The Geneva Association

Annual Report 2011/2012

The Geneva Association

(The International Association for the Study of Insurance Economics)

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.

The Geneva Association

Annual Report 2011/2012

The Geneva Association
53 Route de Malagnou,
CH-1208 Geneva,
Switzerland

E-mail: secretariat@genevaassociation.org
Telephone: +41-22-707 66 00
Facsimile: +41-22-736 75 36
www.genevaassociation.org

Published April 2012. Information included in this report is from 1 April 2011 to 1 April 2012.

ISSN 2235-011X

The Geneva Association Annual Report – 2011/2012

Published by The Geneva Association
(The International Association for the Study of Insurance Economics)

Contents

Chairman's Statement

Nikolaus von Bomhard
Chairman of The Geneva Association,
Chairman of the Board of Management,
Munich Re

2011 has been a challenging year for the insurance industry. Ongoing uncertainty in the Eurozone and weak growth in the world economy have conspired to affect returns for all investors, insurers included. Interest income has been affected by interest rates, set at historic lows to stimulate economies and support banks, whilst volatile markets, fast becoming the norm, are anathema to investors such as insurers whose need for long-term perspectives and investment horizons match their long-term liabilities.

Most prominently, the year was marred by a series of significant natural catastrophes that represent one of the most expensive years on record in terms of insured losses at US$105bn (2005: US$101bn) and an absolute record year for economic losses at US$380bn—exceeding the next most expensive year, 2005, by some 46 per cent. It is likely therefore that 2011, much like 2005, is set to become a reference point for insurers where our experience and understanding of our business is developed and shaped by challenging events and economic environments and their effects on the industry.

These significant strategic challenges and inflection points are all areas where The Geneva Association's work can help both Members and the wider industry to identify opportunities and develop ideas and concepts. For example the Geneva Report No 5, *Extreme events and insurance—annus horribilis*, provided a series of articles that analysed key lessons learned from the most destructive catastrophes of 2011.

And whilst 2011 was challenging from a business perspective, it was also remarkable for the fundamental changes that continue to take place in the regulatory sphere. In the wake of the financial crisis, discussions about the creation of an international regulatory architecture to mitigate and manage systemic risks in the world economy are well underway. This has been an area of principle focus for the Association over the last year, developing methodologies and providing insurance knowledge to policymakers' activities.

For banking, this has been a relatively straight forward process. Many of the bodies and much of the architecture needed to manage bank-related systemic risks internationally already existed ahead of the recent crisis—a function of banks' connections with the global economy, their interconnectedness and reactions to previous crises. The addition of a systemic risk framework on top of the existing banking structures has therefore been a fairly logical and simple process.

That has not been the case in insurance. There has never been the need for an international regulatory architecture for insurance in the past—the industry has never been affected by any previous systemic crises and the industry has never required regulation at the international level. Therefore the development of international systemic risk regulation and architecture underway at the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS) and the cooperation between national supervisors and insurance and bank supervisors is crucial. Crucial because it represents the creation of a genuinely new structure and set of rules that will govern the way our industry works internationally for the future. It is a one-time opportunity

Chairman's Statement

to get the template right and create an efficient and effective regulatory system for insurance—one that safely guards against the risks of systemic activities, but at the same time enables our industry to work as efficiently as possible—providing financial protection against mishaps for individuals and organisations alike.

From the start, The Geneva Association has played a vital role in the process on behalf of its Members, using research-based evidence to inform and support discussions with regulatory bodies, central bank governors and finance ministers. The value delivered by its in-depth, fact-based research in these discussions has been clear, not least in securing a delinking of the insurance process from that of banking but also in bringing the specificities of the insurance industry to light and into consideration over the last twelve months. The November 2011 paper from the IAIS, *Systemic Risk in Insurance*, has subsequently validated our activities-based approach and other key components of the Association's work, that core insurance activities do not create systemic risks. Indeed, we have made good progress to date but the most important decisions are yet to be made, in particular the processes to identify and designate a systemically important insurer, should there be one.

Thus, once again, we have a crucial year ahead on the regulatory and supervisory agenda and it is vital that the insurance industry is active in following and responding to the process. The Geneva Association will continue to work on its Members' behalf offering research and evidence for the next steps. I hope that this will be used widely by the industry and regulators and supervisors alike in order that the best possible regulatory architecture can be created at the international level for our industry.

There can be no doubt therefore, that 2012 will be a busy year. It is still hard to be optimistic about the near-term prospects for the world economy though perhaps there are some encouraging signs of a hardening insurance market that may provide a more positive outlook for the coming months.

Finally, on behalf of all the Membership, I would like to thank those Board Members who have retired over the last year for their contributions and support. It is also a great pleasure to welcome Michel Liès of Swiss Re to the Board. I would also like to welcome the new members who have joined The Geneva Association this year; Mr Albert Benchimol, President & CEO, Axis Capital Holdings Ltd, Mr Steven Kandarian, President and CEO, MetLife Inc; Mr Chang-Soo Kim, President & CEO, Samsung Fire & Marine Insurance Co Ltd; and, Mr Katsutoshi Saito, CEO, Dai-ichi Life Insurance Co.

Nikolaus von Bomhard
Chairman of The Geneva Association,
Chairman of the Board of Management,
Munich Re

Secretary General's Statement

Patrick M. Liedtke
Secretary General and Managing Director

The work of The Geneva Association covers a range of strategically important issues related to insurance such as finance and economics; regulation and supervision; risk management, sustainability and climate change; old-age security and life insurance; and health, long-term care and demographics. This past year the Association has been particularly active in three major areas: financial stability, regulation and climate risk. We have continued to develop further research and insights on systemic risks and their relation to insurance, positioned the industry with international regulators and supervisors, and communicated to key stakeholders and through the media the key issues of which they need to be aware, especially at present times of deep remodelling of the financial supervisory architecture. On financial stability issues and regulation, The Geneva Association is not only one of the most visible and prolific producers of widely used background materials and instrumental in shaping industry positions, it is also regularly referenced by regulators and supervisors, media representatives and industry experts as well as interested bodies for its expertise in the field and the depth of its production.

Important steps ahead have been made on dealing with systemic risk: The Geneva Association has successfully highlighted the differences between insurance and banking, and has caused the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB) not only to abandon their original approach but also to decouple and extend timelines for the insurance SIFI designation process. The IAIS has adopted the activities-based approach as created and promoted by the Association, and the central recognition that core insurance does not represent systemic risk is now widely accepted. However, much remains to be done, not least the tackling of any regulatory considerations that may be inadequate, inefficient or inappropriate. Furthermore, a high-quality G-SIFI designation process is needed that respects the function of insurance for society and carefully balances benefits and cost, while regulators ought to explain how any specific measures contemplated improve financial resilience.

In parallel, continued research on the role of insurance in the world economy will be helpful to raise not only the profile of the insurance industry but also improve the background against which many regulatory projects are discussed. The Geneva Association has been persistent in its work to provide analyses in specific areas where the role and intermeshing of insurance with the economy is poorly understood.

The fundamental challenge of longevity and ageing populations, not only in the developed world but in many emerging and developing countries too, remains an area of particular relevance for the insurance industry. The Geneva Association's "Four Pillars" programme that looks into old-age security issues will celebrate its 25th anniversary later this year. The programme has long studied and proposed effective solutions to a number of issues caused by longevity and other demographic trends, notably regarding pension planning and retirement funding. In June 2012, to coincide with our General Assembly in Washington, D.C., we will issue Geneva Report No. 6 *Addressing the Challenge of Global Ageing—Funding Issues and Insurance Solutions*, which is a next step

Secretary General's Statement

in identifying the challenges that this phenomena creates but also the opportunities it creates for the insurance industry.

Long-term care for the ageing population is another pressing issue that due to its complexity and long-term nature is often neglected. The challenges posed by longer life spans and in particular dynamic trends in dementia are indeed formidable. Our Health and Ageing Research Programme is focused on this area and in particular on the finding of solutions and opportunities to address the increasing load that longer lives are placing on insurance and the wider economy.

With regard to risk management, the record year of claims in 2011 largely illustrated the importance of insurance. The recently issued Geneva Report No. 5 *Extreme events and insurance: 2011 annus horribilis* provides an excellent example of the breadth of insurance and academic knowledge and expertise that The Geneva Association can bring to bear through the Risk Management Research Programme. This important work has currently a key focus on climate risks and insurance—one of The Geneva Association's priority topics—but is also currently engaged in further in-depth research on the implications of liability developments for insurers and sustainability issues, cooperating closely with Chief Risk Officers in the industry.

The Insurance Economics Research Programme reflects the most academic branch of our work and is vital in providing a bridge between scholarly thought and the practice of insurance. As such, it offers a key forum for the exchange of ideas and knowledge at the forefront of our industry's development. Additional work by The Geneva Association is presented in *The Geneva Papers on Risk and Insurance—Issues and Practices*, which continue to receive wide recognition and respect and are distinctive in combining academic rigour with business relevance. Indeed, the impact factor for *The Geneva Papers* nearly tripled between 2008 and 2010, from .157 to .460, according to the 2*011 Journal Citation Reports* (JCR) from Thomson Reuters. Furthermore, we were pleased to receive considerable recognition from the 2011 "Categorization of Journals in Economics and Management" issued by the National Center for Scientific Research (Centre national de la recherche scientifique) in France which ranked *The Geneva Papers* the third most important journal in the Finance and Insurance field.

