

Insurers Are Wary as Financial Regulators Consider How to Define Threats to the Global Financial System

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OLDWICK, N.J. (BestWire)—Blowback from the global financial crisis continues to haunt Europe's largest insurers and reinsurers, as international regulatory reforms threaten to saddle insurers with stringent capital standards the industry believes is more properly applicable to banks alone.

Insurers are increasingly concerned about the intentions of the Financial Stability Board in particular, which is overseeing international reform and hinting that it might include some of the largest insurance groups in an eventual list of what it calls "systematically important financial institutions," or SIFIs. These are financial institutions deemed a threat to the international financial system should they become insolvent.

Based in Basel, Switzerland, the Financial Stability Board is comprised of financial regulators worldwide, mostly those that regulate banking institutions, such as the U.S. Federal Reserve and other central banks. It is currently chaired by Mario Draghi, governor of the Bank of Italy.

The board is working on a policy framework to address SIFIs, and plans to draw up a list of such institutions by mid-2011. The insurance industry in Europe fears some insurers and reinsurers may end up on that list for two main reasons: the interconnected business models of some insurers that include banking and asset management unit, and the perceived systemic risk posed by reinsurers on the part of some regulators.

In a recent presentation to the International Association of Insurance Supervisors' Financial Stability Committee in Basel, the insurance industry research group **Geneva Association** presented the industry's case against including insurers and reinsurers among SIFIs. The presentation was made by Raj Singh and Axel Lehmann, chief risk officers of Swiss Re and Zurich Financial Services Group, respectively, on behalf of the **Geneva Association**.

In their presentation, Singh and Lehmann allude to industry concerns over IAIS announcements "regarding the development of a confidential list of SIFIs in insurance" and say they hope for ongoing talks between the industry and regulators over concerns about noncore activities of insurers and other regulatory concerns.

The presentation cites comments from a number of regulators to the effect that insurers have a stable, long-term risk profile compared with banks, and are diversified enough to mitigate systemic risks.

"Regulation applied to a few insurance companies designated as SIFIs would introduce market distortions and decrease the risk capacity of the industry, thus undermining the critical economic role of insurance," according to Singh and Lehmann. They add that SIFI designation would lead to higher capital requirements for the insurers, which would impair their role as risk-mitigation agents in the wider economy.

In essence, the SIFI designation for insurers may actually add to systemic risk rather than reduce it, by hobbling the insurance industry's risk absorption role.

Financial regulators are in some cases sympathetic to the insurers' cause. Adair Turner, chairman of the U.K. Financial Services Authority, said in a October speech to the IAIS annual conference in Dubai that "what we almost never face in insurance is long-term assets held against short-term liabilities, the defining characteristic of banking and shadow banking, and a key source of potential volatility."

Turner added that he believes "insurance companies are far less likely than banks to be a source of systemic risks is that bank and insurance companies are usually involved in fundamentally different activities, with very different asset and liability structures."

Thus the debate over the differences in regulating insurers and banks will likely dominate regulatory reform efforts through 2011, perhaps with interesting consequences for the business models of multinational insurers and reinsurers.

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