



Press Release

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Notes to Editors

The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. It is the leading voice of the largest insurance groups worldwide in the dialogue with international institutions. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 90 Chief Executive Officers (CEOs) from the world's top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policy-makers, regulators and multilateral organisations. The Geneva Association's annual General Assembly is the most prestigious gathering of leading insurance CEOs worldwide.

Established in 1973, The Geneva Association, officially the "International Association for the Study of Insurance Economics", is based in Geneva, Switzerland and is a non-profit organisation funded by its members.

The Geneva Association Secretary General's Outlook for 2012

19 January 2012 (Geneva). International insurance think tank, The Geneva Association, today published three key areas of interest for the global insurance industry in 2012; financial stability, governmental management of natural catastrophe risk and demographics and old age society. Secretary General and Managing Director Patrick M. Liedtke made the following comments;

1. Financial Stability and Insurance

"No other topic has worried nation states around the world more persistently in 2011 than the question of global financial stability. And with as yet so many unresolved issues, ranging from a reappraisal of the risk-free nature of sovereign debt to significant new regulation and the further strengthening of the global financial system, the topic will remain at the top of the list for 2012 for insurers.

Financial regulation has a profound impact on the way capital markets and financial systems operate as well as the velocity and parameters of their evolution. Only with a profound understanding of the technical issues can regulators effect sound and efficient reforms, especially for such idiosyncratic industries as insurance. Insurance is a highly complex business and is not readily comparable with any other, even if they share some common elements. Unfortunately, it is also not always well understood by those outside the industry. This creates the risk of a misunderstanding of its operations and raises the likelihood of potentially unintended consequences of a particular regulatory action. The IAIS has been charged by the FSB with dealing with the insurance aspects of the forthcoming regulatory agenda on financial stability. Their expertise in insurance must be recognized in this process and its recommendations to other bodies need to be respected.

Over the last two years the insurance industry has worked vigorously to clarify the nature of its contribution to financial stability, proving how insurance activities are a stabilizing rather than a destabilizing element, and clearly demarcated itself from other financial services providers. The Geneva Association's research has been instrumental in supporting and advancing those discussions at the international level. Today, we are focused on examining the resolution and recovery plans that exist in insurance and will be publishing our findings on the subject soon. It is clear from our analysis and fully consistent with the experience from the past decades that when failures of insurers occur, the recovery or resolution mechanisms and supervisory tools for insurance exist for allowing them to be managed in an orderly fashion and without systemic disruptive effects on the

global financial system. Against the FSB stipulation that a SIFI is an organization that would, “*cause significant disruption to the financial system and economic activity*”, self evidently, the orderly failure of an institution does not create a systemic risk thus resolvable insurers cannot be SIFIs.

The next months will see some of the most important decisions made on insurance regulation. The changes arranged during this period – for the first time ever orchestrated through the G-20 at the global level – will be very significant for the insurance industry. It is vital, therefore, that any decisions made fully respect the role of insurance and facilitate sound and sustainable risk management and risk transfer solutions upon which our modern economies depend so much.”

2. Government Management of Natural Catastrophes

“2011 was by far the most expensive year on record for natural catastrophe insurance with estimated claims reaching some US\$ 380bn. Even though the final tally will vary somewhat from that estimate, 2011 will turn out to be nearly two-thirds more expensive than 2005, the next most expensive year (US\$ 220bn). But the issue here is not only one of claims and payouts –it is one of human tragedies and loss. Although relief efforts united people around the globe and the governments of affected countries professed to do their best to help and protect their citizens, little advancement was made on the underlying question as to how to deal with the existing vulnerabilities and the risks they are exposed to. Few governments thoroughly revisited their national risk management –if they even have one. In 2012, governments must make progress in understanding the risks their country and its citizens are exposed to and how to manage them properly. Like companies, they should establish comprehensive risk management processes. The techniques and tools are readily available and while paradoxically many governments expect their industries, and especially the high risk industries, such as nuclear, chemical or transport, to install efficient enterprise risk management systems, they themselves often neglect to do so at the national level.

