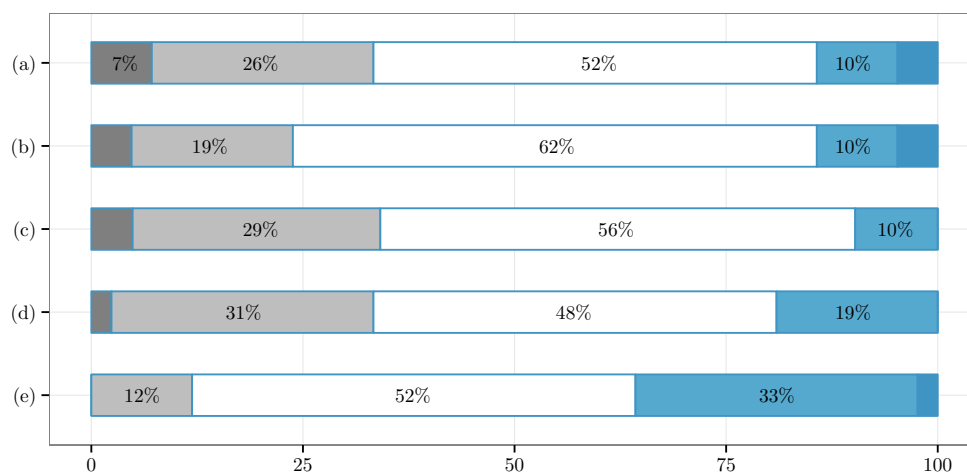
(A) in absolute terms?

(scale from 1 ■ = no change to 5 ■ = high degree of change)



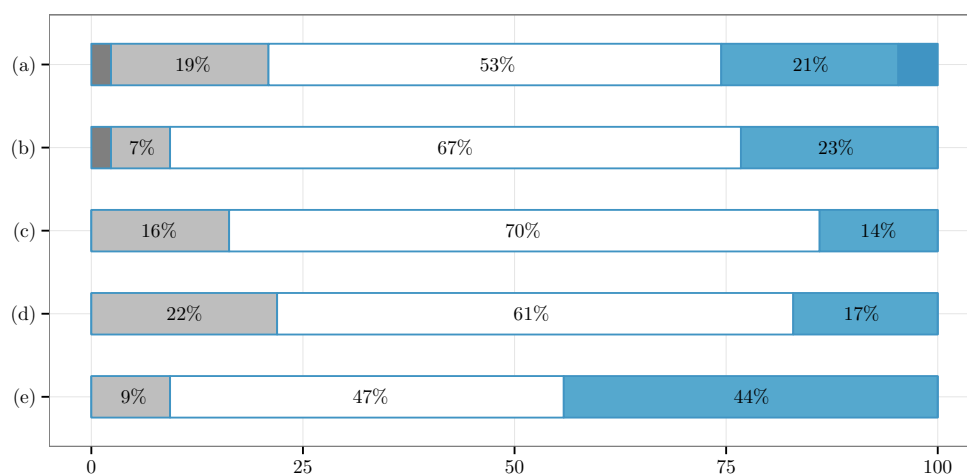
(B) compared to your major competitors?

(scale from 1 ■ = much less change to 5 ■ = much more change)



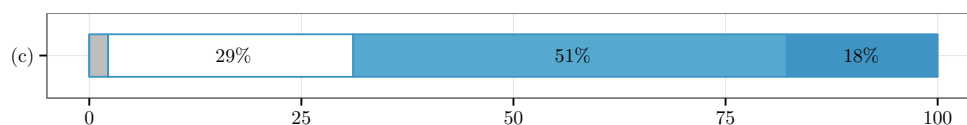
(C) time-wise compared to your major competitors?

