



Geneva Association paper attacks systemic risk regulation

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Chief risk officers from Zurich and Swiss Re have presented a Geneva Association paper opposing regulatory moves to supervise financial stability within the insurance industry.

The Geneva Association has released a paper criticising international regulatory efforts to reform accounting and systemic risk supervision for the negative effects they say new rules will have on the (re)insurance sector.

The paper, entitled Industry's Response to IAIS and FSB Project on Systemically Important Financial Institutions (SIFIs) and published by The Geneva Association, was presented by Axel Lehmann, Zurich's chief risk officer and Raj Singh, his opposite number at Swiss Re.

The presentation was produced by the Geneva Association's Financial Stability in Insurance Working Group, and given by the two CROs on December 7 2010.

The paper says there is a need for greater open dialogue between the industry, through the Geneva Association; and supervisors internationally, through the International Association of Insurance Supervisors (IAIS).

The report emphasises that "core insurance activities are not a source of systemic risk", fearing that international attempts to supervise macro-prudential supervision, brokered through the G20's Financial Stability Board (FSB), will hit insurers inappropriately hard.

For instance, regulators' concerns over reinsurance market systemic riskiness are not justified, argues the paper. Using conservative assumptions, the total loss for the primary insurance industry out of an immediate failure of 20% of reinsurance capacity would be about 2% of global primary non-life insurance premium.

The paper focuses on the conservative asset portfolios held by insurers falling within regulators' definitions of SIFIs, and warns against the consequences they could face—higher capital and distorted market competitive effects—should they be penalised by systemic risk regulation.