



International Association for the
Study of Insurance Economics

Insurance and Finance

Research on Finance Issues in Insurance

Geneva Association Information Newsletter

I. EDITORIAL: THE LACK OF AN APPROPRIATE DEFINITION OF SYSTEMIC RISK	1
<i>Patrick M. Liedtke</i> examines the existing definitions of systemic risk and their relevance to current financial reform.	
II. RESPONSIBLE BEHAVIOUR AS A ROAD TO TRUE PROFESSIONALISM AND A HIGH QUALITY INSURANCE MARKET	3
<i>Katsuo Matsushita</i> discusses the role that human behaviour and moral hazard had in the financial crisis, suggests a redoubled effort in applying ethical standards to work and the potential personal and institutional benefits thereof.	
III. ARE (RE)INSURANCE OPERATIONS SOURCE OF SYSTEMIC RISK?	6
<i>Philippe Trainar</i> investigates the key components of systemic risk and how they apply to (re)insurance operations.	
IV. NAVIGATING THE MINEFIELDS IN SEARCH OF PROSPERITY	8
The keynote speech given by <i>Patrick M. Liedtke</i> at the World Insurance Forum 2010 in Bermuda.	
V. REPORT FROM THE 6TH INTERNATIONAL INSURANCE AND FINANCE SEMINAR OF THE GENEVA ASSOCIATION	12
<i>Stefan Schürmann</i> reviews the key discussions from this leading conference and provides his views on the implications of themes for the industry.	
VI. GENEVA ASSOCIATION LETTERS TO THE FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF THE G-20 on	20
- Systemic Risk in Insurance, April 2010	
- Insurance Industry Supports International Association of Insurance Supervisors Position Statement on Key Financial Stability Issues, June 2010	
VII. 7th INTERNATIONAL INSURANCE AND FINANCE SEMINAR OF THE GENEVA ASSOCIATION	23
Draft programme of the forthcoming Geneva Association Insurance and Finance Seminar.	
VIII. GENEVA ASSOCIATION NEWS	24
- Report on <i>Systemic Risk in Insurance—An analysis of insurance and financial stability</i>	
- Geneva Report N° 3 on <i>Anatomy of the credit crisis—An insurance reader from The Geneva Association</i>	
- Job opening: Research Director – Head of Insurance and Finance	
IX. CONFERENCES ORGANISED AND/OR SPONSORED BY THE GENEVA ASSOCIATION	26

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Newsletter for Finance Directors and Researchers in Insurance

This newsletter for finance directors, senior financial managers in insurance companies and researchers in the field of finance is published by The Geneva Association as an information and liaison bulletin to promote knowledge and understanding of financial issues in insurance. It also fosters contacts between finance experts at insurance companies and at universities and other institutions with an interest in insurance. Any suggestions concerning the content or layout of the newsletter are welcome. Please notify us if you are interested in receiving this publication regularly.

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I. EDITORIAL: THE LACK OF AN APPROPRIATE DEFINITION OF SYSTEMIC RISK

By Patrick M. Liedtke*

The initiatives to strengthen the stability of our financial system have multiplied to such an extent over the past months that it has become difficult to keep track of them. It seems that hardly a week goes by without an important proposal by some policy-maker, regulator, supervisor or central banker on how to best tackle the problems posed by systemic risk. Following the great stress and massive real economic loss produced by the latest failure of our financial system, this is hardly surprising. However, what is truly remarkable is that at this point in time no definition of systemic risk exists that would be both fully convincing and generally accepted. This is despite the fact that the choice of an appropriate definition of systemic risk is at the very heart of global financial stability (which encompasses all financial markets and institutions).

In order to safeguard financial stability, one needs to clearly understand where systemic risk emanates. And in order to properly define the sources of systemic risk, a coherent and efficient definition of what constitutes systemic risk is needed. Unfortunately, as this editorial explains, current endeavours have fallen well short of the target.

The European Central Bank defines Systemic Risk as “*The risk that the inability of one institution to meet its obligations when due will cause other institutions to be unable to meet their obligations when due. Such a failure may cause significant liquidity or credit problems and, as a result, could threaten the stability of or confidence in markets.*”¹ This definition is vague on several issues: it does not specify any institution in particular, it is not specific in the determination of markets, it does make a reference to the size of the inability to meet the obligations nor how fast this failure might spread to other institutions. The reference that the failure “**may cause significant liquidity or credit problems**” indicates that liquidity or credit problems are not necessarily the only conduits for systemic risk. The final part “**could threaten the stability of or confidence in markets**” means that a problem that could trigger a potential loss of confidence is enough for the problem to be defined a systemic risk (if it fulfils the first part of the definition) which entails that no real impairment must happen or be at risk of happening—the risk of a potential loss of confidence is enough. While the definition has its merits and serves an orientation for those interested in systemic risk, it is neither very clear nor does it help particularly when trying to identify systemic risks as it leads to a catalogue of possible risks that go beyond those generally accepted and treated as true sources of systemic risk.

The Chairman of the U.S. Federal Reserve Bank, Ben Bernanke, offers an even broader definition of systemic risk: “*Systemic risks are developments that threaten the stability of the financial system as a whole and consequently the broader economy, not just that of one or two institutions.*”² This definition has similar drawbacks to the one offered by the ECB, namely that it does not permit a clear demarcation between general risks and systemic risks. War scenarios, terrorism attacks, large natural catastrophes and similar real-life occurrences would all become systemic risks when they threaten the stability of the financial system. This is clearly much too broad to allow for an operational adoption of a definition that would be workable in the confines of trying to safeguard the financial system through making it more resilient against financial shocks. Interestingly, Bernanke offers the following list of risks: unsafe amounts of leveraging by banks, gaps in regulatory oversight and the possibility that the failure of a large interconnected firm could lead to a breakdown in the wider financial system. Hence, when considering systemic risks as a catalogue, he reverts to the financial sphere. He does it again when approving of the creation of a council of regulators to broadly oversee systemic risks to the financial marketplace: “*The broader task of monitoring and identifying systemic risks that might arise from the interactions of different types of financial institutions and markets—both regulated and unregulated [...]*”

* Secretary General and Managing Director, The Geneva Association (www.genevaassociation.org).

¹ European Central Bank (2004) Annual Report 2004, ECB, Frankfurt, Glossary.

² B. Bernanke in his letter to U.S. Senator Bob Corker (member of the U.S. Senate Banking Committee), 30 October 2009, as reported by *The Wall Street Journal* on <http://blogs.wsj.com/economics/2009/11/18/bernanke-offers-broad-definition-of-systemic-risk/tab/article/>.

Interestingly, the older definition used by the Group of 10 in 2001 to define systemic risk was concerned directly with the financial dimension: “*Systemic financial risk is the risk that an event will trigger a loss of economic value or confidence in, and attendant increases in uncertainty about, a substantial portion of the financial system that is serious enough to quite probably have significant adverse effects on the real economy.*”³ Gerald P. Dwyer, director of the Atlanta Fed's Center for Financial Innovation and Stability, considers this to be a reasonable definition in terms of the concerns in mind. However, he also criticises that “*the precise definitions and measurement of terms such as ‘confidence’, ‘uncertainty’, and ‘quite probably’ are likely to be elusive for some time, if not forever.*”⁴ From our point of view, the G-10 definition lacks the true financial and systemic quality to it and implies that an outcome with significant adverse effects on the real economy is enough for a risk to qualify. As Philippe Trainar points out, “*Rigorously speaking, systemic risk refers to systemic failure, i.e. to the failure common to an entire system, is it the financial system or the market or the whole economic system including the government. To the extent systemic risk affects markets, however, it is positively correlated with the markets and cannot be diversified away by the markets, justifying therefore a State intervention.*”⁵ Trainar explains that the notion of systemic risk has traditionally been used by economists and central bankers in connection with the role of “*lender of last resort*” played by governments and more especially central banks. In case of the most extreme financial crisis that may endanger the whole financial system and that require an external solution, the lender of last resort would increase the resilience of the financial system through special measures which would go beyond those that could be provided by the endangered system itself.

An interesting alternative approach has been pursued by Darryll Hendricks who suggests a more theoretical definition of systemic risk based on its understanding in the sciences where the term originated: “*A systemic risk is the risk of a phase transition from one equilibrium to another, much less optimal equilibrium, characterized by multiple self-reinforcing feedback mechanisms making it difficult to reverse.*”⁶ Unfortunately, this does not directly help much when considering policy issues in global finance.

The Financial Stability Board (FSB), successor to the Financial Stability Forum, and as such the world's preeminent institution to deal with systemic risk issues in finance was tasked in April 2009 by the G-20 “*to produce guidelines for national authorities to assess whether a financial institution, a market, or an instrument is systemically important.*”⁷ As the FSB admits, “*Establishing what constitutes systemic importance has proved difficult, and most G-20 members do not have a formal definition.*”⁸ The FSB then points out that “*in practice G-20 members consider an institution, market or instrument as systemic if its failure or malfunction causes widespread distress, either as a direct impact or as a trigger for broader contagion.*”⁹ It also writes that the interpretation is nuanced in that some authorities focus on the impact on the financial system while others consider the ultimate impact on the real economy as key.

It is important in this context to bear in mind that the origins of the systemic risk debates always had considered a key aspect of systemic risk that its effects would transmit *from* the financial sphere *to* the real economy. Any phenomenon that generates great economic impact in general by directly impairing the proper functioning of the real economy and which (at the same time or shortly thereafter) also massively impacts the financial system was excluded from the considerations. This makes sense insofar as real economy events require a different crisis response and different risk management than purely financial ones. It also takes into account that many real economy risks are design-independent, i.e. they exist out of their own and not because of the characteristics of an artificially created system (such as the

³ Group of 10 (2001) Report on Consolidation in the Financial Sector. Bank of International Settlements.

⁴ Dwyer, G. (2009) “What is systemic risk, anyway?” As per Federal Reserve Bank of Atlanta Macroblog in Financial System, Regulation of 6 November 2009 accessible at www.macroblog.typepad.com/macroblog/2009/11/what-is-systemic-risk-anyway.html.

⁵ Trainar, P. (2010) “Are (re)insurance operations source of systemic risk?”, *Insurance and Finance Newsletter* of The Geneva Association, N° 6 of July 2010.

⁶ See Hendricks, D. (2009) *Defining Systemic Risk. The Pew Financial Reform Project*. Accessible at www.pewfr.org/project_reports_detail?id=0012.