As our Members know from my recent letter to them, after more than 11 years as Secretary General of The Geneva Association, I have decided to leave the organisation to pursue other interests. I would like to take this opportunity to thank them for their trust, confidence and support. The Geneva Association lives through its Members and their engagement beyond the financial contribution is a key factor for our success. While The Geneva Association is getting ready for a new phase in its development, I would like to urge all Members to support its future.

Finally, I would like to thank my colleagues for their hard work over what has been a very busy but extremely productive decade for The Geneva Association. On so many occasions they have made the difference between good and great.

Patrick M. Liedtke
Secretary General and Managing Director,
The Geneva Association

Board of Directors
Executive Committee

CHAIRMAN
Nikolaus von Bomhard
Chairman of the Board of Management, Munich Re

1st VICE CHAIRMAN
John Strangfeld
Chairman and CEO, Prudential Financial Inc.

2nd VICE CHAIRMAN
Kunio Ishihara
Chairman of the Board, Tokio Marine & Nichido Fire Insurance Co.

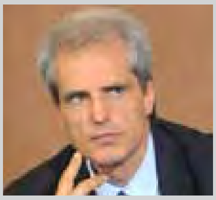
3rd VICE CHAIRMAN
Michael Diekmann
Chairman of the Management Board, Allianz SE

TREASURER
Andrew Moss
Chief Executive, Aviva Plc.

Patrick M. Liedtke
Secretary General and Managing Director

Board of Directors
(cont'd)

Carlo Acutis
Vice President,
Vittoria Assicurazioni



Sergio Balbinot
Managing Director,
Generali Assicurazioni S.p.A.

Henri de Castries
Chairman of the Management Board and CEO, AXA

Patrick de Larragoiti Lucas
President,
SulAmérica Seguros

Edmund Kelly
President and CEO,
Liberty Mutual Insurance Co. (until October 2011)

Denis Kessler
Chairman and CEO,
SCOR

Michel Liès
Group CEO,
Swiss Re Group
(to be ratified)

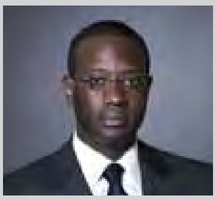
Stefan Lippe
CEO,
Swiss Re Group
(until January 2012)

José Manuel Martinez
Chairman and CEO,
MAPFRE
(until March 2012)

Mike McGavick
CEO,
XL Group plc

Martin Senn
CEO,
Zurich Insurance Group

Donald A. Stewart
CEO,
Sun Life Financial Inc.
(until November 2011)



Tidjane Thiam
Group Chief Executive,
Prudential Plc.

Richard Ward
CEO,
Lloyd's

Yan Wu
Chairman and President,
The People's Insurance Company (Group) of China

Key Collaborators

(as of 31 March 2012)

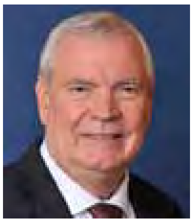
Patrick M. Liedtke
Secretary General and
Managing Director

Walter R. Stahel
Vice Secretary General
Head of Risk
Management

Jan Monkiewicz
Vice Secretary General
Head of
PROGRES (Regulation)

Christophe Courbage
Head of Health & Ageing
and Insurance Economics

Daniel Haefeli
Head of
Insurance and Finance

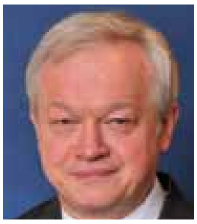


Donal Inscoe
Head of
International Relations
(until April 2012)

Anthony Kennaway
Head of Communications

Etti Baranoff
Research Director
Insurance and Finance

Kathrin Hoppe
Insurance Regulation and
Supervision Expert



Krzysztof M. Ostaszewski
Research Director, Life and
Pensions

Collaborating Experts (part-time)

Julian Arkell, Special Advisor (Global Services Trade and Investment Issues)

Katsuo Matsushita, Liaison Officer for Japan and East Asia

Richard Murray, Special Advisor and Chairman, Liability Regimes Project

Henri Schwamm, Special Advisor (Publications and Local Relations)

Gordon Stuart, Liaison Officer for North America

Brian Woodrow, Director, Applied Services Economic Centre and Director, World Fire Statistics Centre

Hans Peter Würmli, Chairman of the CRO Networks

Staff of The Geneva Association Secretariat (part-time and full-time)

Barbara Botterill, Conference Coordinator

Eric Grant, Communications Manager

Valérie Hirt, Project Manager, IT Services

Françoise Jaffré, Webmaster and Publications

Patricia Linstaedt, PA to Secretary General

Véronique Martinez, Information Manager

Dennis Noordhoek, Institutional Relations Assistant

Meghan Orie, Research Assistant

Valéria Pacella, Production and Distribution Manager

Samantha Solida, Communications Assistant and Editorial Manager of *The Geneva Papers on Risk and Insurance*

2011-2012 Highlights

5 May 2011

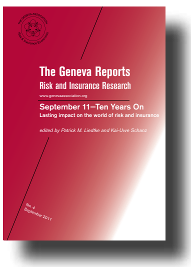
Publication of the seminal research work *Considerations for Identifying Systemically Important Financial Institutions in Insurance*, providing an insurance methodology to regulators and a warning on a "rushed" timetable for the SIFI designation process of insurers.

25 May 2011

Publication of a survey of the Association's membership as its General Assembly got underway in Rio de Janeiro, Brazil. The report covers the current international regulatory efforts to contain systemic risk, national government responses to climate change and the prospects for the world economy.

5 September 2011

Publication of *September 11—Ten Years On. Lasting impact on the world of risk and insurance* on the lasting impact of the most expensive man-made disaster for insurance ever and which in its immediate aftermath was widely viewed as heralding a new era in global politics, economics and business.



14 September 2011

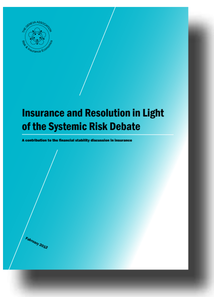
Appointment of Illinois State University Actuarial Program Director, Professor K. M. Ostaszewski, as Research Director of The Geneva Association Life and Pensions Research Programme and as Editor of *The Four Pillars Newsletter* on life and pensions.

2012

Publication by Palgrave Macmillan of *Financing Long-Term Care in Europe—Institutions, Markets and Models*, an in-depth book on the challenges and opportunities in financing long-term care, its challenges and opportunities, edited by Christophe Courbage, Research Director at The Geneva Association, and Joan Costa-Font, Senior Lecturer at the London School of Economics.

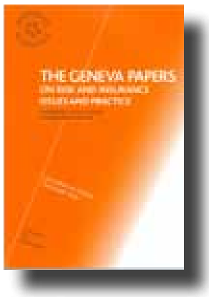
6 February 2012

Publication of *Insurance and Resolution in Light of the Systemic Risk Debate*, which looks into the regimes that exist for resolving insurers and reinsurers, and discusses what the possible impacts could be for some distinctive cases and how supervisors can resolve them.

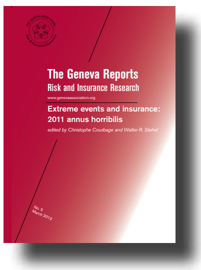


10 February 2012

According to the 2011 *Journal Citation Reports* (JCR), the impact factor for *The Geneva Papers* nearly tripled between 2008 and 2010, and they were included in the 2011 "Categorization of Journals in Economics and Management "issued by the French National Center for Scientific Research (CNRS).



8 March 2012



Publication of *Extreme events and insurance: 2011 annus horribilis*, a global and detailed picture of the major 2011 natural catastrophes and an analysis of the role and mechanisms of insurance in managing climate risk and other extreme events.

Insurance and Finance

Daniel Haefeli, Head of Insurance and Finance
Etti Baranoff, Research Director

The Research Programme on Insurance and Finance comprises academic and professional research activities in the fields of finance where they are relevant to the insurance sector.

In 2011 and early 2012, the Insurance and Finance Programme continued its in-depth work on financial stability, sharing its findings with the primary international regulatory bodies. In particular, it supplied additional research that highlighted the differences between the insurance and banking business models and showed how the insurance sector contributes to financial stability.

The Programme is dedicated to making an original contribution to the progress of insurance through different initiatives in the field of insurance finance.

More specifically, the Programme is currently engaged in:

- highlighting the unique business model of insurance within the financial sector;
- providing research-based assistance to regulators and interested financial sector stakeholders in the area of financial stability;
- explaining the importance of the insurance sector to economic growth and stability; and,
- promoting study and research relevant to key financial issues affecting the insurance sector such as low interest rates and impact of regulatory actions.