(scale from 1 ■ = much slower/later change to 5 ■ = much faster/earlier change)



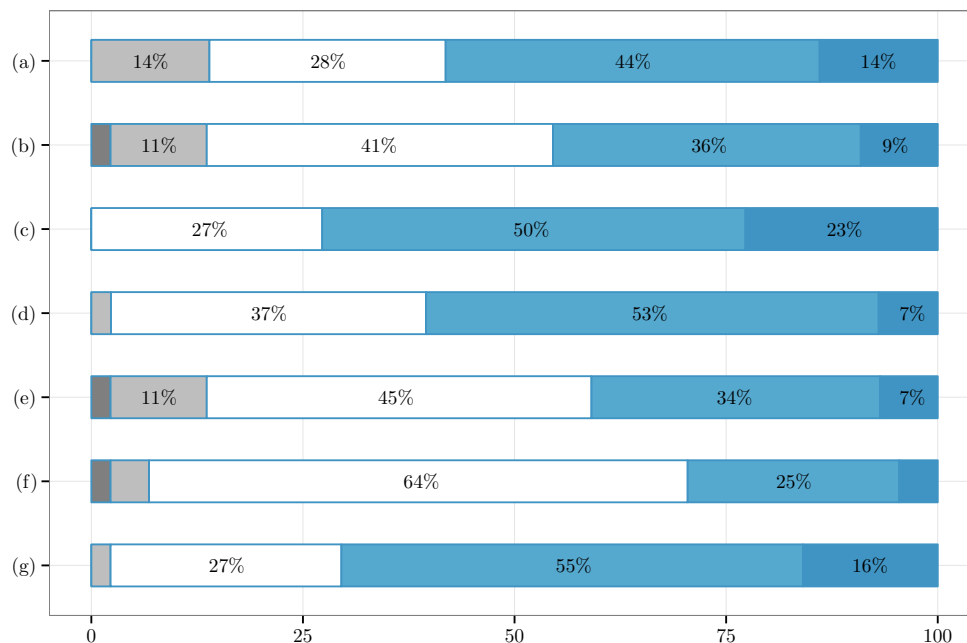
8. Implementation of solvency initiatives

- (a) Have you set up a formal strategic initiative/program to deal with solvency regulation in the last three years? – Yes: **82.2%** ; No: **17.8%**
- (b) Have you worked together with external consultants on solvency projects? – Yes: **88.9%** ; No: **11.1%**
- (c) What is the extent of implementation of planned solvency-related change? Average: **3.8**  
(scale from 1 ■ = not yet started to 5 ■ = fully implemented)



9. Success of solvency initiatives

- Please assess the performance of your solvency-related initiative/program (respectively all solvency-related projects) up to now on each of the following criteria: Average
- (scale from 1 ■ = not successful to 5 ■ = very successful)
- (a) Meeting budget objectives. **3.6**
  - (b) Meeting staffing objectives. **3.4**
  - (c) Meeting major deadlines. **4.0**
  - (d) Meeting quality objectives. **3.7**
  - (e) Meeting cost objectives. **3.3**
  - (f) Meeting efficiency objectives. **3.2**
  - (g) Meeting regulatory agency objectives. **3.8**

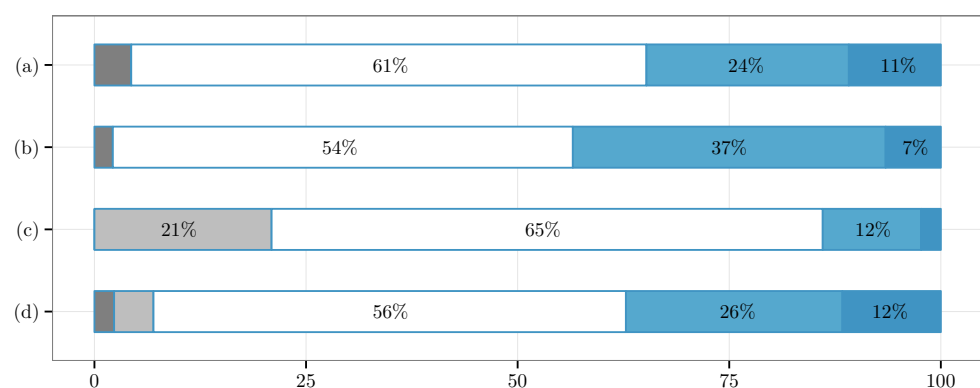


**10. Sites of business model adaptation to solvency regulation**

How did you make the changes facing solvency regulation to your ... *Average*  
(scale: 1 ■ = reduced, 3 □ = no change, 5 ■ = increased)