⁷ “Declaration on Strengthening the Financial System,” Global plan for recovery and reform: the Communiqué from the London Summit, 2 April 2009, available at www.londonsummit.gov.uk/en/summit-aims/summit-communication/.

⁸ FSB, IMF, BIS (2009) Report to G20 Finance Ministers and Governors “Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations” available at www.financialstabilityboard.org/publications/r_091107c.pdf

⁹ Op.cit.

financial system). The chief worry underlying systemic risk in finance—and exemplified by the bank run—is that an element of the financial system (by its design or implementation limitations) could trigger a crisis of the real economy under otherwise normal (benign) circumstances.

In its paper to the G-20, the FSB finally chose to define a systemic event (but again not directly systemic risk) broadly: *“it is the disruption to the flow of financial services that is (i) caused by an impairment of all or parts of the financial system; and (ii) has the potential to have serious negative consequences for the real economy.”* What the FSB fails to clearly distinguish in its paper is the difference between a) systemically important, i.e. as pertaining to their systemic relevance, and b) systemically risky, i.e. as pertaining to their ability to cause systemic risk. The institutions, markets and instruments making up the group of systemic risks are a proper subgroup of those that have to be considered of systemic relevance. This is so because many institutions, markets and instruments do not originate systemic risk even though they are highly relevant in how the origination of systemic risk turns into financial instability.

A clear distinction between risk origination and broader relevance is of major importance to the discussion about financial stability and how to safeguard it. Concentrating on the origins of systemic risk allows a far greater concentration of efforts than a wide dispersion of energies on anything that might bear some relevance. In addition, insofar as relevant activities or institutions are concerned, it would take the debate immediately outside the realm of finance and directly into the larger economic and social (super-)systems. Strategic industries such as energy suppliers, telecommunications, transportation etc. would suddenly become involved in systemic risk discussions to avert financial instability as their contributions (and potential for disruption) are relevant. However, they are generally not at the root of financial instability as traditionally understood. A similar concern was expressed by Gerald Dwyer in his analysis of the G-10 definition, namely that *“the definitions probably include a lot more than what usually seems to be meant by systemic risk. For example, the risks of an earthquake, a large oil price increase, and a coup fit in this definition.”*¹⁰

The absence of a proper definition of systemic risk is not merely an intellectual shortcoming; it leads directly to the blurring of a lot of boundaries. The consequence is confusion: between systemic risk and systemic relevance, between risk origination and risk amplification, between concentrating efforts on root causes and squandering resources on secondary issues.

It is the link between the definition of systemic risk and the policy-making that is so crucial. That we are, unfortunately, still in need of a satisfactory definition of systemic risk is a deficiency that requires a solution – and fast.

II. RESPONSIBLE BEHAVIOUR AS A ROAD TO TRUE PROFESSIONALISM AND A HIGH QUALITY INSURANCE MARKET

*By Katsuo Matsushita**

While important work on regulation and supervision is undertaken by the G-20 and other international fora, such as Financial Stability Board (FSB) and International Association of Insurance Supervisors (IAIS), in addressing the challenges caused by the financial crisis, regulation is not the only answer. Building truly sound and resilient high quality markets, responsible behaviour, underpinned by values, ethics and integrity is critical for the efficient and sustainable functioning of the financial system. The following note is a development of discussions held by the author at a conference organised by CPCU (Chartered Property Casualty Underwriters) Society Japan Chapter in February.

Moral hazards behind the financial crisis

As already written and reported by many analysts, academics and in the media, one of the major causes of the financial crisis was the subprime mortgage debacle in the U.S. It is a common understanding that the subprime turmoil was aggravated by several patterns of moral hazards. For example, firstly,

¹⁰ Op.cit.

* Special Advisor and Liaison Officer for Japan and East Asia of The Geneva Association.

mortgage brokers, tempted by fee income, induced borrowers into complicated loan contracts while paying little regard to the ability of borrowers to meet the commitments they were taking on. Secondly, the “originate and distribute” business model (without any risk remaining with the originator), widely adopted by mortgage lenders, was a typical example of the seedbed of moral hazards. Thirdly, a lack of due diligence on the part of investors who purchased securitised products pertaining to subprime mortgage risk helped to spread the contagion of risk beyond national borders.

Initiatives by international forums and governments to enhance regulation

In order to prevent a recurrence of the crisis, several initiatives have been taken up by international forums such as the G-20, FSB, Basel Committee, IAIS and IOSCO. Policy-makers in major countries have also announced financial sector reform bills or plans. What is common in these initiatives is a focus on robust regulatory requirements applied to capital, liquidity, leverage, remuneration/governance, supervisory regime, especially applied to internationally active institutions, and systemic risk. In some jurisdictions such as the U.S., the bill seems likely to take a form that will restrict part of the banks' activities.

Regulations are not a panacea

However, as evidenced by the recent events, regulations or laws are not a panacea. For, example, even though the 2002 Sarbanes-Oxley Act in the U.S., which drew on the lessons of the Enron debacle, was broadly regarded as the most stringent internal control requirement in the world, the excessive risk-taking was not deterred. Also, it is widely accepted internationally that any regulation tends to have unintended consequences, as reported by *The Economist* dated 30 January 2010. “*Not what they meant—The unintended consequences of past financial reforms*”

In the ‘Age of Fallibility’ (George Soros), even policy-makers and regulators cannot be exempted from possible mistakes in the planning and implementation of new regulations, causing additional financial burdens on consumers.

Four cornerstones of a high-quality market

From empirical evidence, high-quality markets are not realised by regulations alone, however well-intended and well-designed they may be. I believe the following four cornerstones are indispensable:

- well-informed customers and well-educated consumers;
- sound, transparent regulation and enhanced supervisory regimes where appropriate;
- high-quality industry-wide databases and information provided into markets as an important part of the infrastructure to underpin an appropriate risk pricing;
- players with a sound financial position, good governance, holistic risk management and responsible behaviour.

As to the last point, while regulators should provide players with an incentive to enhance ERM (enterprise risk management), corporate governance and quality of management, I believe we should re-focus on the role of ethics from within ourselves as one of the main ingredients for responsible behaviour.

Revisiting business ethics

Under cultural or religious heritage, we have been taught by our parents, teachers or community about the cluster of virtues such as integrity, sincerity, empathy, rectitude or abstinence, and have been advised to refrain from being greedy and over-confident (or excessively proud). After leaving parents or school, we have been in a series of training courses at our workplace, including lessons on compliance and signing up to a code of conduct in order to declare that we will fully abide by such a code. In many cases, a commitment to customers is highlighted in the code of conduct: we must put the customer first, providing superior advice, products and services and act with the highest level of integrity, etc.

Also, in many countries, business entities are putting an emphasis on corporate social responsibility (CSR), socially responsible investment (SRI) and philanthropy. Officers and employees are encouraged to participate actively in the promotion of social causes, such as prevention of global warming and preservation of the environment.

In a society where the utmost importance is attached to honour, reputation risk is expected to be a much stronger deterrent than regulation in keeping enterprises from breaching moral codes and ethics.

Fundamental agenda on ethics

From the above, we will face two fundamental questions:

- Despite these ongoing lessons on ethics and morals, why were moral hazards rampant during the latest financial crisis, such as the subprime debacle?
- What should we do in order to make these ethical standards work as an effective and useful safeguard against undesirable, irresponsible behaviour and ultimately the recurrence of another financial crisis?

Perhaps we already have ample explanations and answers to the first question but it would be difficult to respond to the second one.

Moving the extra mile from ethics to Responsible Behaviour aimed at gaining the trust of our industry—ramifications for our insurance industry

From my personal overview and reflection on the financial crisis, I think “simply doing a job with integrity” may not be enough to prevent a recurrence of the crisis.

While core insurance business was not a source of the crisis and systemic risk, the following are the main suggested measures to enhance Responsible Behaviour and true professionalism, covering both competence and ethics, in our industry (such as responsible pricing of risk, enhanced ERM and market conduct with the utmost good faith).

- As an industry we have to enhance our capability of responsible risk pricing. This is one of the bitter lessons from the subprime loan turmoil, where almost everyone in the mortgage chain was forgetting about or even neglecting correct and fair pricing, and looking just for fee or commission income instead. At the same time, we always have to remind ourselves of the fact that we do not necessarily have adequate capabilities to deal with every kind of risk. In other words, we should remain humble, far from complacent, about a new type of risk and large scale risk.
- In leading your industry and company to establish a high-quality market, where you provide customers with the best risk-management solution in an efficient manner and with the lowest cost possible, you can hope your staff enjoy a “*tangible sense of purpose*” in their job assignment—as Lord Levene, Chairman of Lloyd’s said in his speech dated 25 November 2009. This way, your people can make it a daily practice to ask themselves “*What value have I added to the customer and society today?*”. This is a positive step to have a sense of pride in the workplace stemming from the “*social usefulness of one’s assignment*”.
- Share within your organisation any feedback from customers, community and society, both positive and negative. Positive feedback will encourage your people toward responsible conduct further and negative feedback works as an impetus for improvement of the business process and keep us from being complacent.
- While we have to make the utmost efforts in innovation and a creative solution for customers, we have to understand that responsible conduct includes “*knowing our limits*”. Expanding our operational complexities beyond our managerial capabilities may result in a lack of appropriate risk management and excessive accumulation of risk as demonstrated by actual cases during the crisis. I think a lesson from history can apply to our industry as well; The Roman Empire lasted 500 years by recognising its limits and rarely going beyond them, as Professor Paul Kennedy of Yale University wrote (*Financial Times*, dated 29 December 2009).

Bedrock and driver of responsible behaviour

Even if you fully agree to the importance of Responsible Behaviour, you may ask: Ultimately everything boils down to people, what incentive or driver should we provide? What role-model should we present?

My humble thoughts are: I believe people in our sector do not live for bread (financial reward) alone. Sense of fulfilment and self-esteem gained from ongoing engagement with customers/society and feedback we receive from them will lead us towards more responsible conduct and a higher level of integrity. In my brief overview of several types of cultures in financial sectors, it seems that being able to have a sense of pride or fulfilment from “socially useful” work assignment is likely to make us less prone to dubious acts such as seeking short-term profit and fat bonuses. For example, someone satisfied with the social value of his assignment in insurance and willing to recommend his son or daughter to take a job in the same sector is less likely to breach the code of conduct when he communicates and deals with customers.