In 2011-2012, the Insurance and Finance Programme continued to play a crucial role in the activities of The Geneva Association. The widely referenced reports *Systemic Risk in Insurance* (March 2010), *Key Financial Stability Issues in Insurance* (July 2010) and *Considerations for Identifying Systemically Important Financial Institutions in Insurance* (April 2011) have demonstrably contributed to the International Association of Insurance Supervisors (IAIS) decision to regard traditional insurance activities as not systemically risky. At this stage, questions remain regarding what to include in the non-traditional activities and which non-traditional and non-insurance activities are potentially risky. As such, the report *Insurance and Resolution in Light of the Systemic Risk Debate* (February 2012) has shown that an insurance failure is unlikely to disrupt economies as such a failure is very likely to proceed in an orderly manner.

Daniel Haefeli and Etti Baranoff pursued their collaboration on the Insurance and Finance Programme, respectively as Head and Research Director. Daniel Haefeli continued to coordinate the Chief Finance Officers (CFOs) Network and the Financial Stability in Insurance (FSI) Steering Committee and Working Groups (see page 20). Etti Baranoff focused on research in the area of systemic risk and edited the 8th and 9th *Insurance and Finance Newsletters*, which included interviews with

Patrick de Larragoiti Lucas, President of SulAmérica Seguros; Michael Wilkins, CEO of IAG; David Fried, former CEO of HSBC Insurance; and Charles Brindamour, CEO of Intact Financial Corporation.

Activities in 2011-2012


Insurance and Finance Newsletter

No. 9, February 2012

Editorial

Financial Stability in Insurance—A Built-in Resilience Mechanism

by Etti Baranoff+

The efforts to study and contribute to the financial stability debate and regulatory developments have continued to dominate the agenda of the Insurance and Finance Programme at The Geneva Association. In the past year, we progressed from explaining the insurance activities and products, and the differences between the insurance and the banking business models, to working on a methodology for identifying potentially systemically risky activities and Systemically Important Financial Institutions (SIFIs). The distinctions between the two financial sectors achieved acceptance through The Geneva Association's published studies: the seminal report of March 2010, *Systemic Risk in Insurance*, that was followed by additional reports about AIG and activities that could potentially lead to systemic risks.[1] Recognition of the focus on insurers' activities as distinct from those of banks was evident in the November 2011 report *Insurance and Financial Stability* of the International Association of Insurance Supervisors (IAIS). The IAIS report agrees that traditional insurance activities are not systemically risky, as the results of the major research work conducted by The Geneva Association.

The acceptance of the differences between the activities and the business model of insurance from that of banks for the purpose of designating SIFIs in insurance is a starting point for the methodology to be developed by the IAIS. The IAIS was appointed by the Financial Stability Board (FSB) to provide a methodology for potentially designating insurers as SIFIs, which later will be adopted by the G-20 for macro regulation in financial stability. The IAIS is currently in the process of developing this methodology and is in the midst of a major data collection and analysis effort. During the Insurance and Finance Seminar of The Geneva Association in early December 2011 in London, Monica Mächler, Chair of the IAIS Technical Committee, noted that while the activities-based methodology is the centrepiece of the IAIS report, it is critical to develop a methodology that links the potentially systemically risky activities with markets and business risks. The IAIS report appears to be taking two of the three-prong insurance mechanism for financial stability (featured in the Exhibit below) into account: the products or activities and the business model of insurers.

In November 2011, the IAIS released its paper *Insurance and Financial Stability* which presented its ideas on how systemic risk will be determined within the insurance sector for the first time. The paper was issued shortly after the G-20 meeting in Cannes. At the same meeting, a first list of 29 Global Systemically Important Banks (G-SIBs) was released by the Financial Stability Board (FSB). In future, this list will be renewed every year in November with the objective of adding non-bank financials, including any eligible insurers from 2013, based on methodologies that have yet to be defined. We believe that the designated companies on the Global Systemically Important Financial Institutions (G-SIFIs) lists issued from November 2014 will be forced to comply with the imposed measures by 2016.

Following similar conclusions to those reached by The Geneva Association, the IAIS paper largely determined that traditional insurance business is not a likely source of systemic risk. However, the IAIS is still uncertain as to how to define non-traditional and non-insurance activities that can impact financial stability. The Geneva Association distributed a summary of the IAIS paper to its Members.

Since October 2011 the resolution work-stream worked on the report *Insurance and Resolution in Light of the Systemic Risk Debate*, released in February 2012. It aimed to demonstrate the concept of resolution in insurance and how these processes are embedded and aligned with the insurance business model and policyholder protection, where existent. The differences between banking and insurance were highlighted once again and it was also shown how balance sheets behave differently under certain circumstances. Four resolution scenarios covering two insurance and two banking activities were presented to the IAIS at the October meeting in Seoul to illustrate the resistance of the insurance resolution process based on the current regulatory set-up:

- insurance activities: variable annuities and reinsurance; and,
- banking-like activities: derivative transaction for speculative purposes and mismanagement of third party funding.

The Geneva Association also discussed policyholder protection schemes and to what extent they are interlinked with the systemic risk debate. The most important finding was that insurers engaged in core insurance activities can be resolved in an orderly manner over a longer period of time because insurers are much less vulnerable than the banks to a run in a liquidity crunch.

Following the FSB's definition of a G-SIFI as an institution whose "disorderly failure causes systemic risk to the rest of the financial system and to the wider economy", we wanted to understand whether the failure of companies engaged in the insurance and banking activities mentioned above could be sources of systemic risk. Even in extreme situations, companies with variable annuity portfolios are unlikely to be the source of systemic risk as these products are characteristic of traditional insurance. The same holds true in the case of a reinsurance failure and its potential impact on the primary insurance sector. Other banking-like activities, however, can present systemic risk in the event an insurer fails. The report provides recommendations on how to avoid or mitigate the consequences of a failure such as extending supervision, limiting these activities or reducing their volume.

In March 2012, the IAIS moved back the release of their methodology from the end of March to June 2012. The two-month consultation period will therefore fall in the month of July or August. The IAIS further announced an additional call for 2011 data.

During the High Level Meeting in Geneva on 22 March 2012, the IAIS mentioned that the final methodology will not deviate significantly from the methodology presented in November 2011. Uncertainty affects issues such as variable annuities and where they fall between traditional and non-traditional activities, or reinsurance and the effect of a failure to the primary insurance sector.

More intelligence will be necessary to determine how banks, shadow-banks and insurers will be combined into one G-SIFI list without opening the door to arbitrary situations. The Geneva Association again emphasised how the insurance resolution process enables orderly failures and as such no G-SIFI designation should be envisaged for such companies proving the ability to fail in an orderly manner.

8th Insurance and Finance Seminar speaker panel on "Strategic Challenges in a Changed World—CEO Perspective".
Left to right: Bruno Pfister, CEO, Swiss Life; Patrick Snowball, CEO, Suncorp; Andrew Moss, CEO, Aviva; Richard Ward, CEO, Lloyd's.

Looking ahead

The FSI programme of The Geneva Association is currently engaged in several initiatives and projects, most of which should be completed by the end of the first semester 2012:

- Consequences and measures: a work-stream whose aim is to elaborate on the different loss absorption mechanisms between banks and insurers, and discuss different measures and consequences for G-SIFI designated insurers.
- Consultation on the IAIS methodology: with the release in April 2012 of a paper reflecting on a well targeted designation process for potential G-SIFIs in insurance, The Geneva Association will work on coordinating a consolidated response by the FSI Steering Committee to the IAIS methodology.

8th International Insurance and Finance Seminar of The Geneva Association, London, 7-8 December 2011

The 8th Insurance and Finance seminar took place in London and emphasised the major challenges confronting the insurance industry in a massively changing world:

1. Regulatory changes including potential SIFI designations, the implementation and calibration of Solvency II and accounting changes.
2. Financial markets' volatility with sovereign debt troubles and low interest rates that create strategic managerial and regulatory challenges.
3. Changing consumer needs for an ageing population in need of security with less public support for social programmes, more frequent and larger natural catastrophes, and entrenchments due to economic hardships.

With keynote addresses by Gabriel Bernardino, Chairman, EIOPA, and Mark Hoban MP, Financial Secretary to HM Treasury, the Seminar moved from the big picture of the strategic challenges in the changed world with the CEOs' perspectives to a drill-down into Solvency II with the CFOs' panel and regulatory financial reporting matters, with representation from the FSB and IAIS.

The Seminar notably highlighted the importance of:

- balanced regulations for stability while keeping the industry healthy with no negative impact on the role of insurers in the economy as providers of security and investments;
- the appropriate calibration of regulatory formulas balancing risk and capital to avoid gyrations from volatile markets and interest rates; and,
- appropriate consumer-centric insurance products with policyholder protection as the main objective.

Keynote address of the I&F Seminar by Mark Hoban, MP, Financial Secretary to HM Treasury.

The Property/Casualty Joint Industry Forum, New York, 11 January 2012

The Property/Casualty Insurance Joint Industry Forum was created to bring together leaders from the widest spectrum of the industry.