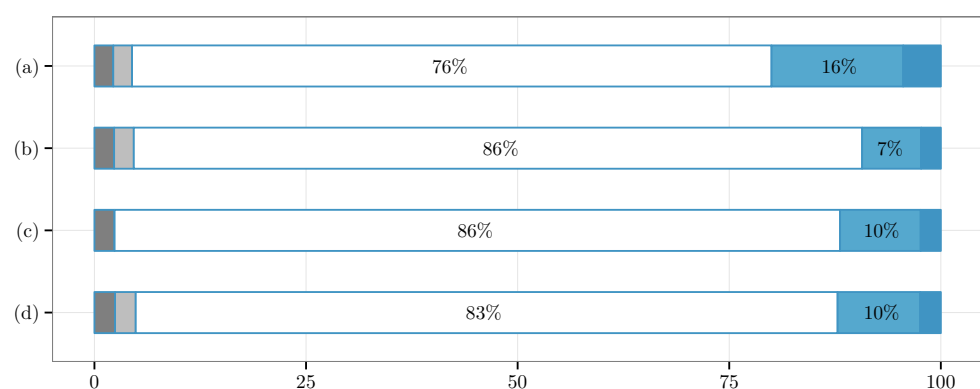
**(A) Product and/or service offering?**

- (a) Product and service diversification overall. **3.4**
- (b) Share of new products/services in your portfolio (launched in the last three years). **3.5**
- (c) Share of premiums in life business. **3.0**
- (d) Share of premiums in innovative life products (e.g., variable annuities, unit-linked, etc.). **3.4**



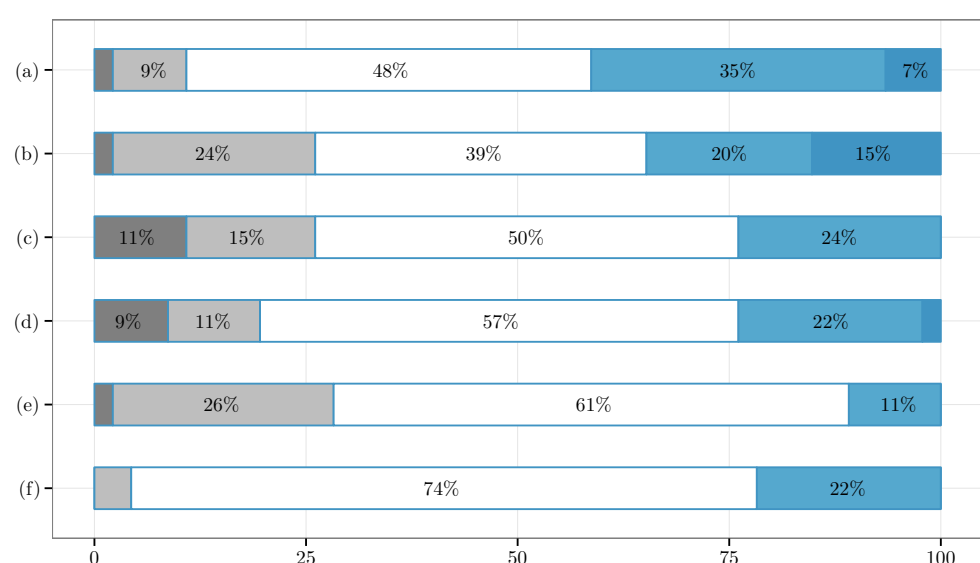
**(B) Geographical footprint?**

- (a) Geographical diversification overall. **3.2**
- (b) Share of premiums in your home country. **3.0**
- (c) Share of premiums in other European countries. **3.1**
- (d) Share of premiums in countries outside of Europe. **3.1**