However, such a strong sense of pride may not be obtained by doing job with integrity in the course of business processes alone. We need to encourage people to engage with society and customers. As an example, in promoting insurance penetration in the rural areas of developing countries, we also have to try to create clusters of new job opportunities (such as insurance intermediary, adjusters and other insurance-related service vendors) for the people there by providing education. Similarly, when working in the commercial risk market in developed countries, co-working with customer’s risk management (RM) department to such an extent that your people are accepted as a customer’s RM team member. These engagements help to enhance the sense of personal fulfilment of our people.

This being said, our road to responsible behaviour and true professionalism may be a long or even never-ending journey. We should start this journey with calm excitement and joy, simply because this is a “truly socially useful” journey for us all in the post-crisis paradigm.

III. ARE (RE)INSURANCE OPERATIONS SOURCE OF SYSTEMIC RISK?

By Philippe Trainar*

The notion of systemic risk has been used for a long time by economists and central bankers in relation to the notion of “lender of last resort” played by governments and more especially central banks in order to support banks in case of the most extreme financial crisis that may endanger the whole financial system and that require an outer solution, i.e. a solution that cannot be provided by the endangered system.¹¹ Rigorously speaking, systemic risk refers to systemic failure, i.e. to the failure common to an entire system; it is the financial system or the market or the whole economic system including the government. The extent to which systemic risk affects markets, however, is positively correlated with the markets and cannot be diversified away by the markets, justifying therefore a State intervention.

Much of the economic and financial literature has focused on the danger that problems in a single financial institution, more precisely in a bank, might spread and, in extreme situations, such contagion could disrupt the normal functioning of the entire financial system. Systemic risk points therefore to a double market failure: firstly, the inability of the market to always clear efficiently and stop contagion; secondly, the inability of the market to deal with the biggest aggregate risks. Of course, size, interconnectedness, substitutability, leverage, liquidity, large mismatches and complexity play an important role but they are not sufficient conditions for defining a systemic risk as outlined above; they need a further condition, which is the threat of a collapse of the entire system. The systemic risk is by nature a macro-economic risk, not only because it threatens the whole financial and/or economic system, but also because it is worldwide.

* Chief Risk Officer, SCOR.

¹¹ See Jean-Charles Rochet (2008) *Why are there so many banking crisis?*, Princeton University Press, New Jersey and Xavier Freitas and Jean-Charles Rochet (1997) *The economics of banking*, MIT Press and Louis Eeckhoudt, Christian Gollier and Harris Schlesinger (2005) *Economic and financial decisions under risk*, Princeton University Press, New Jersey. The “lender of last resort” concept has been firstly presented by Bagehot but prepared before by Thornton.

According to the above definition of systemic risk, banking operations have always been considered as a source of systemic risk when (re)insurance operations have not been for the following reasons:

- Extreme events covered by (re)insurance, such as pandemics or terrorist attacks, may be systemic but this systemic dimension is due to the nature of the event not to the nature of the operation, i.e. (re)insurance, or to the eventual collapse of a (re)insurance company.
- Compared to banking operations, (re)insurance operations are only weakly exposed to liquidity risk, which has historically been at the core of systemic risk; because of the viscosity of (re)insurance liabilities and because of their inverted production cycle the liquidity constraint on (re)insurance operations is tenuous.
- (Re)insurance operations do not need indebtedness, which is at the core of systemic risk and banking operations; of course, some (re)insurance companies may end up with an excessive debt financing. But this does not result from their insurance operations, rather from their quasi-banking operations.
- (Re)insurance operations are on-balance sheet operations; securitised (re)insurance risks remain inside the balance sheet of the initiator; portfolio transfers need supervisors' agreement; of course, some (re)insurance companies may end up with a lot of off-balance sheet exposure but this does not result from their (re)insurance operations, but rather from their quasi-banking operations.
- More generally, monoliners and credit derivative activities, which clearly incorporate systemic risk, resort to quasi-banking operations and not to (re)insurance operations.
- (Re)insurance operations present a limited exposure to the risk of contagion; of course, the spiral of reinsurance may interconnect many actors of the reinsurance industry but it represents only 13 per cent of insurance premiums and it is not a short-term business, as opposed to interbank credit activity.
- Furthermore, the concept of *bankruptcy*, which plays a key role in the propagation of systemic shocks, does not apply to (re)insurance that resorts to *run off* where contracts are not interrupted but cleared over many years according to their duration.

If, according to the above definition of systemic risk, (re)insurance operations are not sources of systemic risks, they may well be victims of systemic risks and, as a consequence, propagators of it. The situation of (re)insurance with the regard to the potential damages of systemic risk is not homogeneous:

- Life insurance that covers long-term commitments with congruent assets is less exposed than banking to these potential damages.
- Non-life insurance that works essentially on real risks is less exposed than life insurance to them.
- Reinsurance that works more on stocks than insurance is itself less exposed than non-life insurance.
- Finally, inside reinsurance, life reinsurance that works more on fixed amount of capital is less exposed than non-life reinsurance.

Compared to this economic definition of systemic risk, as systemic collapse, the FSB implicitly relies on a looser definition when assessing the systemic relevance of financial institutions. It identifies systemic risk with risk of shock of severe nature, i.e. risk that an economic shock, such as a market or institutional failure, trigger either a chain of the financial failure or a chain of significant losses to financial institutions, resulting in a dramatic increase in the cost of capital or decrease in its availability. Of course, the FSB distinguishes systemic risk from downturns that are caused by normal market swings and from large financial failures. Under the stricter definition of systemic risk, there is no scope for it emerging out of insurance companies.

According to the implicit definition of systemic risk used by the FSB, (re)insurance companies may carry out some activities of a quasi-banking nature that could be a source of systemic risk if carried out massively, without proper risk control and inadequate supervision, as analysed in the report *Systemic Risk in Insurance* by The Geneva Association. However, this dimension of activities could readily be regulated. At the same time, supervisors should be cautious and balanced when regulating (re)insurance companies because (re)insurance operations are not able to endanger the entire financial and economic system, as opposed to banking and quasi-banking operations.

IV. NAVIGATING THE MINEFIELDS IN SEARCH OF PROSPERITY

Keynote Speech at the World Insurance Forum 2010, Bermuda

By Patrick M. Liedtke

Navigating the Minefields in Search of Prosperity is a provocative heading for a world insurance congress but it is one I thought appropriate. We are emerging from an almost unprecedented financial crisis and we need to pick our way carefully forward towards prosperity because despite the increasing glow of light ahead, we are not out of the woods yet. Let me just dissect that for you.

The brunt of the credit crisis is over and following a period of very active crisis management and concerns about survival strategies, companies are looking forward with more optimism and getting ready to exploit a post-crisis world where new business opportunities and “prosperity” await.

I mention “minefields” because not everything that glitters is gold and it is very clear that there are potentially some nasty surprises that could hit this nascent growth within our industry as well as the wider world economy on the way to future growth and prosperity.

Finally, “navigation” implies both informed and carefully chosen direction and that requires leadership. We probably need active leadership in our industry more than at any point during the past years. My first boss asked me, “What do asset managers do when it rains fireballs? They put on their steel helmets and crawl under their table.” Too true, and I think we saw a fair deal of “crawling under the table” both within and outside our industry during the crisis. But we now need to stand up, switch gears and engage in the opportunities provided by this new paradigm. This will require forward-looking, creative and, yes, enthusiastic leadership.

I would like to navigate my own way through the topic by covering three distinct areas. Firstly, by touching on some of the most relevant features of the general economic landscape; secondly I would like to look at the regulation of financial markets both existing and those that are proposed, and finally I would like to consider the development of insurance.

General economic landscape

It is worth, I suppose, starting off with the good news:

- Despite some of the best efforts of asset bubblers and financial alchemists we did not destroy our global financial system.
- Governments and central bankers actually did a good job in steering the financial system through the straits.
- Stock markets have been recovering in most countries since spring last year and although they remain somewhat jittery, they appear to be on a relatively firm level.
- It seems that in most countries, the contraction of the real economy has bottomed out and indeed some are displaying signs of revival.
- And finally, while world trade is still below its peak, the past 12 months have helped the recovery and current monthly growth rates are again above trend.

...and on the downside, the minefields:

- The recovery, in particular of financial stocks, comes on the back of heavy losses and cheap liquidity.
- The recovery is helped by the fact that investors no longer have to contemplate a total meltdown of the financial system as potentially threatening scenario.
- And, there is no guarantee that the current above-trend global trade recovery will remain so robust and that future growth rates will be anything near their last decade peaks again.

Plus, the extraordinary performance of the world economy in the 1990s and the new century has profited from the stabilisation of emerging market economies and the tighter integration of dynamic regions such as the BRIC countries into the global economy. But can Brazil further develop its economy and keep inflation in check? Will Russia fulfil its promise as a reliable producer of raw materials and energy? Can

India keep increasing its workforce quality and remain a source of technical talent? Will China remain politically stable and able to sustain its high growth? These are fundamental questions and we would have to answer 'yes' to them if we believe that they are going to drive future business development in a dynamic way.

The current economic performance of the West is to no small degree the result of a financial system being pumped with cheap liquidity and massive government infusions—never before has so much money been pumped into financial markets so rapidly. What will happen when this recent high octane transfusion is withdrawn? One has to seriously worry about the effects of liquidity withdrawal.

Indeed, the result of the public interventions in financial and real economy markets has led to an explosion of government debt that is historically only comparable to the levels reached in times of war. Economic history suggests that massive peace-time increments in government debt levels tend to prove enduring and are seldom reduced in an orderly fashion. They tend to create a lot of financial stress and political instability, and will most likely lead to financially induced inflation thereby suppressing future growth rates.

In addition, I am very concerned about the level of government penetration in the financial sector, not only about the direct stake-holdings in so many financial institutions, which somehow need to be wound down, but also about the explosive growth of central bank balance sheets. This is coupled with an apparently new creed that more micromanagement, if not direct containment, of the entrepreneurial spirit at financial firms is the right answer to the credit crisis—witness current regulatory discussions such as those on remuneration, etc.

It would be remarkable indeed if the laws of economic gravity were to suddenly reverse and governments turned out to be more efficient generators of growth and prosperity than functioning markets. History most certainly tells us otherwise, but the temptation for politicians and regulators to meddle much more than would be sensible seems too great—at least for now.

The regulation of financial markets

First, the good news:

- We still have financial markets—this may sound facetious but I fervently believe that we have teetered on the brink of economic collapse at least once during this crisis.
- Banks are still allowed to operate in them—again, to my mind, the consequences of a more serious liquidity and solvency crisis were narrowly avoided.
- Cross-border financial business can still be carried out.
- Not all risks have to be collateralised 100 per cent.

