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Geneva Association to tackle 'key issues' of regulation and financial stability

By Ben Norris

The Geneva Association's Secretary General has highlighted regulation and financial stability as two key short-term issues facing the insurance industry in 2011 and brought focus on the longer-term concerns of climate change and demographics.



Geneva Association's Secretary General Patrick Liedtke

These concerns will be amongst the set of issues to be tackled by the think tank this year, Patrick Liedtke announced on Monday.

The direction of international insurance regulation is going to be critical for the industry this year, he said. "Getting this next wave of regulation right is critically important, not only for the industry, but also for continued economic growth and development."

Major regional projects, such as Solvency II, which have gained reference status even beyond Europe, and global projects such as International Financial Reporting Standards (IFRS) reforms and several International Association of Insurance Supervisors (IAIS) initiatives will see key decisions in 2011.

The Geneva Association is working with international regulators and standard setters such as the IAIS, the International Accounting Standards Board (IASB) and others to help them tackle the complex questions of how to best regulate and supervise the insurance industry.

A second key issue for the year for the Geneva Association is that of financial stability, which the G-20 has asked the Financial Stability Board (FSB) to address and help solve the problems surrounding the resilience of the global financial system.

While systemic threats do not emanate from insurance activities, argued Mr Liedtke, there are a number of issues that remain poorly understood or simply have not been discussed but where governments in 2011 will take important decisions.

"The role of insurance companies that operate as financial conglomerates carrying out potentially systemically risky activities has to be properly addressed and the confusion surrounding Systemically Important Financial Institution (SIFI) identification and its consequences needs to be overcome," he explained.

"In the discussions on financial stability, the differences between insurance and banking have to be taken into account appropriately and any solutions need to be compatible with the distinct roles that insurers and banks play in today's economic systems. The key is to ensure regulatory imprecision or over-stretch do not hamstring a well-functioning industry and damage societal interests."

On the longer-term issue of climate change Mr Liedtke called on the insurance industry and risk management profession to play a more significant role in helping to mitigate the risk.

“Insurers have deeper and more detailed knowledge about extreme weather events and the possible consequences of shifts in climate risks than any other industry. Effective government support and implementation of risk management measures, including insurance, in both the developed and developing world are critical in protecting societies from the ravages of climate risks...Few risks transcend borders as readily, put as many lives, livelihoods and values at risk, and require as close a cooperation between public and private partners,” he said.

With increasing evidence on climate change likely over the coming years as well as providing protection, the insurance industry stands ready to play a more significant role in steering risk management and adaptation measures, he continued.

Mr Liedtke also flagged up the ‘serious’ demographic challenges that lie ahead for most societies.

He predicts that they will change the way societies look at risks, organise their infrastructures and generally deal with economic and other challenges.

“But so far, societal discussions around the proper safeguarding of long-term interests of changing and diverging populations have been limited or are non-existent in key areas...As the risk industry, insurance can make important contributions to these demanding questions and as the post-crisis environment will again free up more energies to tackle longer-term issues (rather than the financial fire-fighting of late) more of these challenges will come into focus again,” he concluded.