The Joint Industry Forum this year looked back at 2011, an extremely difficult year for several reasons: a high number of extreme events, enduring low interest rates that have reduced investment income to a minimum with a resulting impact on future earnings, and the uncertainties regarding the European debt crisis.

The overall opinion was that the industry weathered extremely well what has turned out to be the most expensive year in recorded history for the insurance sector. However, a particular problem arose over the issue of major events and the resulting growing number of large claims in the past few years and their impact on the supply chain. It will be difficult for the industry to satisfy all client needs when faced with such interconnected supply chains in a globalised economy. Insurers will have to include their clients to a greater degree in devising solutions and could increasingly act as risk managers for their policyholders.

With regards to low interest rates that are not expected to change in the short term, CEOs of the Forum panel stressed the importance of disciplined underwriting behaviour, increased operational efficiency and pricing. Overall the industry representatives are seeing signals of a hardening market enabling the industry to increase premiums.

Special guest Michael McRaith, Director of the Federal Insurance Office (FIO), stressed that the FIO is not a regulatory body and that its mandate is limited to proposing ideas for a modern and efficient regulation of the insurance sector. Regulation remains the responsibility of state authorities and McRaith also promised to make sure that data requests are settled via the state regulators to avoid unnecessary duplication.

10th Italian AXA Forum—The Challenge of Longevity

What is today the Italian AXA Forum was founded in 2002 by The Geneva Association and MPS. It is organised by AXA MPS and AXA Assicurazioni in collaboration with The Geneva Association and the Italian national insurance trade association (INIA). The founding idea was to foster a commitment to explore "frontier" issues and define the key role that insurance and financial institutions play in protecting society and managing medium- to long-term risks.

The 10th edition of the Italian AXA Forum was held at Hadrian's Temple in Rome on 4 October 2011. Entitled "The Society of Centenarians: The Challenge of Longevity and the Role of the Insurance Sector", the Forum brought together 200 representatives of the private and public sectors and the world of academia to focus on the impact of a radically changing demographic structure on the business of insurance, notably the conjoined effects of declining birth rates and rising life expectancy.

10th AXA Forum, Hadrian's Temple, Rome.

The Chief Investment Officers Network (CION)

Insurance asset management differs significantly from the asset management activities of other financial services providers such as banks and pension funds. To reflect this particular situation, The Geneva Association established the Chief Investment Officers Network (CION) in 2008. The aim of the Network is to exchange information, expertise and best practice approaches, and establish a more effective dialogue with government policymakers, regulators, rating agencies and other external stakeholders of the insurance industry, and better inform these parties as well as the wider public of the key role that institutional investors play within the modern economy. Participation is restricted to the Chief Investment Officers (CIOs) and top asset managers from the largest international insurance and bancassurance groups as represented in The Geneva Association.

The CION allows CIOs to share knowledge and understanding of issues that confront insurance asset management, though without necessarily the objective of developing a single policy position. It provides a platform for the formulation and implementation of investment strategies and members can reach out more easily to external stakeholders armed with credible research and information gleaned at high-level meetings and seminars.

On 1 March 2012, the group met for the 6th CIO Meeting in Zurich, hosted by Catlin Group. An increasing number of highly engaging agenda-points were addressed and followed by productive discussions:

- Insurance Investing in Asia;
- The Impact of State Finances on Asset Management;
- The Outlook for the United States;
- The Eurozone Economic Outlook;
- Global Liquidity Trends and Financial Market Outlook for 2012;
- Insurance ALM: How Resilient is our Industry to External Shocks?; and,
- Insurance and Banking: Connectedness, Complementaries, Dependencies.

The Financial Directors Network (FDN)

Initiated in 2004, the Financial Directors Network is a group managed by the Insurance and Finance Research Programme, which consists of the Chief Finance Officers (CFOs) and Finance Directors of The Geneva Association Members' companies as well as selected finance experts.

The most important activity for the group is the annual Insurance and Finance Seminar, which takes place every December in London and is an invitation-only event. Hosting responsibilities rotate among three British members of The Geneva Association: Aviva, Prudential plc and Lloyd's. In 2011, the event took place on 7-8 December and was hosted by Aviva under the guidance of its CEO, Andrew Moss, and its CFO, Patrick Regan.

Since its inception, the Seminar has become an important hallmark of The Geneva Association activities, and is regularly referred to as one of the most productive events on finance matters in insurance.

The panels on CEO and CFO perspectives of current challenges and outlooks were very interesting as always and warmly welcomed by participants. The following issues were tackled in the panels and subsequent Q&A's:

- Strategic Challenges in a Changed World—The CEO Perspective;
- Responding to the Financial Challenges in a Changed World—The CFO Perspective;
- Diversification Benefits in a Crisis Environment;
- Initiatives for a Future Comprehensive Group Supervision;
- Insurance Investment—Long-Term Financing of Insurance Operations;
- Insurance Viewed from the Outside; and,
- The Insurance Industry's Financial Reporting/Accounting Challenge.

Much of the work that The Geneva Association carried out on Financial Stability in Insurance (FSI) this year included, as last year, a number of FDN members, be it as participants of the FSI-Steering Committee (FSI-SC) and FSI-Working Group (FSI-WG) or as intellectual sparring partners and speakers in key presentations.

Finally, the FDN also provides a very important early warning function for future challenges. Some of the Financial Directors have been active in the industry's direct interaction with regulators and supervisors, policymakers and politicians, international institutions and the media about where the insurance industry stands on finance issues and which of those are of special relevance to it. We are grateful to the group for their help and support over the last year, particularly our hosts, and look foward to the next FDN meeting in December 2012, hosted by Lloyd's.

Financial Stability in Insurance (FSI) Working Group

Since the financial crisis erupted in 2008, policymakers around the world have been working on improving the oversight of financial markets in order to achieve global financial stability. The insurance sector, as part of the financial sector, is also subject to scrutiny and study for enhanced macro-regulation. In response to the G-20's mandate to the Financial Stability Board (FSB) to promote financial stability within the global financial sector, The Geneva Association's FSI Steering Committee (FSI-SC) and FSI Working Group (FSI-WG) were established and assigned the coordination of all FSI efforts in 2009.

The Working Group produced several studies and two reports (*Systemic Risk in Insurance, Key Financial Stability Issues in Insurance*) in 2010, and two again in 2011 and early 2012:

- *Considerations for Identifying Systemically Important Financial Institutions in Insurance* (April 2011), which proposes "A

Methodology to Identify Systemically Important Financial Institutions (SIFIs) in Insurance"; and,

- *Insurance and Resolution in Light of the Systemic Risk Debate* (February 2012), which builds on the first three reports and examines the existing features of recovery and resolution mechanisms in insurance and their relation to ongoing international supervisory and regulatory discussions on systemic risks.

These reports have provided insurance-focused expertise and experience to bear on the problem of creating an appropriate regulating framework for insurance. In particular, the activity-based methodology for identifying SIFIs explains and differentiates insurance from other financial sector players, such as banks. Its conclusion is that core insurance activities are not of a systemic nature, but certain non-core activities might be under certain circumstances.

The recent report *Insurance and Resolution in Light of the Systemic Risk Debate* also proposes recommendations for possible measures to increase the resilience of financial systems. These include the following:

- Insurance management should define what the core businesses are and test the strategic validity of expanding into potentially systemically risky activities; ensure that an appropriate risk appetite is agreed for each activity and adequate risk management exists; and evaluate the implications of their corporate group structures and how operating entities receive support in stress events.
- Investors, rating agencies and markets should scrutinise the business models of the companies they invest in and look beyond the day-to-day volatility and the standard contractual clauses to understand the dynamics of an investment in extreme events.
- Policymakers and international forums should continue with their efforts to create the global rules that help avoid a repeat of the current crisis in the financial industry and directly target those activities that have the potential of creating systemic risk (rather than simply leading to some isolated losses).
- Supervisors should enhance current frameworks to ensure that all activities conducted with a group are supervised properly, implement a system of surveillance to identify emerging Potentially Systemically Risky Activities (pSRAs) in insurance-led entities and measure their relevance for global financial systems; and where pSRAs are measured as relevant and the company engaging in the pSRAs are classified as a Global-SIFI (G-SIFI), the supervisors may consider implementing additional policy measures. Supervisors should further coordinate relevant mechanisms to distribute any possible burden of failure to stakeholder groups more fairly, as well as create greater transparency about the commitments of insurers to stakeholder groups in the event of stress.