You probably think me a serious pessimist or at least a cynic if I qualify the above as good news. However, we carried out some calculations during the height of the financial crisis as to how probable the markets considered a financial melt-down in which large countries such as the U.S. or some leading European governments would default: some relevant indicators shot up way beyond 10 per cent. So let us be happy that we still have functioning financial markets and that they look—at least today—essentially like the ones we had before disaster struck.

My personal view is that 99 per cent of what we do in financial and economic terms is right—or at least it is Pareto optimal: that means it cannot be substituted by anything that would allow better performance at the same risk level or similar performance at less risk.

However, there is 1 per cent that is very, very wrong.

This brings us to the minefields of future financial regulation. Do you believe that politicians and regulators know exactly which 1 per cent is so very, very wrong? Frankly, I have my doubts.

The reason why we should question at least some of the wisdom of the new masters of the financial universe—government bureaucrats—is that unfortunately they contributed their share to the financial crisis we are currently trying so hard to put behind us.

Do not get me wrong: I have little sympathy for large financial conglomerates that split off high-risk business into subsidiaries, choosing preferred supervisors that would not be able to supervise them appropriately, and then ignoring proper risk management in their activities.

And I have even less sympathy for financial firms that believe that slicing and dicing and packaging and repackaging risk to obfuscate any proper understanding of the underlying product might be a sound business model.

However, the amount of damage to our financial and economic infrastructure that stems directly and indirectly from government and regulatory action—and often also inactions—in the run-up to the crisis was considerable indeed, and is something that needs to be addressed too.

In principle I fear two sets of issues: firstly, the political pressure to be seen as proactive in the face of a major disaster, and secondly, the desire for easy solutions.

The former is a little bit like the response of the airline industry to the terrorist threat: generate a lot of fuss where the customer notices it, i.e. create some massive control mechanisms for passengers and their toothpaste, and leave the trickier issues for later, like the screening of all suitcases in a cargo hold or the quantities of flammable liquids available in duty-free.

The desire for easy solutions: my favourite example here is the reaction to the financial crisis that CEIOPS adopted last year when reconsidering the capital adequacy rules for the new Solvency II regime in Europe (I am not focused on arguing the technical details of a European issue to an international audience here but using it as an example that does have wider implications for insurance). Solvency II is a new set of very sensible regulations for insurance that has gone through various rounds of quantitative impact studies and which actually addresses some weaknesses that the financial crisis has uncovered. Now this project is succumbing to the allure of easy solutions

- despite the fact that there were no systemic threats emanating from insurance operations; and,
- despite the fact that insurance companies have not failed their policy-holders during the crisis; and,
- despite the fact that the insurance industry did not have to tap in any significant way government funds like the banks had to do so massively—see The Geneva Association's SRI Report¹² for more detail.
- In spite of all of this, suddenly regulators felt that this industry requires considerably more capital. To do what? To survive exactly the type of real-life test we just went through with flying colours using the current capital ratios.

The risk we face in the area of financial regulation is real. Politicians need to act and to be seen to be acting. Not everything that will come out of this process will be efficient. A few of the current initiatives will probably cause more harm than good. And possibly one of them might bear the fruit of the next crisis in it.

We need to be very vigilant as an industry that the right regulation is implemented. Politicians and regulators need to receive clear signals and support from us when they are addressing the correct issues and opposition, and constructive criticism when they are not.

The development of insurance

There is a lot of good news here:

- We just went through the worst financial crisis in over 70 years and did not require massive government help.
- We could prove the resilience of our business model and that sophisticated risk management does not mean running a set of black boxes where nobody can understand the dangers and threats anymore.
- The credit crisis has not questioned the basic business model of the insurance industry—much in contrast to the banking sector.

¹² *Systemic Risk in Insurance—An analysis of insurance and financial stability*, March 2010. Available for complimentary download at www.genevaassociation.org/Home/Credit_Crisis.aspx.

- Insurance risk-taking and risk-underwriting work.
- There was and is no shortage of cover for life or non-life insurance.
- There is an unprecedented need for insurance and risk management solutions, and customers continue to buy insurance.
- When it comes to asset management, wealth protection and old-age security, banks have lost an important advantage.

The credit crisis generated enormous interest in financial matters and resulted *de facto* in a public training course in finance and economics. The results are better financial literacy and a more widespread understanding of financial needs. This leads to an increasing realisation that financial planning is necessary and helpful, especially after people have stared into the abyss. The continuing risk shift from public to private and the problems at banking institutions are opening up more markets for insurance. And finally, recovering growth rates will generate more future business and, as the providers of economically superior goods (but not luxury goods in Veblen's sense), insurers stand to profit significantly.

So everything is rosy? Well, I was not invited to make you feel good at the beginning of such an important conference. So here are the minefields:

- We are not realising our potential. Both insurance density and insurance penetration are still offering a lot of room for improvement around the globe.
- We are not exploiting our strengths enough. There are many more opportunities for creative solutions and new insurance products. We also need to interface more closely with governments to create joint solutions and partnerships where purely private markets reach their limits.
- We neglect our future human resources. Insurance has failed to create an attractive image for itself and, despite sporting some of the best working conditions of any industry, we are an also-ran for graduates in finance and an unknown for others.
- We have been slow and somewhat timid in pointing out how well insurance fared through the crisis. The Geneva Association has been an early and very vocal institution in this respect but these efforts need to continue and they require sustained company action.
- We have to put more distance between our industry and other financial services providers. Insurance is not banking and insurers are not banks—even if some companies started to carry out banking-type business that turned out to be dangerous and very expensive indeed.
- We need to educate politicians and non-insurance financial regulators and central bankers better about insurance. It is ignorance of, and not opposition to, our industry that creates the biggest risks for future development.
- We are too far away from critically important decision processes. When insurance companies are not even truly considered as useful partners for public discussions on the highest level as they are deemed systemically irrelevant then that is a major problem.

Note that I am making a fine but crucial distinction between being *systemically relevant* and a *systemic risk*. Insurance—due to its stabilising nature and the long-term horizon of its business—is systemically relevant but—as the credit crisis has shown—insurance activities are NOT threatening the stability of the financial system. Insurance can help set up more resilient financial systems and play a role that is potentially containing or even decreasing the fall-out from threats to financial stability emanating elsewhere.

And finally, we need to live up to our responsibility: an industry that accounts for more than 7 per cent of world growth and that controls more than 11 per cent of world assets needs to stand tall. Insurance needs to project its unique knowledge and understanding of risk—of mitigation and adaptation, of management and development—into the public debates.

The most pressing challenges to modern societies and their social, economic and financial fabric are risk issues: from natural catastrophes to old-age security, from man-made disasters to financial markets, from terrorism to basic economic development—it is risk that plays a major role and it is insurance that is the ultimate risk industry.

V. REPORT FROM THE 6TH INTERNATIONAL INSURANCE AND FINANCE SEMINAR OF THE GENEVA ASSOCIATION

By Stefan Schürmann*

On 14-15 December 2009, The Geneva Association held its 6th Insurance and Finance Seminar in London, hosted by Lloyd's. A theme that echoed through a series of presentations was that insurers are not banks and navigated far better through the crisis, for which it has not been fully credited. Also, participants noted an increase in the number of changes to performance analysis standards for insurance companies, creating a need for parallel developments in accounting and regulation—bringing insurance analytics closer to the rest of the financial market.

("-->" reflects the sole view and opinion of Stefan Schürmann)

Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association welcomed the 120 participants from all corners of the global insurance industry. As a key theme for the seminar, he elaborated on the differences of the insurance sector compared with banking. However, he warned that the insurance industry had major challenges ahead in addition to the financial crisis, including a new future solvency regime and the adjustment of accounting standards.

Luke Savage, CFO of Lloyd's, introduced the seminar and welcomed participants to Lloyd's.

The **Opening Ceremony** with keynote speakers from BAFIN and FINMA was devoted to regulation. **Monica Mächler**, Vice Chair of the Board of Directors of the Swiss FINMA, started with a keynote speech addressing the major regulatory and supervisory issues currently under discussion, most stimulated by the recent crisis. She sees the discussions as a dynamic interaction spurred on by increased political attention from top-level macro prudential and financial stability authorities who are increasing pressure for a review of the supervisory architecture and tools. She talked through the dynamic interaction of global (G-20, FSB), regional and local regulatory bodies and international standard-setters (IASB, FASB, IAIS, etc.). She sees the major platforms of regulatory review as i) investments (asset value volatility and correlation between classes); ii) capital and liquidity (reassessment of capital requirements for certain asset classes and the need for liquidity monitoring); iii) group regulation (business mix, structure of groups and intra group transaction risk re-assessment leading to initiatives such as the IAIS ComFrame). She foresaw the insurance regulatory future as the search for risk management driven approaches designed to become integral part of company management and the alignment of regulatory requirements. She called for an industry dialogue to analyse the lessons from the recent crisis and the implementation and coordination of creative and high-quality solutions.

--> it appears clear to us that the international regulatory framework will review current rules with regard to investments, capital, liquidity, group supervision, risk management and corporate governance. Whereas overall this response is needed to further improve the industry, we see a risk of substantially increased regulatory cost which will, in-turn, be passed on to stakeholders, either reducing potential return on capital, increasing the cost of products and also increasing the hurdle rate for new insurance players.

Thomas Steffen, Chief Executive and Director of Insurance Supervision at the German regulator BAFIN, spent some time explaining the "too-big-to-fail issue". In fact, he explained that insurance groups cannot be put at the same global systemic risk level as big banks; he proposed however, that they are nevertheless relevant to the system and therefore should be included in the discussion of potential risk mitigation from big financial groups. He encouraged the industry to continue and enhance the dialogue with politicians to ensure that appropriate solutions are implemented that recognise insurance.

He recalled that at least three areas of G-20 decisions are expected to have an impact on insurance: Remuneration, Complexity of Groups and Quality of Capital. He added that discussions in all three areas

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must not be left to bankers. On remuneration he called for a well-coordinated approach between involved levels and players, such as the FSB, regional representatives, such as CEIOPS and national ministries and supervisors. On groups he stressed the need to draw the right lessons from the AIG crisis with the aim of implementing an effective and comprehensive risk management system to enable the Board of Directors to steer their business and risks. On quality of capital he was concerned about a lack of cross-sectoral coordination and consistency between banking and insurance, pointing out a requirement for capital of higher quality in both sectors, with insurers being major investors in hybrids and themselves holding hybrids as equity.

