



# International Association for the Study of Insurance Economics

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## Orientation Paper for Systemically Important Financial Institutions (SIFIs) Discussions in Insurance

This document is based on the most recent analytical work of The Geneva Association on financial stability and provides the core reasoning behind the presentation made to the IAIS at the 17 February 2011 Hearing in Basel. It is designed for use as an easy reference by companies in discussions and presentations that include the subject of systemic risk regulation.

- The insurance industry supports the ongoing regulatory initiatives instigated by the G20. We believe that the development and promotion of effective supervisory and regulatory policies to reduce systemic risk and address information gaps is for the benefit of all concerned.
- However, banking and insurance have very different business models and very separate roles in society and the world economy, thus they must be regulated differently. Insurance provides protection by accepting risks from policyholders with upfront premiums, whereas banks run systems that underpin the economy such as the payment system and credit facilities (whose failure caused the financial crisis). Applying a regulatory regime designed for banks to the insurance industry could have a significant impact on an industry that acted as a shock absorber during the crisis.
- Core insurance activities are not a source of systemic risk to the financial and economic system and no core insurance activity has ever triggered a systemic financial crisis. The insurance sector is stabilising because of its shock-absorbing capacity and its long-term investment and risk horizons. Insurance companies also have a proven and sound resolution mechanism that enables an orderly wind down over time.
- The insurance industry is therefore asking that:
  - The decision process for initiating the FSB and IAIS proposals for insurance regulation is decoupled from that of banking providing more time for the application of insurance expertise and knowledge to the process.
  - The process of developing the regulations is done more transparently, with appropriate public consideration and consultation in order to comprehensively evaluate the regulations and ensure that they are fit for the industry and its customers worldwide.
  - An urgent and transparent analysis is undertaken on the potential impact of any new proposed regulations under consideration for the insurance marketplace.
- Getting these regulations right for insurance is critical because, amongst other considerations, insurance is a key private sector partner of governments addressing many societal challenges with long time horizons. It is a leading investor in economically vital infrastructure, whose risk profile, long dated maturities and cash flow characteristics are regularly matched by the long-term and risk averse investment criteria of insurance asset managers. It is also the leading private sector counterparty working with governments to manage the financial implications of ageing populations through retirement provisions, pensions and healthcare insurance.

- The Geneva Association has proposed a comprehensive methodology containing a set of indicators that specifically targets systemically risky activities, not institutions, and would be appropriate for the insurance industry. For further details see:

[www.genevaassociation.org/pdf/News/GA\\_Presentation\\_IAIS\\_Hearing\\_17Feb2011.pdf](http://www.genevaassociation.org/pdf/News/GA_Presentation_IAIS_Hearing_17Feb2011.pdf)

### **Commentary from Outside the Industry**

*“With respect to systemic risk, insurers also do not originate risk, but most often receive risk,”*  
**NAIC, Insurance Commissioner M. McRaith, June 2009**

*“Because insurers cannot reasonably be viewed as instigators of systemic risk, they do not require direct systemic risk regulation for their insurance operations,”*  
**NAIC, Resident Scholar M. Weiss, February 2010**

*“In the insurance industry, size allows for a greater diversification of risks and therefore a better overall risk profile... The nature of insurance activities is such that they cannot be described as systemic,”*

**French Ministry of Finance, LePetit Report, April 2010**

*“There is currently no de-facto need to rescue an insurance company... In contrast with banks, insurers have more possibilities of coping with the effects of a crisis,”*

**Swiss Federal Council Expert Commission, September 2010**

*“Failures of one insurance company don’t tend to produce knock-on failures among others,”*  
**Lord Turner, Chairman FSA, October 2010**

*“Both the IAIS and the insurance industry have concluded that core insurance activities do not pose systemic risk,”*

**IAIS press release, November 2010**

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### **Related documents:**

#### **Reports:**

- *Key Financial Stability Issues in Insurance—An account of The Geneva Association’s ongoing dialogue on systemic risk with regulators and policy-makers*
- *Systemic Risk in Insurance—An analysis of insurance and financial stability*
- *Anatomy of the credit crisis—An insurance reader from The Geneva Association*

#### **Letters to the G-20:**

- *Open Letter to Finance Ministers and Bank Governors of the G-20, 17 February 2011*
- *Insurance Industry Reaction to IAIS Position Statement on Key Financial Stability Issues—Letter to the Finance Ministers and Central Bank Governors of the G-20, 17 June 2010*
- *Financial Stability in Insurance—Letter to Finance Ministers and the G-20, 27 April 2010*

#### **Presentations**

- *Industry’s response to IAIS and FSB project on systemically important financial institutions—IAIS Financial Stability Committee Basel, 7 December 2010*
- *Systemic Risk in Insurance—Presentation to the NAIC, 29 March 2010*
- *No Systemic Risk from Insurance Core Activities, 26 February 2010*

and more on the [Financial Stability and Insurance page](#) of the Association website.