



International Association for the
Study of Insurance Economics

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SPECIAL ISSUE ON G-20 LONDON SUMMIT

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of The Geneva Association's letter to the Finance Ministers of the G-20 Governments.

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By *Patrick M. Liedtke*, Secretary General and Managing Director, The Geneva Association.

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On 7 April 2009, the *Financial Times* published a letter by The Geneva Association concerning the statement of the G-20 leaders following their London Summit of 2 April 2009.

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The Geneva Association is pleased to announce that the Insurance and Finance newsletter is now available in electronic format. This new service will allow you to print articles of interest and also circulate them to colleagues more easily. At the same time, accessing the e-newsletter will give you direct access to our website where many other publications are available for downloading. Reducing the amount of paper used by all organisations, is also environmentally friendly.

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Press Release

Information on Geneva Association activities and publications

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51 CEOs of major global insurance companies call for effective and efficient industry regulation and supervision

Today, The Geneva Association, the leading think tank, releases a letter co-signed by the CEOs of the world's largest insurance and reinsurance companies to the Finance Ministers of the G-20 Governments. Ahead of the G-20 meeting to be held in London on April 2, the letter outlines the key aspects of the future shape of an effective and efficient regulatory and supervisory framework for the global insurance industry. The CEOs call for any future sector regulation to take into account the specific characteristics of the insurance business model, avoid pro-cyclical effects and strike an appropriate balance between financial stability, consumer protection and a level competitive playing field. The letter is signed by the CEOs of 51 companies, including Allianz, AXA, Munich Re, Prudential, Swiss Re and Tokio Marine.

Mark Tucker, Chairman of The Geneva Association's Market Stability Working Group and Group CEO of Prudential plc comments: *"The London Summit comes at critical time for the global economy where the need for bold and coordinated action to restore stability and consumer confidence is as great as ever."*

Mark Tucker continued: *"The insurance and reinsurance industry has the strongest possible interest in seeing this happen, as it does in securing an efficient and effective financial system. It is for this reason that we have written to the finance ministers of those countries attending the Summit setting out the industry's views."*

Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association, adds: *"As the leading think tank of the global insurance industry The Geneva Association is committed to substantiating insurance-related debates and decision-making processes. We aim to contribute to well-functioning insurance markets which create sustainable value for all stakeholders. By promoting a proper understanding of the insurance industry's specific characteristics we hope to enhance the quality of the decisions that will be taken in the next few months; decisions that will determine the framework for insurance and financial services in general for many years to come."*

The five sections below outline the key elements of the letter:

Insurance is vital to the economy; its business model has proven resilient

- The insurance and reinsurance sector is a global industry of major importance for the functioning of modern economies. It accounts for 9 per cent of global GDP. Its assets under management equal 11 per cent of the world's total.
- Despite the crisis, insurance and reinsurance markets continued to operate normally. There was no shortage of insurance cover available to individual and corporate policyholders.
- The business model and the risk management systems of insurance and reinsurance companies have enabled them to weather the crisis. Unlike banks, insurers are pre-funded by premium payments and are much less susceptible to a liquidity panic.
- The impact of the financial crisis on insurers and reinsurers is centred on their role as holders of assets on behalf of customers and policyholders.

Maintaining financial stability is of utmost importance

- The restoration of stability and consumer confidence remains the most critical issue to address.
- Given the global character of the crisis, transnational coordination is needed and economic risk-based frameworks should be applied to all institutions.
- Governments need to be fully aware of the wider market impact of their interventions, which should be the absolute exception in order to minimise distortions of competition.

Regulatory frameworks need to reflect the differences between insurers and banks

- Supervisory and regulatory frameworks need to take into account the fundamental differences between insurance and other financial services providers.
- The future supervisory architecture should have balanced objectives such as enhancing financial stability, ensuring customer protection and safeguarding a level playing field.
- For the insurance sector, one of the main obstacles to international regulatory convergence is the fragmented international supervisory landscape.
- Regulatory reform must be focused, measured and considered, avoiding pro-cyclicality. Excessive capital requirements are as dangerous and inefficient as insufficient capital requirements.
- The Geneva Association urges a close and continuing dialogue between governments, regulators and the insurance industry as proposals for regulatory reform are developed and offers to enhance this collaboration.

The importance of strong corporate risk management has been clearly demonstrated

- The crisis has reinforced the existing importance of strong, independent and holistic risk management within insurance companies.
- The experience of insurers in managing tail risks as well as in applying stress tests and scenario thinking should be leveraged to other parts of the financial sector.

Accounting systems need to be adapted in times of extreme illiquidity

- Transparency in accounting practices is crucial and market-based valuation should remain the principle that underpins financial information and management steering.
- However, the limitations of accounting systems that rely entirely on market information for valuation purposes has to be recognised, especially in times of extreme illiquidity and distressed markets.
- As insurers and reinsurers hold many assets to maturity, flexible supervisory practices (e.g. capital requirements) are vital to avoid pro-cyclicality and the exacerbation of an already difficult situation.
- The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) must step up their efforts to re-examine the principles for valuing financial assets and liabilities in illiquid and distressed markets.

The full letter can be downloaded here:

http://www.genevaassociation.org/Portals/0/G20_letter300309.pdf

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About The Geneva Association

The International Association for the Study of Insurance Economics ("The Geneva Association") is a unique global organisation formed by a maximum of 80 chief executive officers (CEOs) from the world's most important insurance companies. The Geneva Association's main goal is to research the growing importance of worldwide insurance activities for economic growth and societal progress.

The Geneva Association also acts as a forum for its members, providing a worldwide unique platform for the top insurance CEOs to exchange ideas and discuss key strategic issues. It also organises platforms for member companies' chief financial officers, chief risk officers, chief economists and chief communication officers. It is a non-profit organisation based in Geneva, Switzerland.