Finally, he again stressed the need for an ongoing fruitful dialogue between the industry and supervisors to properly implement international standards and requirements, taking banking as a bad example where the industry is heavily criticised by Barack Obama or Paul Volcker, today's economic advisor to the U.S. President. Thomas Steffen concluded that although insurance is not at the heart of the discussion, it should do three things: be realistic about the current crisis, draw the right lessons to prevent a future crisis and proceed in a pro-active dialogue with politicians and supervisors.

--> We are not convinced that insurance groups should be part of this discussion, as generally the balance sheet duration of insurance companies is much longer than for banks and typically are transformed into run-off units which historically in the majority of cases resulted in successful solutions from a systemic point of view.

The **first Session** was organised around the topic of “**Post-crisis Insurance Operations—The CEO Perspective**”, headed by **Geoffrey Bell**, President of The Bell Company and member of the Group of 30.

Jozef de Mey, Chairman of Fortis Insurance detailed how one of the leading bankassurance groups in Europe ran into problems due to the credit crisis and how its current post-crisis structure compared to the pre-crisis one. He then moved on to explain what the company would focus on in the future and outlined the two key issues from a Fortis point of view: i) the way we look at, measure and manage risk has changed; ii) when it matters you cannot use different ALM risks between banking and insurers. He also wondered whether this crisis might signal the end for large complex financial institutions.

Bronek Masojada, CEO of Hiscox plc, started with an insight into Hiscox recent years' financial performance and elaborated on the use of a model (“a model is not a model”). He explained Hiscox “investment heat map”, where scenarios of expected risk and returns for bond and cash returns were outlined. He did the same for the underwriting heat map, comparing potential losses for Hiscox under five to 10 years scales as well as 100-250 year natural catastrophe events (cat, earthquake in major regions). With his insight into the management of the Hiscox franchise, he concluded on the importance of increasing net asset value, which increased from 90 pence in 2000 to 259 pence for 1H09. He concluded that i) risk and returns from “volatile businesses”, ii) risk and return from retail business and iii) risk and return from investments were balanced against each other, determining core and buffer capital.

--> The presentation was a very good example of thorough insurance company risk and return management on all levels and the right focus on book value improvement over the cycles.

Mike McGavick, CEO of XL Capital, who has a strong track record in the restructuring of companies, started with, “I don't know if this crisis is over”, and enumerated the reasons for XL's three layers of problems during the crisis: i) D&O insurance; ii) financial guarantee covers; and, iii) investment losses. Going forward, he believes the challenge will be to achieve sufficient returns in order to attract capital to the industry and also highlighted major risks such as a potential spike in inflation. He also sees the risk of low investment returns and the bottom of the non-life cycle combining. His main message was that the main question should be: What do we learn from successful insurers in this banking crisis?

--> We strongly support the argument that insurers have done better than banks through the crisis, but due to a lack of transparency, inadequate accounting on the life side and a modest lobby capacity, insurance sector valuation has not yet taken advantage of this fact.

The **Q&A** discussed capital buffers and regulatory reform requirements. Furthermore, the issue of shadow banking, the future of the actuarial profession and the usefulness/overestimation of ERM were raised.

The **second panel “Financial Challenges to Insurance—The CFO Perspective”** was headed by **Wilhelm Zeller**, former CEO of Hannover Re and current Board member of Axis.

Oliver Bäte, the new CFO of Allianz Group, began with his opinion that insurers have mastered the crisis well but underperformed the market and the banks. He linked the lack of recognition to the issues of i) low growth in non-life and life despite pension gaps, ii) low interest rates depressing profitability, iii) insufficient transparency of value creation, iv) difficulty to understand complexity and risk profile and finally his impression that banks are “better organised”. In his view, major challenges for the industry remain i) Solvency II process, ii) IFRS phase II, iii) country regulatory issues in Italy (non-life) and Germany (life) as well as iv) the abandonment of the “group support” or diversification benefit, reducing available capital for a major group like Allianz.

--> We support the view of Solvency II and IFRS phase II being the major hurdle to take for the industry over the next two-three years, educating investors in the same time. It appears to us that big conglomerates are losing the diversification advantage and are even heading towards a “complexity discount”, if they do not fight for this soft capital!

AXA's outgoing CFO, **Denis Duverne** (handing over to Gerard Harlin and assuming the role of Deputy CEO of the group) highlighted accounting distortions and capital requirement uncertainty as major issues. Simplifying the issues, he described the current accounting process as “once they thought assets at fair value and liabilities at cost was a good idea, now, why not assets at cost and liabilities at market”... He described major challenges as: i) embedded value (liquidity premium or illiquidity discount); ii) believing Solvency II to be a good framework but stress the Level 2 CEIPOS proposal to lead to 100 per cent higher capital requirements; he hopes for major adjustments for Level 3; iii) the confused notion of insurance as a systemic risk: the industry learnt its lesson during the 2001-2003 crisis (ALM process driven by Solvency II and ALM). For a sector re-rating, he believes reporting of operating cash flows, margins reporting and a focus on ROE as well as a harmonisation of combined ratios is needed to achieve transparency, comparability and predictability.

--> A great thinker of the industry is leaving the finance function and his request for more transparency, comparability and predictability could not be installed over the last few years maybe because the insurance industry lacks a strong single voice so far.

George Quinn, CFO of Swiss Re, informed that his company's performance was -3 per cent in 2009. He elaborated on different capital views and in the case of a 100bp change in interest rates, different sensitivities would manifest themselves according to the accounting rule in question: US Gaap = CHF-5.3bn, Solvency I: -5.3, Swiss Solvency Test +1.0, rating agency “1”: +1.1, rating agency “2”: -3.7! He said Solvency II does matter to Swiss Re, getting closer to an economic view. Interestingly, he said that currently too much was on the cards to concentrate on the real business, making a comparison to the insurance industry being like a donkey lifted into the air by its carriage.

--> In our view, the industry does not report enough on the differing views of capital—statutory, accounting and economic. Also, sensitivities for all these different views would help to better understand a company's dynamic.

The **Q&A**, mostly covered by the panel chairman Zeller, concentrated on the low valuation of the industry, the “defeat” of the industry in regard to group capital models not accepted before 2015 (?), the search for equivalence of the SST with Solvency II.

Panel 3 (chaired by **Jo Oechslin**, CRO at Munich Re) elaborated on **Solvency II**, current developments, ongoing issues and international impact. His introductory remarks started with a summary of macro- and micro-prudential responses to the crisis, where he stressed that the insurance industry was not at the heart of the crisis. On the Solvency II issues, especially in regard to the CEIOPS paper, he addressed pillar 1 key issues of: i) risk-free vs liquidity premium; ii) no diversification benefits vs recognition of hybrid capital; and, iii) increased prudence vs preferential treatment. On pillar 2, he pleaded for strict requirements for the approval of internal models. A key message was that if CEIOPS suggestions would be applied as suggested, he estimated a 72 per cent higher capital requirement for Munich Re based on FY08 figures. He asked for a fair calibration and avoidance of cyclical behaviour of the future framework.

--> In our view, the use of internal models, application of diversification benefits and avoidance of a pro-cyclical framework are key fundamentals for a (future) re-valuation of the insurance sector.

Ramon Calderon, Director for the Center for Policy & Research at NAIC, explained the U.S. Solvency Modernisation Act started in June 2008 assuming that U.S. solvency is NOT broken. NAIC welcomes Solvency II but he stressed that the U.S. system dealing with multi-State issues was a tested system which generally survived the crisis. He explained the modernisation initiative as a process to: i) self-examine the framework from within; ii) look outside to make comparisons with the U.S. system; and, iii) identify the existing solvency framework. Five components comprehend the modernisation initiative: i) capital requirements (ongoing change in world-wide standards); ii) internal accounting (convergence); iii) valuation issues; iv) group issues (conglomerate and role of regulator); and, v) reinsurance modernisation. He concluded that the current U.S. FSAP (Financial Sector Assessment Program) was essentially based on the IAIS insurance core supervisory principles which most certainly include IAIS principles by 2011.

--> We believe the U.S. regulatory process appears overall more pragmatic and straightforward, despite the involvement of 52 States and not looking for the perfect solution but acknowledging that basically, the U.S. insurance industry as the biggest market by far, has done rather well and does not need a total overhaul.

Ian Dilks, Global Leader insurance at PWC, contributed his usual insightful view on the insurance market development, stressing that Charly McCreevy's initial vision on Solvency II as a global standard was watered down by the 23,000 comments from 110 stakeholders in CEIOPS Level II public consultation process. He continued by saying that the new QIS5 calibration would result in significantly higher resources, often well above rating agency requirements and sometimes leading to technical insolvency. He highlighted the threat of this regulatory burden, potentially leading to HR constraints. He recognised the following as major issues: i) liquidity premium and going forward; ii) tearing of capital and treatment of debt and future profits; iii) equivalence to become a major consideration (may not be granted before 2012 to any territory...). Other main issues include the question of headquarter location, pro-cyclicality issues and potential absence of diversification benefits. For this only three-years-to-go process, he believes that Solvency II will have strategic implications for many companies.

--> We fully agree that the Solvency II process has changed in direction (more political flavour) and in importance (will probably not become a global standard). Equivalence appears to be a big issue, but in the end, other jurisdictions might pick the good elements of Solvency II and implement more adequate solvency systems more quickly.

The final contribution to the panel was offered by **Carlos Montalvo Rebuella**, Secretary General of CEIOPS, the advising body to the EU commission on Solvency II. He started saying that CEIOPS wanted to work with the industry and looked for a pragmatic solution. He also saw positive signs in a process with over 8,000 comments on its latest proposal but asked for time to digest these. (He highlighted that Level 3 will be non-binding). His main comments regarded: i) diversification (request by EU commission: no diversification given to banks); ii) remuneration: industry should not pay for supervision; iii) QIS4: the process was based on a pre-crisis framework. He explained why CEIOPS was asking for more capital: recognising diversification in the non-life standard formula would be complicated; the question arises how much to pay for liquidity. Furthermore, he explained that in terms of capital quality he stressed that QIS4 worked with 94 per cent tier 1 capital and they now asked for 50 per cent. Furthermore, current consultation was looking for a hybrid capital extent of 20 per cent in tier 1 capital. He closed that CEIOPS was supporting securitisation and saw internal models as a cornerstone of Solvency II, targeting a middle way between prudence and leaving the insurance industry under-capitalised, taking into account a multiple perception from shareholders to politics, which currently is predominantly focused on banking.