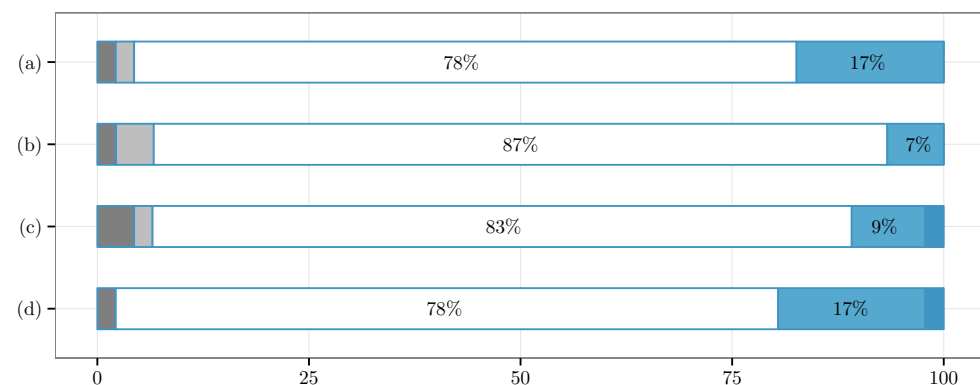
**(C) Asset allocation?**

- (a) Asset diversification/capital structure overall. **3.3**
- (b) Share of assets hold as government bonds. **3.2**
- (c) Share of assets hold as stocks. **2.9**
- (d) Share of assets hold as real estate property. **3.0**
- (e) Share of assets hold as alternative investments. **2.8**
- (f) Share of assets hold as cash (money market). **3.2**



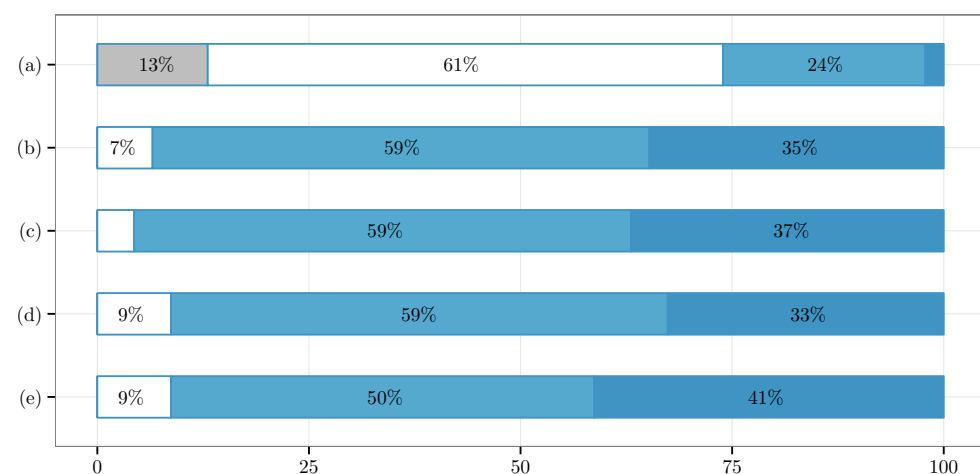
**(D) Customer segments served?**

- (a) Customer segments served overall. **3.1**
- (b) Share of private customers. **3.0**
- (c) Share of corporate customers. **3.0**
- (d) Share of new customer segments added within last three years. **3.2**



**(E) Risk management?**

- (a) Share of reinsurance. **3.2**
- (b) Extent of risk management. **4.3**
- (c) Quality of risk processes. **4.3**
- (d) Risk management transparency. **4.2**
- (e) Risk management transparency. **4.3**
- (f) Internal risk reporting.



**(F) Functional top management team?**

Have you made any changes to the following positions as a reaction to solvency regulation and other (regulatory) uncertainty?

Position	Does not exist in our firm	Existed before 2011	Recently created	Extended responsibility
Solvency officer	19.6%	10.9%	6.5%	63.0%
Chief compliance officer	45.6%	28.3%	15.2%	10.9%
Chief risk officer	53.2%	23.4%	12.8%	10.6%

Shares (in %) indicate share of answers in each position.