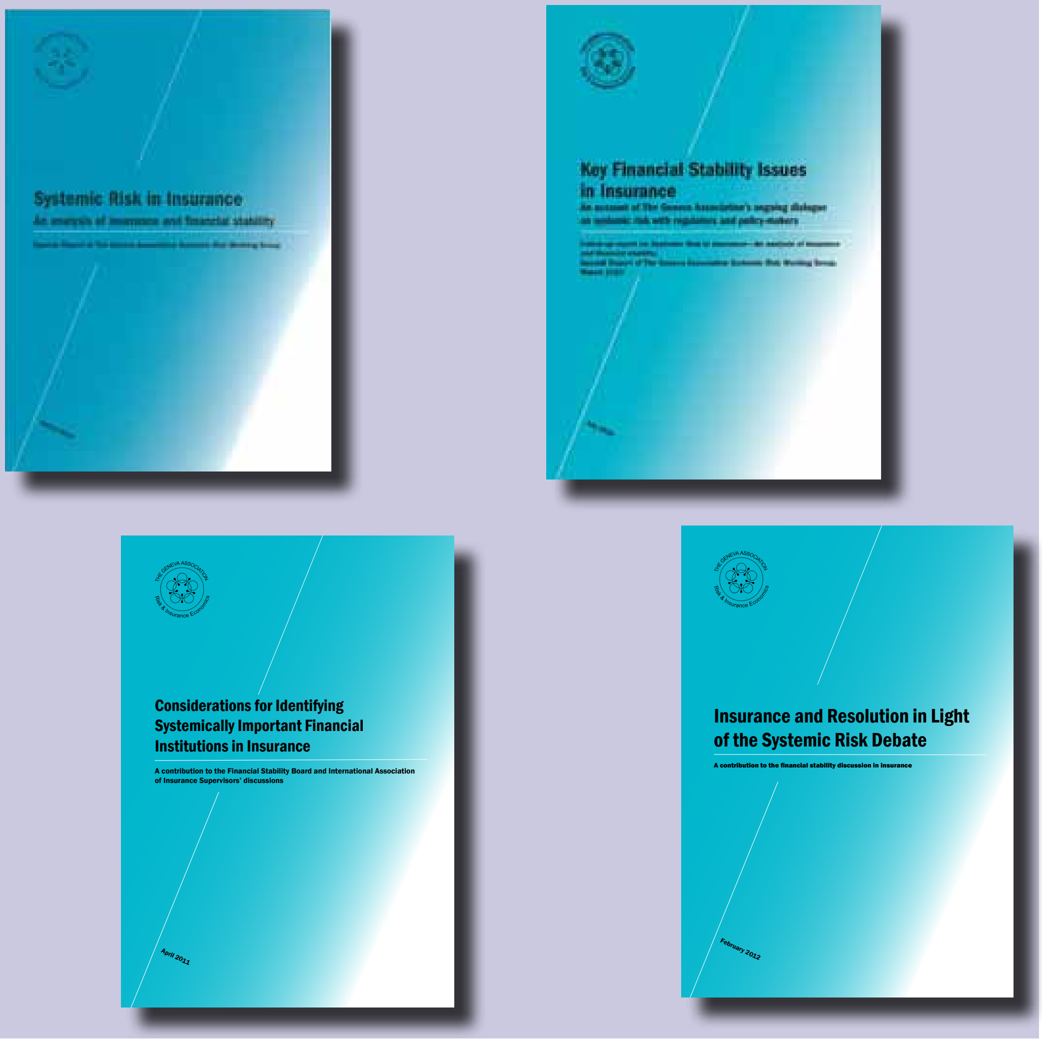
An open dialogue between industry and supervisors/regulators is vital for the development of an appropriate macro-prudential surveillance framework for the insurance sector. The Geneva Association and the

FSI-Working Group welcome the opportunity to provide continuous input to the IAIS and FSB as well as to other national and international institutions on the key strategic issues facing the sector worldwide.

Most recently, The Geneva Association issued a white paper on the key features of the process planned to evaluate and designate a systemically important insurer, if there is one. In it, the Association proposed that any process established should take into consideration existing and planned insurance regulation, existing supervisory frameworks, any mitigating factors, and recovery and resolution systems that are already in place to protect the financial system from shocks that might emanate from insurance. With its strong track record of orderly resolutions and its increasingly sophisticated and robust regulatory and supervisory systems, the insurance industry protects not only policyholders but also the larger financial markets. Highlighting the fact that no systemic financial crisis has ever emanated from insurance activities, we posited that any G-SIFI designation process should be of the highest possible quality and be transparent, predictable and reliable. Furthermore, we called on regulators to explain why and how any potential designation will provide additional protection for the financial system and what the cost to regulators, supervisors, insurance companies, policyholders and the financial market might be of any such designation. The paper has been distributed widely and we will continue to follow the process and discussions on this subject in the coming weeks and months.

■

The Geneva Association special reports on financial stability



Central positions advanced by The Geneva Association

The following positions have been, and continue to be, advanced by The Geneva Association based on extensive research and consultation:

Insurance was not at the root of the crisis and insurers showed great resilience throughout

Geneva Association analysis showed that insurance was not at the root of the credit crisis and demonstrated remarkable resilience to it. This conclusion, originally developed already in 2008 when a special Geneva Association working group analysed the (prospective) impact of the crisis on the industry and its capacity to absorb shocks, was widely accepted. Insurance companies were not the source of instability in global markets but rather a stabilising force. However, insurance companies suffered along with other investors as other important sections of financial markets became distressed (banks, sovereign debtors, etc.).

Significant differences between banking and insurance

Banking and insurance business models are substantially different. Traditional insurance activities have an inverted cycle of production (pre-funding of liabilities) and are funded up-front. This provides the insurance business with strong operating cash-flow and therefore independence from third-party wholesale funding. The majority of insurance contracts are mid- to long-term with controlled payments to policyholders over time. Contrary to banking where depositors can trigger payouts at will and with immediate effect, in insurance a predetermined event has to occur before policyholders receive payouts. Insurance risk is also idiosyncratic and generally uncorrelated with the economic cycle. Compared with other financial institutions, the insurance sector has a longer-term investment horizon, a significant shock-absorbing capacity (especially through technical reserves) and a strategy of matching assets and liabilities closely. Banking activities, on the other hand, operate differently and involve critical short- to long-term maturity transformation, which can result in significant illiquidity issues.

No systemic risk from insurance core activities

The Geneva Association research evidenced that core insurance activities do not cause systemic risk. The March 2010 report of The Geneva Association on Systemic Risk in Insurance applied the FSB/IAIS criteria for the definition of systemic riskiness to all core insurance activities and found none that would represent a threat to the stability of the global financial system. The Geneva Association also specifically analysed reinsurance activities, where (indistinct) concerns over interconnectedness had been voiced repeatedly by regulators and policymakers. The findings clearly showed that reinsurance activities do not pose a threat to the stability of the global financial system either.

However, Geneva Association work also identified two non-core activities that could potentially cause systemic risk if conducted massively and without proper risk management and appropriate supervision: 1) derivatives trading on non-insurance balance sheets (incl. speculative CDS trading); and 2) mismanagement of short-term funding from commercial papers or securities lending.

The Geneva Association also concluded that it could not be excluded that in the future other activities may emerge in the insurance industry that could potentially create significant risks. While this is not the case as of March 2012, it was proposed to monitor new developments, however remote this possibility may be.

Using an activities-based approach to identify institutions

The Geneva Association developed a methodology that can be universally applied (not only to insurers but to any financial and even non-financial institution) to identify those institutions that could potentially destabilise the global financial system. It is based on an analysis of all activities carried out by the institution (regardless of whether it is an insurance company, a financial conglomerate or other type of institution). These activities are checked against the FSB/IAIS criteria identifying any that would qualify as potentially systemically risky activities (pSRAs). If an institution does not carry out any pSRAs then it cannot be a threat to global financial stability. If it carries out any pSRAs then these need to be checked whether they are sizeable and interconnected enough, not easily substitutable, with immediate impact and critical enough to be deemed systemically risky. Should then an analysis of aggravating and mitigating factors come to the conclusion that the institution carrying out these activities could threaten the global financial system, then (and only then!) the institution would be placed on a list of systemically important financial institutions (SIFIs).

Assessing systemic risk in insurance—two-phase approach

The first phase should be conducted by macro-surveillance bodies in their role of monitoring markets. Concretely, the macro-surveillance institution should identify potentially systemically risky activities (pSRAs) and the relevant markets, and then assess them applying the FSB and IAIS criteria for systemic risk. In the second phase the national supervisor should identify institutions that engage in potentially systemically risky activities on such a massive scale that their failure or disruption could threaten the financial system (taking into consideration any aggravating or mitigating factors). While the global bodies engage in the macroprudential surveillance of activities and markets, the identification of any SIFI remains with the institutions (national supervisors) that have the clearest picture of the institution under scrutiny and the most expertise in judging it.

Proper work needed on insurance and systemic risk in addressing a hypothetical threat

No core insurance activity ever triggered a systemic financial crisis. In the absence of historic precedent, without any data or real world experience, and without much analytical and research work existing at this stage, great care has to be exercised in regulating an industry that has shown great resilience to many crises (not only the current financial crisis but massive and unexpected events such as the September 11 attacks, etc.). To date, there has not been adequate and transparent debate at the national and international level as to whether potential systemic risk issues in insurance are best addressed through G-SIFI designations. As a consequence, governments should allow for proper assessment and analytical work to be carried out before starting to implement changes.