--> We see the Solvency II process becoming too bureaucratic and do not see a simple pragmatic solution coming out of a process taking into account 8,000 industry feedback comments—on the contrary, such a high number of comments shows the insurance industry, having solidly sailed through the “crisis”, not being comfortable with the current process coloured by political voices.

The **Q&A** was quite animated and one industry voice said that a “AAA” bond level of solvency (as required under the latest CEIOPS proposal) was not the right level, asking what the industry could do to convince supervisors for more flexibility especially on the liabilities’ side. Another question asked why more capital was required for insurance risks, acknowledging that market risks had to be calibrated—the answer from CEIOPS was that a main problem was a lack of sufficient data (database of only six jurisdictions). Another voice asked about IFRS phase II and Solvency II being a joint process, with the

answer being that the U.S. FASB is now up to speed, discussing with the IASB key issues in order to speed up the parallel to Solvency II. Another discussion was around the liquidity premium, which was a tool to link the asset and liability side and as such was present in accounting terms as well as being priced as such in insurance products—a working group at the CRO Forum will elaborate on this issue. Other questions touched the topic of the regulatory view on variable annuities and the advantage or not of potentially only one regulator in the U.S.

Panel 4 was headed by **Benjamin Meuli**, CFO of Catlin Group. The session discussed **Shareholder Expectations—Risk-Reward Function of Insurance**. His introductory comments reiterated the view of insurance companies to have done well throughout the crisis and offered his reflections: i) there was an issue of measurement asymmetry for assets and liabilities; ii) “risk” was fully embedded into the enterprise risk management (ERM) process; iii) the trend towards more capital—can this really be the answer?; iv) so far there was no measure for liquidity—should this be changed?

Stefan Schürmann, Head of Financials at Bank Vontobel Research, showed that the European insurance sector underperformed over the last 10 years and today was valued well below other sectors in regard to earnings or book value. He offered a major explanation for this being the ongoing and continuing change in the measuring framework (IFRS Phase I & II, Solvency II). He argued that risk was a reflection of change, volatility and uncertainty, the framework under revision increasing the risk perception of the industry. In his small survey among major global institutional investors, he found that the majority were cautiously optimistic going forward. Key issues of these investors were: i) accounting being a reason for low transparency and comparability; ii) the development and speed of change of interest rates being a threat to the sector's valuation; iii) Solvency II bringing uncertainty about future capital requirements; and, iv) P&C reserving potentially suffering from the recession. He closed that these investors expect ROE to generally improve but over the next two-three years not reach more than a 10-12 per cent range. To improve the insurance sector's valuation, he asked for stability in the measuring framework and a single view on solvency requirements.

Brian Shea, MD and Head of European Insurance at BofA/Merrill Lynch, stated that insurance was still investable, but highlighted that the industry would have to generate ROE's above cost-of-capital in order to continue attracting capital. He reiterated the view that insurance underperformed and was undervalued on different bases, also in regard to dividend yields. He saw insurers having passed the “test”, whereas banks had to raise the big chunk of capital. Despite this, in P/E terms he suggested insurers to trade at a 40 per cent discount to banks. He elaborated on the generation of value and found that the life insurance sector was growing above GDP over the last 20 years, with premiums in Europe up 6.5 per cent per annum and assets by 8 per cent per annum or positive net flows of roughly 3 per cent per annum. He estimated a rough 1 per cent margin on assets being decent. The question about cash flow generation was answered as yes, resulting from an embedded value view (maturity of in-force compared to new business strain). BofA's investor survey pointed towards more uncertainty today in regard to Solvency II than six months ago with the banking sector's capital situation offering more clarity than the insurance industry. The survey pointed towards embedded value becoming more important again, but also resulting in a view that the new MCEV framework was not helpful. He concluded that the non-life cycle as well as complex life product design remains challenging issues for investors. But he saw Solvency II as helpful and believes disclosure can improve.

--> *Another view suggesting that the insurance sector has done well through the crisis, not fully given credit for by the market.*

Martin White, Chairman of the U.K. Shareholder Association, asked about what makes insurance investable, asking the plenum who had invested more than 15 per cent of assets in the insurance sector—no one. He enumerated arguments to invest into insurance: i) better governance (ownership chain working properly, pointing to the Walker report); ii) Lord Myners “ownerless corporation” (growth and incentive for stewardship effort); iii) filling the ownership vacuum (question of owners acting as owner and a key role of private shareholder committees and a new world of empowered individuals); iv) perennial challenges of the insurance sector (double stewardship role of shareholders' wealth and customers' wealth); v) risk reward balance of insurance (trust would help and stewardship is important). He concluded that there may be hope.

Q&A included issues such as the risk appetite post financial crisis and the potential impact of lower risk free rates. Another topic was leverage of banks, which was no issue for insurers.

On the second day, **Keynote Speaker Leslie Seidman**, Board Member FASB, offered a very interesting view on ongoing accounting discussions and developments in a highlight of this seminar. She stated that GAAP and regulatory accounting should be consistent and she supports a global accounting standard. The FASB published a November 2009 strategy paper on the ongoing projects in order to achieve 11 joint standards by 2011, a challenging process for all. Important projects included insurance, leasing and revenue recognition. At joint IASB/FASB meetings, the insurance project should result in an ED by 2010 and a final standard in 2011. Major issues include: i) definition of insurance; ii) estimate of liabilities (risk margin as a cushion saw a split of opinions at the FASB); iii) recognition and presentation of results; iv) acquisition cost treatment; and, v) policy-holder accounting.

Financial instruments were a major project where IASB (IFRS 9) and FASB had no common view yet, addressing systemic issues. Both agree that trading assets should be at fair value and long-term debt not. Equities should be at fair value, but FASB wants changes in the P&L, IASB does not. The FASB has no common understanding at this stage on how to calibrate a risk margin. She said that a comprehensive model for financial instruments was needed, with traditional profit measures in the income statement and OCI reflecting other movements. She was positive for prospects of an improved standard, but interaction and field tests were required.

In the **Q&A** she stated that if there is a problem in financial markets, the FASB was not here to stabilise the economy. On the risk margin, she said three of the five FASB Board members were against it, seeing it as a “cushion”. A member of the audience argued that the market did not mind on the absolute level of the risk margin being 10 or 20 per cent, but was only looking for “changes”.

Jerry de St Paer, Chairman of GNAIE, announced his panel elaborating on the latest **IASB Developments and Financial Reporting** with a pledge that we were only six months towards an ED and standard being in the end phase.

Hugh Francis, Director of External Reporting at Aviva, started off by highlighting IFRS Phase II being critical for the insurance industry. He saw key factors as addressing issues from the financial crisis and a potential 2014 U.S. transition to IFRS. He explained that the CFO Forum would suggest: i) a single model for life and non-life, being principle-based; ii) no day one profit recognition, allowing profit to be released from risk over time; iii) a market-consistent valuation of liabilities with allowance for risk and uncertainty and risk-free discount allowing for liquidity, with recognition of options and guarantees. Insurance liabilities should reflect best estimate plus risk margin, plus a separate profit margin. Other key issues included: i) acquisition costs (if not expensed, growth would mean losses and “run-off” would produce profits); ii) future premiums should be included; iii) unbundling not necessary as insurers do not price business on unbundling. He concluded that change was closer but still uncertainty remained.

--> Even close to the ED of the Phase II framework, the insurance industry still appears to be unable to present a single voice of a pragmatic accounting reflection which could be understood by a simple stakeholder.

Burkhard Keese, Head Financial Reporting at Allianz, continued on the issue of insurance reflection and saw three construction sites: i) phase II insurance liabilities; ii) IFRS9 financial assets & liabilities; iii) a market consistent balance sheet, all potentially blowing up the insurance business model. On insurance liabilities, he said that the right discount rate should reflect product properties and DAC was essential. Furthermore, he saw amortisation of margins as a core question for performance reporting not addressed. IFRS9 has advantages, but the proposed treatment of equities was not adequate, with profits and losses needing to go through the P&L. Market-consistent balance sheets were highly volatile, due to interest rate movements, volatility of options and guarantees, liquidity premiums of corporate bonds and future unforeseen volatility drivers, all artificially increasing volatility of an insurance balance sheet. He concluded that there was no time left and the insurance industry needed a standard reflecting the business model, with IFRS9 equity treatment not being acceptable. He also asked for a level playing field with banks and hopes for standards free of political influence.

--> Another voice asking for a better reflection of the insurance model, agreeing that time is running out. Interestingly, he admits that banks are faster and (smarter) at influencing their measuring/regulatory framework—maybe again due to a lack of common voice of the insurance industry.

Henry Siegel, Senior Vice President and Actuary at New York Life, presented the U.S. view on accounting projects. He started with an optimism index on the different U.S. accounting projects such as DSOP, GNAIE principles, “no gain at issue”, IAS37, acquisition costs, etc. He elaborated in more detail on three key issues: i) treatment of transaction expenses; ii) discount rates; iii) calculation of “risk margins”. On transaction expenses, he pleaded for a different way of calculating acquisition expenses than discussed in the revenue recognition paper, in order to avoid huge loss at issue. For the discount rate of life insurance, he explained that “risk-free” does not work, citing MCEV as an example. He sees a solution of using own best estimates to move together on this issue. In regard to margins, he believes in addition to cost of capital and percentile, two questions to be answered: i) how to adjust so there is no gain at issue; and, ii) how to run off over time.

The **Q&A** discussed topics such as acquisition costs, also in regard to embedded value, helping to show value despite the new business strain; economic reality compared to the accounting view leading to distortion (in addition, under IFRS, even AXA and Allianz cannot be compared due to different accounting for liabilities); the impairment issues and possible early adoption of IFRS9 (due in 2013). The question if accounting was changing insurance products was answered under different angles, from “it should not” to “yes it does”.

Allan Chapin, Board member of SCOR, opened **Panel 6** on the topic of “**Financing Large Risks—New Challenges for Insurance, Reinsurance and Securitisation**”. As an introduction he presented that approximately US\$ 3 billion of cat bonds have been issued in 2009, bringing total securitised assets to a total which remains considerably lower than the total of insurance claims.

Stephen Catlin, CEO of Catlin Group, offered the first presentation starting with insurance is doing a good job, hinting to the rebuilding of Ground Zero or New Orleans without government help. Talking about his group, he pointed to the situation of 2009 having helped its position, but resulting in two-three years of challenging investment returns. In regard to the renewals season, he was quite relaxed about the one-third of Lloyd’s business being renewed over the next two-three weeks, and believed that general pricing is in the range of 0 per cent to 5 per cent, which is quite alright overall. He explained how to assess tail risk, explaining thinking about extreme risks with the focus on liquidity being important.

