



International Association for the
Study of Insurance Economics

**Geneva
Association
Information
Newsletter**

5-09

8. 06. 2009

Press Release

Information on Geneva Association activities and publications

Geneva, 8 June 2009

40 Insurance and Reinsurance CEOs Surveyed on Strategic Industry Issues

The Geneva Association, the leading think tank of the world's largest insurers and reinsurers, today announces the results of a unique annual survey of 40 industry leaders. It covers the insurance-specific ramifications of the economic downturn, current issues in solvency regulation and financial reporting, the future risk landscape and specific lessons from the financial crisis.

The poll was conducted during the course of the 36th General Assembly of The Geneva Association. This most prestigious annual event of the insurance industry took place in Kyoto, Japan, from 27-30 May 2009, hosted by the CEOs of Tokio Marine & Nichido Fire Insurance, Sompo Japan Insurance and Mitsui Sumitomo Insurance. Among the companies represented by their CEOs were global leaders such as Allianz, Aviva, AXA, Lloyd's, Munich Re, Prudential and Swiss Re. In addition, the CEOs of regional leaders such as Sul America Seguros from Brazil, PZU from Poland and IAG from Australia were in attendance. As is the case every year, the members of the Association discussed in intensive sessions the strategic global issues facing the insurance industry. These debates lead to a series of background papers and comments that are to be published by The Geneva Association in *The Geneva Papers on Risk and Insurance – Issues and Practice* of January 2010.

Dr. Nikolaus von Bomhard, CEO of Munich Re and newly elected President of The Geneva Association, comments: *"The survey demonstrates that industry leaders are committed to learning the lessons from the crisis by refocusing on the roots of the insurance business: the prudent management of risk as a prerequisite for sustainable success. Against this backdrop, I believe that the insurance sector is well positioned to navigate the economic downturn as its fundamental value proposition, the cost-effective absorption of risk, is particularly relevant and sought-after in times like these."*

Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association, adds: *"Once again, we have leveraged our General Assembly, a unique global gathering of insurance leaders, to survey the participating CEOs on topical issues of key strategic importance. Regulatory and supervisory developments continue to feature prominently on the CEOs' agenda. Our survey*

reveals a mixed assessment of some current important regulatory projects such as Solvency II and International Financial Reporting Standards. Therefore, regulators should step up their efforts to tackle the issues that are of real relevance to the industry and their customers.

No major impact of the economic downturn expected for insurance

The CEOs participating in the survey are relatively sanguine about the economic downturn. Three out of four respondents expect the recession to have only a mildly or somewhat negative impact on their companies' bottom-line. The effects of the economic contraction witnessed in all major economies are expected to be partially offset by *"opportunities for insurers, as customers will need greater protection in an uncertain world"*, as one of the CEOs commented.

In contrast, 45 per cent of the CEOs believe that the financial crisis and the resulting economic recession will have a strong or even major impact on their customers' buying behaviour. An erosion of customer confidence, increasing demands on product transparency and the financial solidity of insurance providers, as well as heightened risk sensitivity, were identified as some of the specific driving forces.

Two-thirds of the CEOs expect the global economy to return to a path of sustainable growth between the second and fourth quarter of 2010.

Mixed assessment of the current state of solvency regulation

Fifty-four per cent of the CEOs expressed their dissatisfaction with the overall developments in solvency regulation. Some of them explicitly called for a better recognition of cross-border group support.

As far as the pace of change in solvency regulation is concerned, 60 per cent believe it to be adequate or just slightly too slow. *"Moving too fast is the biggest risk"*, commented one CEO.

Asked about the overall developments in financial reporting, two-thirds of the CEOs voiced their dissatisfaction. Specifically, CEOs criticise the ongoing accounting mismatch between assets (mark-to-market) and liabilities (nominal value accounting) under International Financial Reporting Standards (IFRS).

Concerning the pace of change in financial reporting, 33 per cent feel comfortable. Forty-two per cent, however, believe the pace of reform should be slowed. *"Time must now be taken and knee-jerk reactions should be avoided"*, said one of the polled CEOs.

Near-term risk landscape to be shaped by macro-economic developments

Macro-economic volatility ranks highest in terms of perceived risks facing the insurance industry in the 12 months ahead. More specifically, CEOs mention the uncertain impact of the recession on consumer demand, the direction of interest rates, the spectre of inflation and mounting credit, as well as counterparty risks. Regulatory and political risks rank second, in particular the risk of over-regulation and spreading protectionism in the wake of the financial crisis. Other frequently mentioned risk factors include deteriorating expense ratios and increased price competition.

Lessons from the crisis: "back to basics" in risk management and corporate strategy

"Enterprise Risk Management and internal risk controls need to be further strengthened", said one of the CEOs. In terms of specific risk management lessons to be learned, a stronger focus on liquidity risk was called for.

Apart from improvements in risk management, a “back to basics” approach in corporate strategy, capital management, asset management and product management was identified as a key imperative. “*Only follow trends that you really understand*”, “*Stick to your core business*” and “*Simplify your product offerings*” were specific recommendations given by participating CEOs.

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About The Geneva Association

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

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