



International Association for the
Study of Insurance Economics

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Press Release

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Open Letter to the Finance Ministers and Central Bank Governors of the G-20

Geneva, 2 November 2011 – Leading international insurance think tank, The Geneva Association, today issued an open letter to the Finance Ministers and Central Bank Governors of the G-20. The text of the letter is as follows:

Dear Sir, Madam,

The insurance industry remains committed to the goals of the G-20 to improve the resilience of the global financial system while promoting recovery and growth. We welcome the decision of the G-20 to deal with specific banking considerations concerning systemic risk at the upcoming summit in Cannes while allowing for appropriate time and due process to address any insurance aspects.

Financial regulators and the IAIS have recently stated publicly that traditional insurance activities do not give rise to systemic risk. It would be most helpful if the G-20 could formally recognise what is now conventional wisdom among experts and moreover state clearly that any non-core insurance activities will be dealt with bearing in mind the particular business model and role of insurance while also taking into account regulation already in place or about to be introduced. Simplistic regulatory answers, in particular a direct and crude transfer of banking regulation into the insurance sector will impair the insurance industry's capacity to play its economic role. As many decades without a single systemic financial crisis being triggered ever by any insurance activity have demonstrated, the insurance industry is well placed to support economic development and growth due to its shock absorbing capacity as well as its long-term investment perspective. This is particularly relevant at a time when many banks have a significant need for additional capital.

As regards a future SIFI designation process in insurance, which has rightly been decoupled from the banking process, the potential consequences and implications of any such designation must be carefully and comprehensively assessed before any insurance institution is identified. In addition, the resolution schemes for failing insurers, which have never created a systemic crisis and are stable processes with clearly limited impact, are being tested for how well they will cope with non-core activities. It would be counterproductive if considerations aimed at solving stability issues chiefly located in the banking sector would, through the unintended consequences of an inappropriate designation methodology or an application of unsuitable resolution schemes, threaten the risk-carrying and -transferring capacity of the insurance sector.

The insurance industry trusts that the role and assessment of its group supervisors will be adequately taken into account when assessing the systemic riskiness of those institutions that carry out systemically risky activities and not only core insurance business. At this point in time there seems to be some uncertainty as to the proposed responsibilities of bodies involved: while macro-prudential surveillance can be conducted by bodies with a global brief; micro-prudential supervision should remain with those institutions that have in-depth insurance expertise and experience such as the group supervisors, who should look specifically into any potential SIFI designations.

As Geneva Association research has shown, economic actors and in particular insurance companies have already suffered from losses in their portfolios triggered by the credit crisis, the subsequent low growth environment, and the general deterioration of creditworthiness in financial markets. The current extremely loose monetary policy of central banks, intended to help the necessary recapitalisation efforts of banks, erodes investment proceeds also for insurers, where they constitute a key pillar of income next to insurance premiums: a yield reduction of 100 basis points is estimated to reduce investment income for the global industry by approximately US\$226bn per annum. It would be very unfortunate if the healthy insurance industry would not only have to suffer in financial terms from the effects of some high-risk non-insurance activities going critically wrong in the past but possibly also by inheriting an inappropriate approach to systemic risk and potential SIFI designation process from banking.

While insurance is not expected to be on the agenda of the imminent G-20 meeting in Cannes, the well-being of the financial system and the wider economy is. We hope that the leaders of the G-20 countries will take the specificities of the insurance sector into consideration when addressing any issues that could potentially undermine the positive contribution of this industry to economic development and growth.

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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.