--> Another opinion which shows that the insurance industry is well managed and can cope with its underlying risks, not comparable to the banking problems during the liquidity crisis.

Michael Steel, CRO at Axis, explained how his group did measure, manage and control risk, including stress-and scenario-testing. In regard to risk, he enumerated a full list of risks to be assessed, from market to underwriting, reputation and other risks. He stressed that inter-relationship was important. Measuring risk included a variability of techniques, but data availability and quality was said to be of utmost importance. Risk aggregation was another step in the process, based on history. He believes that Solvency II and rating agencies were driving risk management, with disclosure increasing under the Solvency II process. He concluded that a risk framework has to include clear objectives in regard to: i) risk appetite; ii) risk tolerance; iii) risk targets; and, iv) risk limits.

--> Managing risk is a major reason to be for insurance companies, and Axis appears to be an interesting example.

Urs Ramseier, Head of ILS at Horizon21, elaborated on the state of the ILS market. He started with a teaser on ways to invest into ILS and insurance risk, based on no (or low) correlation with other asset classes and so far a decent 8.2 per cent seven-year average return per annum including the crisis. He explained that cat bonds were only a small part of securitised risks, with mortality (pandemic) being in good demand. He explained the set up process, with an SPV (needed for regulation) being used to transfer risk into the financial market. A current problem was counterparty risk, which was resolved with collateral being invested in treasuries. He said that mostly U.S. wind and earthquake were offered, but that investors looked for diversification into other risks as well. He concluded with his view of ILS becoming an alternative to reinsurance.

--> Every year the market expects ILS to take off as a market; maybe in 2010?

Q&A discussed ILS compared to hurricane futures, extreme scenario modelling or management of counterparty risk. Securitisation was said to take advantage of Solvency II, but it would take five-ten years to become a big enough market place to be really efficient. Other voices said securitisation was

another form of capital, not a way to make more money. Great potential was seen for mortality risk securitisation, with good interest to invest into longevity by big pension funds and life insurance companies.

The **last panel** presented on **Financing Retirement—Capital Requirements for Insurance Solutions** was chaired by **Brian Atchinson**, President and CEO of IMSA (Insurance Supervisor of Maine). He stated that retirement was alright for very wealthy and very poor individuals (social security), with the rest being on their own in the U.S.

Lorenzo Savorelli, Head of Research at Generali, showed that for regulatory and other issues, the insurance industry has not yet taken advantage of the “pension gap”. He elaborated on the favourable risk return situation for retirement savings by individual (e.g. third pillar in Switzerland). He saw major obstacles for growth in this market as: i) complexity; ii) in transparent cost and performance; iii) education of consumers. He also put forward a risk-based framework capital requirement penalising longevity compared to mortality. An interesting explanation was that people tend to “under-save” and that for pension products, i) lack of flexibility, ii) lack of understanding, iii) adverse selection (perception: shorter living subsidising longer living) and iv) strong alternative such as public pension system. He concluded with a bad (Italy reform 2007) and a good example (Chile) for the retirement market and enumerated improved financial and mortality databases, appropriate fiscal incentives as potential measure to promote pension products.

--> We have heard the pension gap story for many years now and the industry is aware of the educational, transparency and complexity issue. Nevertheless, the life insurance industry so far had not been able to take full advantage of this potential market.

Simon Harris, MD at Moody's heading the European insurance team, explained that due to improved risk management and hedging, a lower number of insurance companies saw negative rating adjustments during 2008-09 compared to 2002-03. Moody's rating outlook today included zero “positive”, mostly stable and some negative judgments, with a focus on life insurance on the negative side. He saw major challenges for the industry to be: i) higher combined ratios in non-life; ii) depressed top and bottom line in life insurance; iii) negative impact of hedging on investment return. The good news was based on the retirement opportunity driven by a shift from public to private; the bad news is that longevity is a “one-side” risk with an uncertain future development and high capital requirements. He also saw fiscal benefits fading and margins not being overly attractive but product innovation ongoing.

The final presentation was given by **Richard Boardman**, MD and Head of U.K. Insurance & Asset Manager Solution Sales at RBS. He stated that life insurance was about capital, not funding (the essential problem of the banking crisis). He illustrated this with the gap between the three months' SONIA and the 3m term deposit spreads, which should be small (10bp) but were not during the crisis, now getting back to normal levels. He elaborated on the liquidity premium and found that if insurers still captured the liquidity premium under Solvency II, for a typical U.K. annuity book, capital requirements would only increase by a small amount. Potential solutions out of an unfavourable Solvency II treatment were: i) selling the annuity book; ii) going short duration; or, iii) reduce credit risk. He concluded that the correction has hit assets through funding/credit concerns with life insurance models being more focused on effect than cause—life insurance continued to be about capital, not funding going forward.

---> The presentation was most interesting showing ALM interdependencies with volatile financial markets not fully reflected in life insurance business models, leading to today's discussion about the liquidity premium.

The Geneva Association Annual Report 2009/2010

This new version of the Annual Report of The Geneva Association serves as an introduction to The Geneva Association as well as a more contextual presentation of its activities. It is a timely initiative and one that is in keeping with the increasingly proactive and relevant role of the Association as a research-based think tank on key insurance issues internationally. For more information:

http://www.genevaassociation.org/PDF/General_Information/Geneva_Association_Annual_Report_2010_net.pdf.

VI. GENEVA ASSOCIATION LETTERS TO THE FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF THE G-20



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Geneva, 26 April 2010

Systemic Risk in Insurance

To the Finance Ministers and Central Bank Governors of the G-20

The financial stability tax proposal of the International Monetary Fund (IMF) fails to adequately address the distinct nature of the insurance industry and its stabilising role in the economy. The application of such a proposal even seems contradictory, given that the insurance industry did not cause the crisis in the first place and was instead a victim of the consequences, through asset devaluation, recessionary development of the economy and a very low interest environment.

The IMF's interim proposals to levy a financial stability tax on all financial institutions does not sufficiently take into account the important fact that the business model of insurers differs significantly from that of banks. In exchange for the payment of a premium, insurers commit to financially compensate the customer for losses suffered on the occurrence of an insured event set out in a contract. The insurer must use the premiums to invest in assets that match the expected amount of compensation payable under protection provided and the duration of the risks covered. Consequently insurers have relatively stable asset portfolios – which explains the limited impact or need for government support for the overwhelming majority of insurers during the financial crisis. Conversely, banks are subject to short term liquid deposit demands and have credit risks related to lending activities and liquidity risks due to the mismatch arising from borrowing short and lending long.

In our analysis of the relationship between systemic risk and insurance (*Systemic Risk in Insurance – an analysis of insurance and financial stability*, March 2010), our research shows that core insurance activities do not create systemic risks. It also identified a very limited number of activities that could give rise to systemic risks. But these activities are not core to insurance, are incidental and present a risk only if conducted on a massive scale, as in the case of AIG Holding Co., without due risk management or effective supervisory oversight. Aside from a small number of well publicised examples, the insurance industry weathered the financial storm in relatively good health. Pensions were paid, policies were underwritten and honoured and customers were able to take personal and entrepreneurial risks.

It is important that the initiatives in response to the crisis address the activities (not the companies as such) that could pose a risk to the system by encouraging more transparency as well as better governance and risk management. Our report identifies measures to address the non-core insurance activities that can in theory cause systemic risks within the existing and proposed supervisory framework. Our proposals avoid the need for additional costs being placed on customers, a reduction in the capacity for protection and a distraction of supervisory focus that could occur with the inappropriate and arbitrary application of proposals such as that proposed by the IMF.

At this time of crucial economic decisions, what is needed is proportionate and appropriate solutions that strengthen the financial system and enable governments to address the challenges of the future. It is important that the different roles and risks faced by financial institutions in the system are clearly identified and addressed in a focused way accordingly. This needs to be recognised in the discussions on any potential solution proposed to protect the system.

The Geneva Association's research and the Systemic Risk Report are contributions by the industry to strongly promote an active and constructive dialogue between governments, regulators, supervisors and the insurance industry in addressing the challenges created by the financial crisis. We hope that the solutions implemented by governments and regulators to repair the damage caused by the recent crisis are fully considered and target the specific shortcomings identified.

Should you wish to discuss the contents of this letter or our systemic risk report in more depth, The Geneva Association would be delighted to engage further in this matter.

Yours faithfully,

Dr Nikolaus von Bomhard
President of The Geneva Association
Chairman of the Board of Management, Munich Re Group

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

* * * * *



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Geneva, 17 June 2010

**Insurance Industry Supports International Association of Insurance Supervisors (IAIS)
 Position Statement on Key Financial Stability Issues**

To the G-20 leaders

cc: Finance Ministers and Central Bank Governors of the G-20

The Geneva Association is mindful of the important work being undertaken by the G-20 and the FSB as well as the need for active and constructive dialogue among governments, regulators, supervisors and the insurance industry in addressing the challenges created by the financial crisis.

It is highly important that any solutions designed to increase the resilience of the financial system appropriately acknowledge the specific characteristics of insurance from other financial services. To that end, we encourage the G-20 to take the IAIS positions and their insurance supervisory expertise into consideration as you and the FSB, move forward with the development of recommendations for addressing potential systemic risk in the global economy.

The statement, issued on 4 June as part of the IAIS's ongoing analysis on systemic risk in the insurance sector, assesses the potential for financial instability in the sector and determines what, if any, regulatory and supervisory action might be appropriate. In doing so, the IAIS has examined risks and circumstances where systemic risk might apply to the insurance sector regardless of whether these circumstances emanate from the insurance sector or are merely transmitted to the insurance sector from another financial sector. This analysis, under the direction of the world's insurance supervisors, found that:

- The insurance sector is susceptible to systemic risks generated in other parts of the financial sector. For most classes of insurance, however, there is little evidence of insurance either generating or amplifying systemic risk, within the financial system itself or in the real economy.

- In circumstances where insurers may amplify risk, an effective regime of regulation and supervision can mitigate these possibilities.
- Non-regulated entities of financial conglomerates and some specific activities (such as financial guarantee insurance) can generate or amplify systemic risk and may be instrumental to contagion within conglomerates or between sectors.
- The IAIS is promoting enhancements to supervision and supervisory processes, combined with stronger risk management and enhanced approaches to international issues related to resolvability to minimize adverse externalities. These enhancements include group-wide supervision (including non-regulated entities) and the development of a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).
- The IAIS is also promoting cross-sectoral macro-prudential monitoring of potential build-up of systemic risk and planning to develop measures for national authorities to assess degrees of systemic risk.