Insurer wind-ups are stable processes that do not pose a systemic risk

The Geneva Association is working intensively on resolution and recovery issues facing the industry. The analysis shows that insurance balance sheets do not react to stress in the same way as banking balance sheets. The insurance resolution processes are well established in the different jurisdictions and apply to all companies operating in the sector. Throughout history the wind-up of an insurer has never caused systemic instability and insurance companies' wind-up and exit from markets have traditionally been conducted in an orderly manner—an experience that contrasts with the banking sector. Pre-established immediate wind-up processes or “living wills” are not required for insurers. All necessary recovery and resolution tools are already available for all insurance operations. Any wider development of arrangements for the re-organisation and the potential winding up of cross-border insurance undertakings should be based on an extension of existing practice (rather than possibly imposing a framework designed to resolve banking problems). Therefore, because insurers already have recovery and resolution mechanisms, in the rare event that they fail, they do so in an orderly way and their recovery or resolution does not create systemic risks.

G-SIFI designation process needs to be focused, effective, predictable and transparent

The G-SIFI designation process needs to focus on the true sources of systemic financial risk, which means looking at the potentially systemic risky activities carried out by an institution. Only insurers engaged in these activities should be considered for a G-SIFI designation based on the relevance of these activities in a global context and in relation to the overall finance industry as a whole. The process also needs to take into consideration existing and planned insurance regulation, existing supervisory frameworks, any mitigating factors, and recovery and resolution systems that are already in place to protect the financial system from shocks that might emanate from insurance. Activities that are not deemed to be systemically risky should not be considered—irrespective of their size, interconnectedness or substitutability—as they cannot, by definition, pose a threat to the financial system. Any G-SIFI designation process should be of the highest possible quality, transparent, predictable and reliable. Regulators should explain why and how any potential designation will provide additional protection to the financial system and what the cost to regulators, supervisors, insurance companies, policyholders and the financial market might be of any such designation.

PROGRES

Jan Monkiewicz
Head of PROGRES

Created in 1984, the Programme on Regulation and Supervision (PROGRES) is one of the longest running initiatives of The Geneva Association. It is dedicated to the regulatory and supervisory aspects of the insurance industry including, but not limited to, legal issues.

PROGRES manages The Geneva Association's co-operation with the supervisory authorities around the world and in particular with the International Association of Insurance Supervisors (IAIS), and encourages dialogue and better understanding between the insurance industry and global regulatory actors.

In 2011 the global regulatory community continued its debates on a new regulatory and supervisory design. Some agreements have already been reached, particularly with respect to the banking industry: Basel III was initiated, a first list of global systemically important banks was approved, special capital mitigating instruments were endorsed and others entered a preparatory stage.

The process for the insurance industry is working to a longer schedule, providing time to address the (previously unnecessary and) less developed international regulatory infrastructure and systems. The IAIS has concluded the revision and adoption of its substantially modified Insurance Core Principles, which define the regulatory standard of the modern insurance industry. It has also continued to advance its highly awaited ComFrame Project, which will facilitate the supervision of internationally active insurance groups. The systemic risk issue still remains an open question and this will apparently be resolved for banks for the most part at the global level during the G-20 Summit in Mexico in June 2012, however the process for insurance is likely to extend into 2013. Solvency II is still awaiting its final go-ahead but accounting issues are far from settled.

In 2011 the PROGRES activities revolved around four building blocks:

- the High-Level Meeting (HLM) between the Management Board of The Geneva Association and the IAIS Executive Committee;
- the publication of the bi-annual *PROGRES Newsletter*;
- the PROGRES Seminars, also known as the Annual International Regulatory Seminars (AIRS); and,
- research and preparation of special publication issues on regulation on an occasional basis.

The Annual International Regulatory PROGRES Seminar

The 27th PROGRES Seminar took place in Geneva on 7-8 April 2011 on the subject of "Balancing regulation and supervision. In search for optimal global solutions". The primary focus was on supervisory issues as distinct from regulatory ones. Speakers included key IAIS officers, National Association of Insurance Commissioners (NAIC) representatives, EU representatives, scholars, industry representatives and experts. Around 100 participants attended the debates and provided a very lively audience. Professor Marek Belka, member of the Steering Committee of the European Systemic Risk Board and Governor of the National Bank of Poland also spoke about the European dimension of the global financial crisis.

In Session 1, speakers from the Financial Supervisory Authority (FSA) U.K., NAIC, Polish National Bank and Bermuda Monetary Authority considered various aspects of macroprudential surveillance that emphasised the need for the wider development and application of its methodology and instruments. The debate in Session 2 focused on efficient supervisory solutions. Representatives from the International Monetary Fund (IMF), NAIC, EU Commission and Bocconi University discussed the need for better country supervision, coordinated international cooperation to better control systemic risk, and features of the new supervisory architecture in Europe and U.S. that are expected to remove the weaknesses in their supervisory systems revealed by the financial crisis.

Speakers in Session 3 from the IAIS, Central Bank of Ireland, NAIC and University of South Carolina debated the IAIS Common Framework for Supervision of Internationally Active Insurance Groups, while the main topic of Session 4 was "Supervisors in the Safety Net". Speakers from IAIS, Deloitte and De Nederlandsche Bank concluded that it is difficult to imagine insurers as systemically relevant at a global level, unless they have engaged in a banking-type activity; insurers are exposed, however, to systemic risk emanating from the financial sector.

The 28th PROGRES Seminar, which took place in Geneva on 22-23 March 2012, selected as a leading theme "The New Regulatory and Supervisory Landscape". Indeed, the past few years have witnessed multidirectional processes in the financial and insurance markets that favour the emergence of a new, global supervisory and regulatory architecture.

The opening session considered the emerging multiple regulatory framework in insurance and in the financial market, as well as the role played in this process by global organisations such as IAIS, IMF, and Financial Stability Board (FSB). Session 2 focused on macro- and micro supervision and their interactions. The next three sessions were dedicated to three major issues: international group supervision, consumer protection and cross-border financial crisis management. International group supervision was approached from a risk and global supervisory framework angle, focusing on the use of supervisory colleges and the harmonisation and equivalence of international group supervision. The consumer protection debate reconsidered issues of

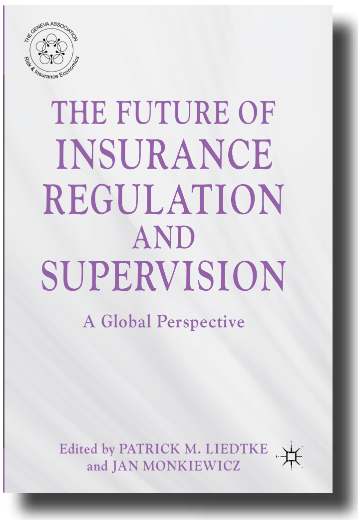
Friday 23 March 2012 – Panel at Session 3 of the 28th PROGRES Seminar.

From left to right: Thomas Leonardi, Connecticut Insurance Commissioner, NAIC; Monica Mächler, Chair, IAIS Technical Committee, ComFrame; Victor Rod, Insurance Supervisory Authority, Luxembourg; Axel Lehmann, CRO, Zurich Financial Services Group; and, Karel van Hülle, Head of Insurance and Pension Unit, EU Commission.

separating prudential supervision from market conduct. Cross-border financial crisis management focused mainly on mature economies and was discussed together with recovery and resolution mechanisms for international insurance groups.

PROGRES research activities

In 2011 The Geneva Association published *The Future of Insurance Regulation and Supervision—A Global Perspective*, a book dedicated to the regulatory concepts and models as a reflection of the debate taking place in the aftermath of the financial crisis. It was intended to express the independent voice of insurance experts in a debate dominated largely by banking specialists. The book was co-edited by Patrick M. Liedtke and Jan Monkiewicz, with a preface by Dennis Kessler, Chief Executive Officer of SCOR. It contains 24 contributions by leading academic and industry experts as well as key people from the supervisory world. The plan is to continue research on regulatory-related issues that centres more on a global institutional setup. A call for papers for a special issue of *The Geneva Papers on Risk and Insurance* on supervisory challenges and issues was made during the summer.



Research activities focused primarily on the regulatory developments in the aftermath of the financial crisis. A special area of interest in 2011-2012 was the new global regulatory set-up for insurance and reinsurance. Following the financial crisis, new supervisory authorities (e.g. the European Insurance and Occupational Pensions Authority—EIOPA) and new oversight bodies (e.g. the European Systemic Risk Board—ESRB, the Financial Stability Oversight Council—FSOC, the Financial Supervision Commission—FSC) have been created and existing ones have seen their current roles changed (e.g. IMF, FSB, IAIS), to ensure the financial stability but also to extend the level of macro-prudential surveillance and supervision. This process is far from over, and under the current situation the global set-up resembles more a patchwork of institutions with sometimes overlapping responsibilities and at times even rivalling intentions and sometimes inconsistent standards. This is not helpful to the efficient conduct of the insurance business. The IAIS is, to some extent, searching for its own future, and views of its members vary. For example, IAIS recently created a Supervisory Forum, a sort of a “college of colleges”, to coordinate the supervision of Internationally Active Insurance Groups (IAIGs) and carry out data collection exercises. At the same time it is also developing a Common Assessment Framework for the supervision of IAIGs. Its objective is to create a platform of insurance supervisors who can cooperate in a coordinated manner. All these developments need a thorough reflection at both technical and strategic levels.