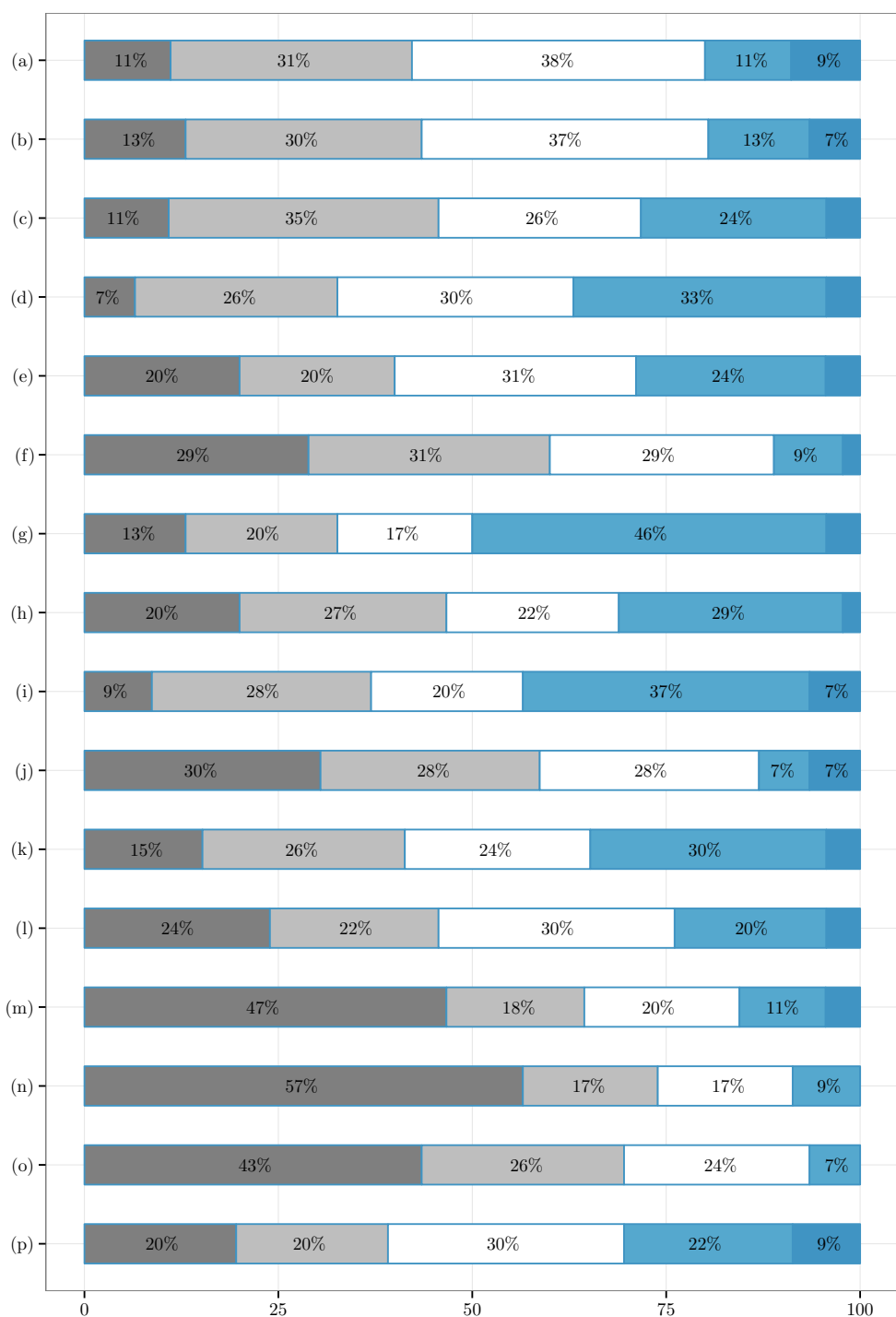
**C. Strategic adaptation and performance**

**1. Corporate entrepreneurship**

Please rate the extent to which the following applies to your company over the last three years.