The first step in this process must be the recognition of the vulnerabilities present and the risks facing them. Then there needs to be a proactive approach for dealing with them. For example, the impact on vital infrastructure from natural catastrophes or the degree of reliance on new technologies such as the internet or “the cloud” by essential services represent risks that are not always well enough understood and often not well managed. The second step would be to implement policies that facilitate the use of risk management and that help set the right incentives for people and institutions to behave in a risk adequate manner. Whilst governments have focussed a lot of their attention on getting to grips with the financial crisis, they must also not be distracted from the very significant financial and human impacts that natural catastrophes and other risks have. Inadequate risk management on the national level can only too easily lead to social instability and chaos.

One issue that has been driven down the list of priorities in this respect is climate change, where for more than two years the global debate has failed to produce any tangible and significant results. While The Geneva Association distances itself from endorsing certain studies or specific views on climate change, we do believe that one has to be ready for certain eventualities that many experts consider likely, even if they might occur on a very long timeline and with uncertain probabilities. It is therefore prudent and very important to focus enough energy on how societies can adapt to and manage the possible consequences for our economy, the environment, our infrastructures and society in general. Whilst efforts at mitigation require broad international political consensus amongst governments, decision-making on adaptation measures could readily take place on a national, regional or even local level. Interestingly, this is exactly where insurers’ specific risk expertise resides, something that governments ought to consider and make use of.

Enough consideration should be given in 2012 to the establishment of adequate real world risk management (as opposed to only financial risk management) by governments. The insurance industry stands ready to contribute and share its significant body of expertise and knowledge on risk management. This has yet to be properly harnessed by governments.”

3. Demographics and Old-age Security

“The world population is ageing, fast. This is both a great achievement and a great challenge for modern societies. The good news is that people alive today can look forward to longer lives and in generally better health than at any point in history. The bad news is that following the financial crisis and in light of the current state of many sovereigns and their finances, they do so facing greater

uncertainty than any other retirees in several decades. Doubts over heavily indebted states' ability to provide social security have increased. Volatile returns from many private sector investment products have eroded confidence in pension provisions and retirement planning. Yet, individuals continue to seek stable streams of income that will afford them a decent standard of living beyond their working years.

While financial uncertainty has increased, state-systems for old-age provision have been incapable of following the significant shift of demographic trends. Today in most countries these systems are not perceived as resilient enough so that individuals would look towards them for reassurance rather than with anxiety. For too far long, the average age of retirement and retirement expectations have remained largely static while societal expectations have considered any additional increase in life expectancy an increase in the period of retirement only. Current pension systems are still largely based on the pioneering welfare reforms of German Otto von Bismarck who in 1889 established a pension system that early on fixed the retirement age at 65 years. This age has only been reconsidered recently and changes are gradual and too painfully slow to provide much relieve for public pension systems. Extrapolating Bismarck's retirement age relative to the average gain in life expectancy of Western European populations, the retirement age today should be somewhere north of 90 years. While nobody today is proposing such radical reform, changing one of the fundamental static aspects of the various systems used in different countries seems more than overdue. Modern economies with (near) universal systems of old-age security require a more dynamic model. They need to encompass increased longevity where changes in retirement age become less an irregular and antagonistic test of political will to reform and more of an automatic and gradual process that is plannable and dependable. Clearly therefore, without more fundamental reform efforts, the social security systems in many countries – developed and developing alike – are anything but prepared for the demographic changes of the next two decades.

To flank the reform efforts required for turning around the public systems, governments must encourage private solutions that can help to deliver the kind of stable income desired by future pensioners. The aim is not to maximise returns under optimal conditions but to assure reliable income under ideally all scenarios. Many investment products, especially some flashier ones pushed during the boom years, do not fit this purpose. Conversely, life insurance, though often perceived as boring, is gaining in attractiveness.

Both society and politicians must grasp the nettle and face up to the inevitable implications of these long standing challenges. Given the role of the insurance industry and its ability to provide long-term stability, it has the potential to be a significant part of the solution to this problem. This is a great opportunity for all involved. In 2012, insurers should raise the profile of this issue and be the leading private sector counterparty to help governments develop a credible and sustainable way forward.”