PROGRES Newsletter

The *PROGRES Newsletter* constitutes a forum for a dialogue on current regulatory issues. Each edition brings four to seven contributions from different parts of the world, offering various perspectives. It has a hard copy circulation of ca. 3,500 copies and appears in June and December. The June 2011 edition focused on the globalisation of insurance markets and evolving activities in insurance regulations. It reported also on regional supervisory cooperation among Arab countries. The December 2011 edition focused on regulatory initiatives around the globe and its likely effects. It also provided some insights into market developments in Asia and the Pacific region. The editorial policy of the Newsletter is to offer a balanced mix of informative and analytical contributions. The Newsletter operates in a highly competitive arena consisting of commercial, academic and trade initiatives.

Looking ahead to 2012-2013

The research theme of a new global regulatory set-up for insurance and reinsurance will be continued throughout 2012 and 2013. It will include both relevant institutional developments as well as technical solutions.

The first phase of research scheduled for 2012-2013 will concentrate on the new institutional architecture of the regulatory set-up for insurance. An action programme will supplement the review of the existing architecture design, covering leading global bodies, and its likely evolution with regard to the financial sector and insurance in particular. The second phase of research will focus on key aspects of the supervisory set-up for internationally active insurance groups, including supervisory colleges and macroprudential surveillance. The role of EIOPA and Federal Insurance Office (FIO) will also be taken into account.

■

Association Internationale pour
l'Etude de l'Economie de l'Assurance

Dr Peter Braumüller
Chairman
Dr Monica Mächler
Chair of the ComFrame Committee
IAIS
c/o Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel

31 August 2011

Geneva Association comment on 1 July 2011 IAIS ComFrame concept paper

Preamble

The Geneva Association would like to thank the IAIS for inviting us and other observers to comment on the Common Framework for the Supervision of Internationally Active Insurance Groups (referred to as ComFrame for IAIGs) Concept Paper issued on 1 July 2011.

This is *per se* a highly important development as the ComFrame initiative potentially brings greater convergence and more similarity to the diverse insurance regulatory and supervisory standards all over the world. That in turn could have a beneficial impact on the cost of carrying out insurance business, promote more efficient and open markets, and create of a more level playing field internationally. If accomplished adequately it could increase the contribution of the international insurance industry to the resolution of social and economic challenges which we are facing and further strengthen the financial system.

However, such a potential positive outcome will depend on a series of key factors, which The Geneva Association has addressed in discussions with the IAIS and its constituent members in the past:

1. The work of the IAIS on ComFrame requires a solid legal basis and early broad political support from key governments.
2. ComFrame should not increase the complexity and cost of the regulatory system in insurance by simply creating an additional layer of regulation above and beyond the currently existing ones.
3. To reach its goals, ComFrame should be much less prescriptive than its current version, take into account or recognize the existing regulatory standards.
4. The supervisory framework for IAIGs must be aligned with all related national and supranational supervisory frameworks (not only those set by insurance regulators directly) in order to avoid unintended consequences.

5. The Geneva Association would prefer a step by step approach which as a first step provides minimum standards of supervision with the recognition of existing frameworks and as a last step a uniform process of supervision.

6. Regardless of its concrete content, confidentiality of any information to be provided by companies needs to be adequately insured.

Relationship to existing regulation at national and supranational level

One of the principal issues which needs to be addressed early in the process is a clear-cut legal foundation (examination of different jurisdictions) and the legal nature of ComFrame itself. This may require a prior political agreement of at least major countries involved, much the way it happened when the Basel I regulations were drafted. ComFrame needs to find early and broad political support from key governments, otherwise the whole exercise may run the risk of ending in a legal vacuum and confusion when the new regulations are to be introduced.

ComFrame describes itself as being based on and complementing existing IAIS Insurance Core Principles (ICPs). The Geneva Association supports the ICPs but the Concept Paper seems in many ways to replace and/or expand beyond the ICPs. There needs to be a clear articulation and correlation between the ICPs and the Concept Paper.

While we recognize the Concept Paper attempts to actualize some of the ICPs, a key question remains about the relationship to existing regulatory rules in individual jurisdictions. For many Observers, and also for us, it is unclear whether ComFrame would at least to some extent replace existing regulatory rules or whether ComFrame would stand independently next to existing rules. To avoid duplication and achieve efficiency, The Geneva Association strongly recommends that ComFrame leverages off and recognises existing (or to be developed) risk-based group supervisory regimes.

In the absence of a single global jurisdiction with a single global supervisory authority, it also becomes questionable how a global group supervisor would actually enforce regulatory decisions on individual supervisors in another jurisdiction. While such mechanisms exist, for example, within multi-state jurisdictions such as the EU, no such mechanism currently exists between several jurisdictions (multilateral approach) or even between any two major regional jurisdictions (bilateral approach).

Ways to overcome or limit the legal discrepancy could be to put in place through a single global supervisory authority or a global group supervisor (located in the home country of the group). Given the very long-term character of such a vision in the meantime common minimum standards could provide the necessary framework.

No increase in complexity and cost by simply creating an additional layer

If not designed carefully, ComFrame runs the risk of creating needlessly complex additional regulation. There is also a danger of simply imposing another supervisory layer on IAIGs in addition to the existing ones. This would run counter the objective of creating a more efficient supervisory framework for insurance that benefits markets and consumers, and that makes business easier for insurance providers.

The work on ComFrame is an opportunity for insurance regulators to streamline the supervisory process of IAIGs and to reduce the regulatory burden companies currently face. However, in its present form, the Concept Paper would rather add to this burden while providing no or little regulatory relief that would ameliorate the IAIGs' situation reducing complexity and cost. The current ComFrame proposals contain a series of new requirements that go beyond the existing regulatory regimes or those (like Solvency II in Europe) that will be implemented soon.

To reach its goals, ComFrame should be much less prescriptive than its current version, take into account or recognise existing regulatory standards. ComFrame, in its essentials, should concentrate on group-wide supervision issues and not be diluted by general rules applicable to the overall insurance business. Otherwise there is a danger of increasing compliance costs to the insurance business and decreasing the value-added for the policyholders.

Alignment with national and supranational supervisory frameworks

In our view, the supervisory framework for IAIGs must be aligned with all related national and supranational supervisory frameworks in order to work properly and to avoid any unintended consequences or market distortions. IAIGs are currently faced with a complex national and international regulatory environment that at times prevents more efficient operations, especially of a trans-border nature.

If ComFrame is to be successfully applied for group-wide supervisory standards it is essential that it respects the existing (and to be introduced) norms and helps insurance groups to operate efficiently rather than creating possible conflicts between different supervisory regimes (not least those applied to insurance but set by other authorities than those represented in the IAIS) and potentially affecting the level playing field.

Final remarks

The Geneva Association endorses the IAIS's efforts to advance the effective international regulation and supervision of the insurance sector and its providers. We welcome the intention to make group-wide supervision more effective and more reflective of actual business practices and to foster the global convergence of regulatory and supervisory measures and approaches. The Geneva Association is keen to continue its ongoing discussions with the IAIS and the ComFrame Committee.

As the financial crisis has shown, insurers – and prominently among them the IAIGs that are targeted by ComFrame – have shown strong resilience in spite of severe market turmoil. This resilience needs to be preserved. ComFrame should not become an instrument to introduce unnecessary regulation to a sector that did not create the financial crisis nor contributed to it in any meaningful way. Over the past two years, The Geneva Association and its member companies have contributed considerably to the discussions on how to increase the resilience of the global financial system. It is in the direct interest of insurance companies to operate in efficient and stable financial markets. At the same time, we have pointed out that great care has to be taken not to apply inadequate or inappropriate regulation to the sector and in particular to avoid the spill-over of regulation conceived for other financial services providers without due discussion and careful consideration. Consequently, the future IAIS work on ComFrame should be cautious not to introduce complex and/or costly elements that would do little to further the efficiency of global insurance regulation and supervision.

Sincerely yours,

Patrick M. Liedtke
Secretary General and Managing Director

3

Risk Management

Walter R. Stahel
Head of Risk Management

The Risk Management Programme seeks to understand the nature of emerging and key strategic risks, such as climate risks and extreme events, but also risks stemming from societal and technical developments, and to understand how and where they relate to insurance.

The management of risks can take many forms, so whilst risk management is integral to insurance, insurance is only one feature of risk management. In times of increasing risk aversion, there is a need for better risk management and insurance solutions but also for better risk communication; this programme therefore plays an increasingly important and multi-faceted role.

Risk Management is one of the earliest research programmes of The Geneva Association. In 1975, it made the first survey of risk management practices with the European manufacturing industry. Since then, Risk Management has been one of the main lines of our research activities. The first *Risk Management Newsletter* was published in June 1984 and issues have been published bi-annually since then.