(scale from 1 ■ = strongly disagree to 5 ■ = strongly agree)

- Our company is ... *Average*
- (a) Spending heavily (well above the industry average) on product/service development. **2.8**
  - (b) Introducing a large number of new products/services to the market. **2.7**
  - (c) Pioneering the development of breakthrough innovations in its industry. **2.8**
  - (d) Spending on new product development initiatives. **3.0**
  - (e) Entering new markets. **2.7**
  - (f) Establishing or sponsoring new ventures. **2.2**
  - (g) Finding new niches in current markets. **3.1**
  - (h) Changing its competitive approach (strategy) for each business unit. **2.7**
  - (i) Reorganizing operations (e.g., distribution, claims management), units, and divisions to ensure increased coordination and communication among business units. **3.0**
  - (j) Redefining the insurance industry. **2.3**
  - (k) Introducing innovative human resource programs. **2.8**
  - (l) Being first in the industry to introduce new business concepts and practices. **2.6**
  - (m) Acquiring companies in other countries. **2.1**
  - (n) Financing start-up business activities outside the organization. **1.8**
  - (o) Creating new and/or semi-autonomous units. **1.9**
  - (p) Divesting unprofitable business units. **2.8**



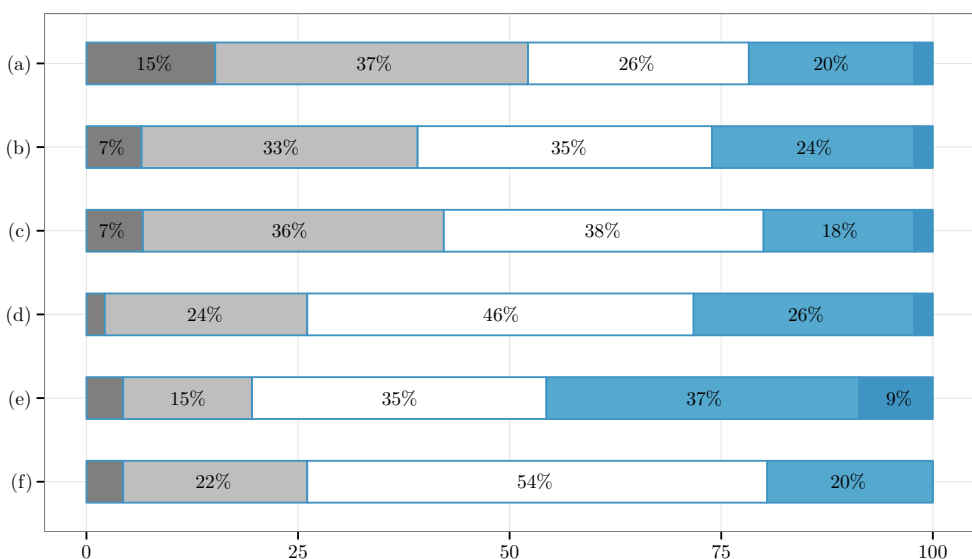
**2. Risk-taking propensity & proactiveness**

Please rate the extent to which the following applies to your company when confronted with decision-making situations involving recent uncertainty.

The top managers of my firm ... / Our firm ...

(a) Have a strong proclivity (preference) for low-risk projects with normal and certain returns.	<b>2.6</b>	Have a strong proclivity (preference) for high-risk projects with unpredictable returns.
(b) A cautious “wait and see” posture in order to minimize the probability of making costly decisions when faced with uncertainty.	<b>2.8</b>	A bold aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty.
(c) Believe that owing to the nature of the environment, it is best to explore gradually via cautious behavior.	<b>2.7</b>	Believe that owing to the nature of the environment, bold wide-ranging acts are necessary to achieve the firm’s objectives.
(d) Typically responds to actions which competitors initiate.	<b>3.0</b>	Typically initiates actions to which competitors then respond.
(e) Is very seldom the first to introduce new products, services, and operating technologies.	<b>3.3</b>	Is very often the first to introduce new products, services, and operating technologies.
(f) Typically seeks to avoid competitive clashes, preferring a live and let live posture.	<b>3.9</b>	Typically adopts a very competitive, “undo the competitors” posture.