Whilst some of the concerns of the IAIS on potential systemic risks differ from the conclusions of The Geneva Association as detailed in its March 2010 systemic risk report, we welcome the fact that the IAIS took careful note of the insurance business model (including the differences and similarities to banking), analysed systemic relevance and systemic risk vis-à-vis size, interconnectedness and substitutability, underlined the realities associated with the run-off or rehabilitation of insolvent (re)insurers and proposed supervisory enhancements, which are broadly supported by the industry. We trust the FSB will take due account of these elements in the draft report it will submit to you soon.

Should you wish to discuss the contents of this letter or our systemic risk report in more depth, The Geneva Association would be delighted to engage further in this matter.

Yours faithfully,

Dr Nikolaus von Bomhard
Chairman of The Geneva Association
Chairman of the Board of Management, Munich Re Group

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

* * * * *

CALL FOR PARTICIPATION

6th International Longevity Risk and Capital Markets Solutions Conference

9-10 September 2010, in Sydney, Australia

Hosted by Australian Institute of Population Ageing Research in the Australian School of Business, UNSW

The 6th International Longevity Risk and Capital Markets Solutions Conference is the major international conference bringing together leading international industry and academic minds as well as policy makers to meet and discuss not only the assessment of longevity risk, but also the market and government developments and responses needed by pension funds and insurance companies to manage this risk.

The upcoming conference in Sydney Australia is the Sixth following the highly successful events over the last five years in London, Chicago, Taipei, Amsterdam, New York and now Sydney. Given the attractive location, attendance at the Sydney conference is expected to be strong including participants from Asia, UK, Europe and the Americas. The key themes of Longevity 6 are "Reinsurance and Financial Markets Solutions" and "Government Role, Public and Private Market Solutions". There will be plenary sessions on these themes along with a Panel discussion.

For more information, please visit www.longevity-risk.org.

VII. 7th INTERNATIONAL INSURANCE AND FINANCE SEMINAR OF THE GENEVA ASSOCIATION

6-7 December 2010, London

Hosted and co-organised by Prudential plc

(Draft version as of 25.6.2010)

Day 1, Monday 6 December 2010

- 8:45–9:00** **Welcome and Opening Remarks**
Nic Nicandrou, CFO, Prudential plc
Patrick M. Liedtke, Secretary General and Managing Director, The Geneva Association
- 9:00–9:45** **Keynote Address**
Special Keynote Speaker
or
The Capital Imperative
➤ Impact of New Regulation: Capital Requirements
➤ Impact of Crisis: Access to Capital Markets
➤ Escape Valves: M&A Activity; Consolidation; ILS Markets
- 9:45–11:15** **The CEO Perspective—Strategic Challenges in a Changed World**
Chairman: Dr Nikolaus von Bomhard, Chairman of the Board of Management, Munich Re Group
- 11:15–11:45 Coffee Break
- 11:45–13:15** **The CFO Perspective—Responding to the Financial Challenges in a Changed World**
- 13:15–14:15 Networking Lunch
- 14:15–15:45** **Global Insurance Regulation in a Changed World**
➤ Evolution or revolution of supervisory regimes
➤ Changes in the regulatory architecture, Expanded IAIS role
➤ Macroprudential dimension or insurance supervision
➤ Group Supervision – Colleges of supervisors, sharing of information
➤ Groups in the perspective of the regulator and of the rating agency
➤ Cooperation and crisis management mechanisms
Chairman: Monica Maechler, Vice Chair, FINMA Switzerland
- 15:45–16:30 Coffee Break
- 16:30–17:30** **The Next Generation of Solvency—The Industry’s Next Steps**
➤ Solvency II
➤ US Solvency Modernization Initiative
➤ Other
Chairman: Jean-Christophe Ménioux, Corporate Finance & Treasury Dept., AXA
- 18:30–22:00** **Reception & Networking Dinner**

Day 2, Tuesday 7 December 2010

- 8:50–9:00** **Welcome and Introduction**
- 9:00–10:15** **Keynote Speakers – Outlook for a Single Set of High Quality Global Accounting Standards**
- Single Set of High Quality Global Accounting Standards: The Next Step
 - Insurance Accounting & Related Standards
 - Global enforcement
- 10:15–11:30** **The Insurance Industry’s Challenge**
- The Accounting Convergence Agenda: Exposure Drafts on Insurance, Financial Instruments, Presentation, etc.
 - Valuing the Insurance Balance Sheet: DAC, Risk Margin, Liquidity Premium, OCI
- Chairman: Jerry de St. Paer, Special Advisor to The Geneva Association*
- 11:30–12:00 Coffee Break
- 12:00–13:00** **Capstone Presentation: Insurance Industry’s Appeal to Investors**
- Introduce & Moderate: Patrick M. Liedtke, The Geneva Association*
- Capstone Speaker: Maurizio Lualdi, Vice President, Capital Research Global Investors*
- 13:00–13:15 Seminar Wrap-Up & Adjournment
- 13:15–14:30 Networking Lunch

VIII. GENEVA ASSOCIATION NEWS

***Systemic Risk in Insurance—An analysis of insurance
and financial stability***

Special Report of The Geneva Association Systemic Risk Working Group, March 2010

The Geneva Association has published a special report analysing the role of insurance in financial stability and its systemic relevance. The report has been provided to inform and support supervisors and policy-makers in their discussions on the development of measures to address the complex problem of systemic risk underlined during the financial crisis. In the report, the differing roles of insurers and banks in the global financial system and their impact on the crisis are examined. A key conclusion of the analysis is that the core activities of insurers and reinsurers do not pose systemic risks due to the specific features of the industry.

The report can be downloaded for free at

http://www.genevaassociation.org/PDF/BookandMonographs/Geneva_Association_Systemic_Risk_in_Insurance_Report_March2010.pdf

Anatomy of the credit crisis—An insurance reader from The Geneva Association

Geneva Report N° 3, January 2010

In this special Geneva Report, The Geneva Association has assembled a series of key articles written during and on the subject of the credit crisis, compiling them into an insurance “Reader”. This Reader provides an insight into the credit crisis from an insurance point of view, looks at its impact on the insurance industry and finally examines the episode for lessons learned and concerns that remain. The majority of the articles were written during the crisis and have been published unchanged in order to give a true insight into how thinking developed as the crisis unfolded. It is split into three sections:

The “View from the inside” comprises articles written on the unfolding of the crisis and looks at how the situation developed. The majority of the articles were written by insurance practitioners and The Geneva Association before or just after the collapse of Lehman Brothers. “Insurance as a protagonist” looks at the role insurance played during the crisis and the initial concerns that any reaction to the crisis might create. “Meeting the challenges” contains the most recent articles that look at what lessons can be learned from the crisis and highlights ongoing concerns, particularly on likely regulatory reactions.

With articles unchanged from the time of writing, accompanied by a highly detailed timeline, the Geneva Report N° 3 provides a very real anatomy of the credit crisis, the lessons learned from it and the implications it has for the insurance industry in future. The report is also available for free on the website of The Geneva Association at www.genevaassociation.org.

“The Geneva Reports—Risk and Insurance Research” is a new series of publications of The Geneva Association. The purpose of this series is to tackle issues of strategic importance to the insurance industry that warrant special attention and particular analysis. It is published at irregular intervals and available both in printed and electronic versions.

The Geneva Association is looking for a

Research Director – Head of Insurance and Finance

Leading international insurance economics think tank, The Geneva Association, is looking for a Research Director to head its Insurance and Finance Programme, a key pillar of The Geneva Association’s activities. The successful candidate will lead the Association’s research, networks and the publications in this area. S/he reports directly to the Secretary General and Managing Director. The working language is English and role is based in Geneva.

Key tasks of this role include:

- ◆ Being current on new developments and leading research in insurance and finance
- ◆ Managing The Geneva Association’s high-level networks in the insurance and finance arena (esp. CFO and CIO industry networks as well as those of leading researchers)
- ◆ Representing The Geneva Association in the insurance and finance area
- ◆ Oversight of insurance and finance event and content elaboration
- ◆ Responsibility for the *Insurance and Finance Newsletter* and other finance publications
- ◆ Any flanking activities that would strengthen the programme and guarantee its success
- ◆ Readiness to travel: attend conferences and meetings and visit experts in the field

Qualifications of the candidate:

- ◆ At least ten years of experience in insurance/finance research and/or having occupied a senior finance-related position in the insurance or wider financial services industry (banking, securities, or related associations) with strategic responsibilities
- ◆ Excellent academic credentials including a Masters or PhD in insurance, finance, or a related economics discipline
- ◆ Outstanding publication record in insurance and finance journals and international publications
- ◆ Very good organisational, writing, interpersonal and communication skills
- ◆ Strong commitment to the insurance industry’s role in the economy and society

Please send your submissions to Patricia Linstaedt at The Geneva Association via normal mail, or email to: Applications@genevaassociation.org.



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IX. CONFERENCES ORGANISED AND/OR SPONSORED BY THE GENEVA ASSOCIATION

2010

July

25-29 Singapore **World Risk and Insurance Economics Congress (WRIEC)**, jointly organised by Asia Pacific Risk and Insurance Association (APRIA), American Risk and Insurance Association (ARIA), European Group of Risk and Insurance Economists (EGRIE) and The Geneva Association

September

27-28 São Paulo **The 2nd CC+I Seminar** on "Climate Change: Opportunities for Latin American Insurers?", hosted by Allianz Brasil

October

4-5 Madrid **8th Meeting of The Geneva Association's Chief Communications Officers**, (Chief Communication Officers only) hosted by Caser Group and MAPFRE

12 Rome **The Italian AXA Forum**, organised by AXA/MPS, The Geneva Association and ANIA

19-20 London **7th Liability Regimes Conference** on "Exploring Environmental Liability: An Open Flank for Insurers and their Clients", hosted by RSA Insurance

November

18-19 Paris **7th Geneva Association Health & Ageing Conference** on "U.S. and French Long-term Care Insurance Markets Development", co-organised with Willis Re

24-25 Munich **6th CRO Assembly** on "A vision for risk management in the «new normal»", jointly organised by The Geneva Association, Munich Re and CRO Forum

17 London **5th Meeting of the Climate Change and Insurance Project of The Geneva Association** (CC+I Working Group members only)

December

6-7 London **7th International Insurance and Finance Seminar of The Geneva Association**, hosted by Prudential plc