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Insurance Comments to the G-20 London Summit Leaders' Statement of 2 April 2009

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In the context of the 2 April meeting of the leaders of the Group of Twenty and the critically important public policy issues at hand, The Geneva Association—as the preeminent insurance research body supported by the CEOs of the leading insurance companies in the world—has made its expertise available to the G-20 and offered to comment on some of the most relevant aspects concerning the role of insurance and the functioning of insurance markets.

Prior to the meeting a letter signed by 50 CEOs of the leading insurance companies of the world was sent to the Finance Ministers of the G-20. It is available for download at The Geneva Association website at www.genevaassociation.org/PDF/General_Information/G20_letter300309.pdf

The leaders of the Group of Twenty issued a statement that can be downloaded at www.londonsummit.gov.uk/resources/en/PDF/final-communique. It is on the content of this statement that we would like to comment here.

1. The insurance sector has the strongest possible interest in securing an effective and efficient financial system and The Geneva Association supports the work the G-20 is undertaking in this regard.

2. The G-20 leaders have expressed their collective will to restore confidence, growth and jobs. The restoration of stability and consumer confidence remains the most critical issue to address.

3. The distinctions between different sub-sectors of the financial services industry must be recognised in the ongoing work of the G-20 and national governments as more detailed proposals for reform emerge. The London Statement speaks of "*major failures in the financial sector*". It abandoned the careful distinction that the publication *The Road to the London Summit: The Plan for Recovery* from the G-20 chair issued on 18 February 2009, made between those institutions that caused the crisis, i.e. banks and large complex financial institutions, and those that did not, i.e. insurance operators. This raises concerns insofar as it risks blurring the particular differences that exist between the various financial services industries and could lead to confusion as to which specific actions will be directed at which specific type of institution.

4. It is of fundamental importance for a future efficient and sustainable regulatory and supervisory framework to assure that only the right issues are going to be tackled, i.e. efforts should concentrate on those aspects that are clearly connected to what went wrong and resist the temptation to branch out into other fields where more changes might lead to additional problems rather than solving the existing ones.

5. Furthermore, future regulatory reforms need to get the balance right between the required resilience of the financial system and market efficiency. There is often a trade-off between the two. Crisis avoidance and impact mitigation and limitation measures usually carry a price in the form of reduced economic growth.

6. In directly addressing failed institutions or those at risk, governments need to be fully aware of the wider market impact of interventions in terms of the creation of an unlevel playing field between companies with access to government funding and those without, between domestic market participants and group subsidiaries, and between the different sub-sectors of financial services. In this spirit, government intervention should be the absolute exception (only for systemic reasons) and accompanied with safeguards. Unfair competition with government money should be avoided and open market access needs to be maintained.

7. The G-20 leaders "*agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires.*" Measures to reinforce international cooperation, including the development of Supervisory Colleges for cross-border institutions, will have a positive impact on the resilience of the global financial system, help to avert future crises and increase the ability to cope with them. It is a clear short-term priority for the insurance industry, too. However, for the insurance sector, one of the main obstacles to international regulatory convergence is the fragmented national and international supervisory landscape. This needs to be addressed.

8. The G-20 leaders "*call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards*." Unfortunately, over the past decade the current institutions that lead this process have failed to make adequate progress when it comes to norms that are appropriate for the insurance sector. The G-20 leaders should have obliged these institutions to cooperate closer with the business sector, as is regularly the case for other standard setters (cf. ISO procedures). Accounting standards will only work if and when they reflect economic realities, which for insurance comprises recognition of the special long-term nature of the business.

9. The London Statement calls for the establishment of a new Financial Stability Board (FSB) with a strengthened mandate. Given the importance of insurance and reinsurance companies, which hold about 11 per cent of global financial assets, it is imperative that experts on insurance are going to be adequately represented at the new FSB.

10. The agreement in the London Statement that the senior leadership of international financial institutions (IFIs) should be appointed though an open, transparent and merit-based selection process does not automatically ensure that the background of these experts will be as varied as the financial services sector itself. Currently too little insurance knowledge finds itself into these IFIs, to the detriment of an equilibrated approach making use of the specialist knowledge that the sector has to offer, particularly on risk management.

11. The G-20 leaders assure that they will resist protectionism and that they will not take measures that constrain worldwide capital flows. This is important, especially in view of some recent measures that point in another direction, such as targeted aid to nationally owned companies to the detriment of their foreign competitors, the preference of local products and services to imported ones in new legislation, the blocking of international mergers and acquisitions by governments, or attempts to manage exchange rates to further the competitiveness of national products in international markets. National reactions that try to hinder international capital flows or prevent foreign activities from being carried out in an efficient and fair manner will reduce the benefits that the international economic cooperation has brought to the world.

12. The London Statement describes the unprecedented and concerted fiscal expansion the G-20 governments are undertaking. There is, however, a clear danger that liquidity measures taken to stabilise the financial system and fiscal stimuli aimed at softening the recession overshoot their targets, resulting in a period of high inflation as soon as the worst part of the crisis is over. Governments will have to resist the temptation to inflate away the extra amounts of unprecedented debts they are currently taking on, as they put millions of savers, and particularly those with savings for old-age, at risk.

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