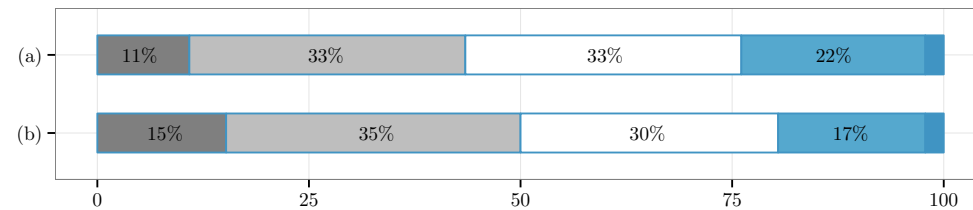
(scale: full agreement with statement 1 = on the left to 5 = on the right)



**3. Product and process innovation**

Average

- (a) How many new lines of products or services has your firm marketed in the past three years? **2.7**  
(scale from 1 = no new lines of products or services to 5 = very many new lines of products or services)
- (b) Changes in our product or service lines in the past three years have (usually) been ... **2.6**  
(scale from 1 = mostly of minor nature to 5 = quite dramatic)

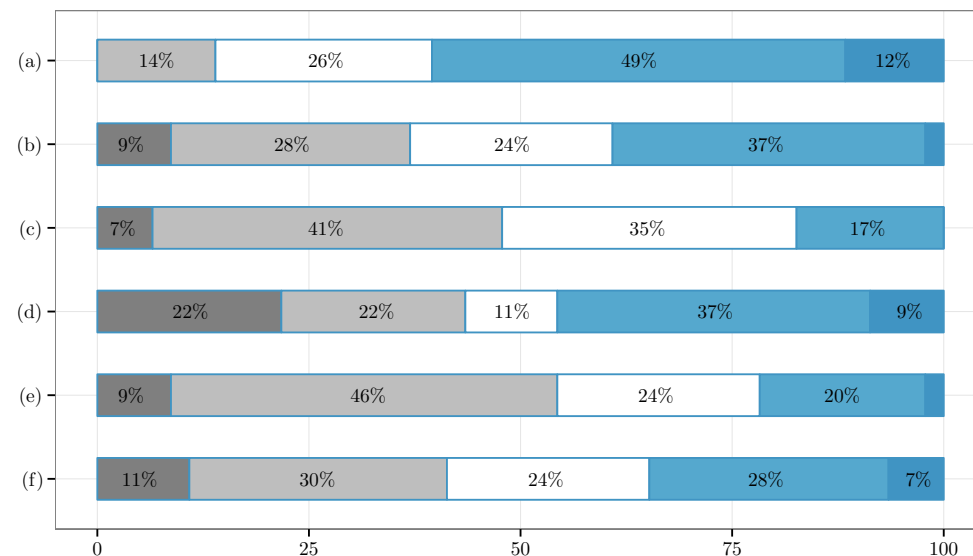


**4. Management innovation**

Average

(scale from 1 = strongly disagree to 5 = strongly agree)

- (a) Rules and procedures within our organization are regularly renewed. **3.6**
- (b) We regularly make changes to our employees’ tasks and functions. **3.0**
- (c) Our organization regularly implements new management systems. **2.6**
- (d) The policy with regard to compensation has been changed in the last three years. **2.9**
- (e) The intra- and inter-departmental communication structure within our organization is regularly restructured. **2.6**
- (f) We continuously alter certain elements of the organizational structure. **2.9**



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- [2] IfB-HSG / KPMG, Regulatorischer Wandel – Chancen und Risiken für die Versicherungsbranche, Study report, 2011.
- [3] M. Kreutzer, J. Wagner, Adaptation Strategies to Regulatory Uncertainty Perception and Performance Implications: Evidence from Insurers’ Reactions to Solvency Regulation in Europe, Working paper, 2015.