The focus of the Risk Management Programme is to:

- provide a platform for the insurance community, the engineering and academic communities and policymakers to discuss issues on balancing risks and opportunities;
- be a facilitator for the Chief Risk Officers (CROs) of The Geneva Association and CROs in general;
- foster the use of the tools of risk assessment and risk management in new fields of application, such as policymaking;
- promote the concept of the insurability of risks as the “natural” borderline between state legislation and the market economy;
- identify new opportunities for insurers in the emerging sustainability concept in order to enlarge the field of insurable and insured risks; and,
- research and illustrate the new risks in the emerging service economy, based on an extended performance responsibility of economic actors.

This programme furthers and delivers its output through its *Risk Management Newsletter*, its annual seminars and the CRO meetings:

- The *Risk Management Newsletter* is published twice a year. Past issues are available on our website *www.genevaassociation.org*.
- The M.O.R.E. (Management of Risk in the Economy) Seminars are open to experts from academia, insurance, industry and policymaking. The papers of the Seminars are published in the series Etudes et Dossiers available on our website.
- The CR+I (Climate Risk and Insurance) Seminars are open to experts from academia, insurance, industry and policymaking. Again, the papers of the Seminars are published in the series *Etudes et Dossiers*.
- The ART of CROs Meetings (Annual Round Table of Chief Risk

Officers) are held in spring; these meetings are open for CROs of The Geneva Association's Members.

- The Annual CRO Assemblies are open to CROs from all insurance companies and related sectors.
- Cooperation agreements with government bodies are being negotiated. In 2010, a first cooperation agreement was made with the World Bank. A second has been initiated with the United Nations International Strategy for Disaster Reduction (UNISDR) in 2012 to independently evaluate UNISDR's world risk model (M.O.R.E. 26 Seminar in London, 29 May) and to write and edit a compendium of case studies on successful and failed disaster risk reduction examples to be published in 2012. A third agreement is being developed with the Asian Development Bank (ADB) and the first outcome will be the organisation of the 4th CR+I Seminar in autumn 2012.

Specific research projects are initiated on topics of high relevance on a temporary basis, such as the CR+I Project, started as the CC+I Project at the 2008 General Assembly in Bermuda, and extended at the 2009 General Assembly in Kyoto.

The Risk Management Programme continually searches for, and identifies, new topics with high risk uncertainty. Specific issues include the lack of maintenance on infrastructure in all countries, the slow disappearance of proprietary information and secrecy, as well as wider areas of societal risks: legislators' recent approach to a social vision of insurance, the political decision to nationalise insurance assets observed in Hungary, or the brewing risk pot in North Africa or Southern Europe fuelled by youth unemployment, mass migration and illegal immigration.

Additional articles and studies on risk management issues are regularly published in *The Geneva Papers on Risk and Insurance—Issues and Practice*, and increasingly in *The Geneva Reports—Risk and Insurance Research* series. The Geneva Association also publishes books and articles in high-level journals on risk management issues and finances outside studies on emerging risk management issues.

Topical seminars and conferences

The Risk Management Seminar series has continuously enabled us to identify new topics and deepen insight into these topics, or extend our understanding to new regions.

This series is complemented by annual seminars on "Management Of Risks in the Economy" (M.O.R.E.) that have met with an equally high degree of success. The 25th M.O.R.E. Seminar was held on 12-13 July 2011 in Bermuda and looked into Modelling and Mapping Risks and Opportunities. The 26th M.O.R.E. Seminar will take place on 29 May 2012 in London and will be chaired by Robert Muir Wood, chief scientist of Risk Management Solutions London. It will, amongst other discussions, evaluate the UNISDR world risk model.

The new series of Climate Risk and Insurance (CR+I) Seminars identify regional differences with regard to climate risks. The 2nd CR+I Seminar was held 18-19 October 2011 in Singapore, on the topic of "Interactions between the Private Sector and Asian Policymakers on Mitigation and Adaptation for Extreme Events and Climate Risks". It was jointly organised with the (governmental) Institute of Catastrophe

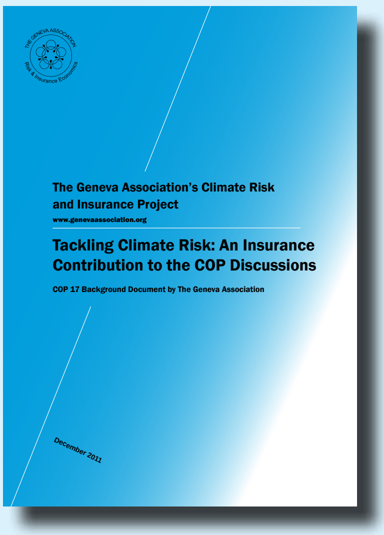
Risk Management (ICRM) in the Nanyang Technological University, Singapore. The 4th CR+I Seminar is anticipated as being held in conjunction with ADB in South-East Asia.

The Programme Head, Walter R. Stahel, takes an active role in international meetings and expert groups. He was a member of the Steering Committee of the Society of Risk Analysis (SRA) Europe and speaks regularly at major Risk Management conferences, including the 60th Anniversary Annual Conference of the World Meteorological Organization (WMO) in Geneva and the biannual International Space Insurance Conference. In February 2012, he was also invited to address the oldest and most prestigious scientific academy in the world, The Royal Society, on his concept of “The Performance Economy”.

The Programme also remains engaged with the United Nations Framework Convention on Climate Change (UNFCCC) Annual Conference of the Parties (COP). In 2009, The Geneva Association was present at the much anticipated COP15 meeting in Copenhagen, providing a presentation by industry leaders on the way the insurance industry can support and complement government action in adaptation measures to climate risks. In 2011, The Geneva Association was again present at the COP17 meetings in Durban to describe how the insurance industry could be engaged and to demonstrate how the industry is uniquely positioned to provide specialised services for countries and for businesses facing climate risks worldwide.

Climate Risk overview

In May 2008, following a mandate from its Members at the 2008 General Assembly, The Geneva Association began its Climate Change and Insurance (CC+I) research project in response to one of the most multi-faceted challenges to the insurance industry since its inception—climate change. As a result of the mandate, The Geneva Association established



Tackling Climate Risk: An Insurance Contribution to the COP Discussions—COP 17 Background Document (December 2011)

At a time when negotiators were gathering for the Conference of the Parties 17 (COP 17) in Durban, South Africa, The Geneva Association published this paper to emphasise the key role that insurance plays when it comes to dealing with climate and environmental risks, and how this industry can contribute in a positive way to cope with the challenges confronting humankind. The document builds on the central messages of The Geneva Association’s 2009 Kyoto Statement and the 2010 Developing Countries Statement, issued in collaboration with ClimateWise, the Munich Climate Insurance Initiative (MCII) and UNEP-FI.

a working group of experts from a dozen Members of The Geneva Association, complemented by external experts from internationally renowned institutions.

The project builds on the considerable expertise that The Geneva Association has acquired in this area over more than three decades with its ongoing Risk Management Research Programme. In 2011, the name was changed to Climate Risk and Insurance (CR+I). This Working Group is co-chaired by Kunio Ishihara, Chairman of Tokio Marine & Nichido Fire Insurance Company and Michael Butt, Chairman of Axis Capital Holdings. It has embarked on a multi-year programme to study the links between climate change and insurance.

The objectives of the climate-linked research have been to identify and analyse:

- issues that are of specific relevance to the insurance industry, such as the likely range of future claims costs, new business opportunities and scenario testing; and,
- external challenges to be addressed at the political, educational and social levels, such as the role of governments, specific provisions concerning issues such as building codes, and zoning restrictions to prevent repeated losses in hazardous regions.

The CR+I project is a logical step in the development of the Risk Management Research Programme of The Geneva Association, which started in the 1980s with responses to external factors, such as risk engineering and the analyses of natural hazards. The 1990s saw the inclusion of the challenge of sustainability, followed at the beginning of the 2000s by organisational and functional issues, such as the role of the Chief Risk Officer and solvency reforms in Europe and other regions.

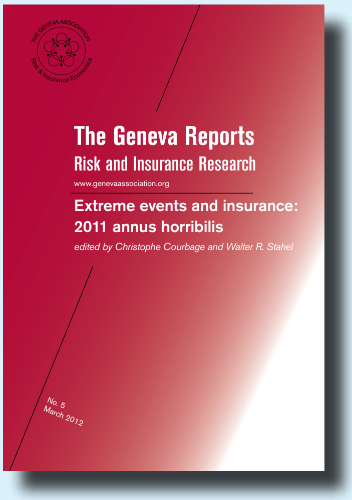
Risk Management in 2011-12 and onwards

During a workshop of the Working Group of the CR+I Project on 17 November 2010, The Geneva Association took two decisions which, with hindsight, have proved visionary. It was decided to:

- change the focus from climate change to resilience to extreme events; and,
- launch a liability subcommittee to study the liability dynamics with regard to climate change and extreme events.

The future work on adaptation thus needs to understand and take into account regional issues. In order to broaden our understanding of the southern hemisphere, the 3rd CR+I Seminar was held in Singapore. Asia is the region which, in 2011, suffered the highest economic losses from catastrophes, or almost half of total economic losses from disasters worldwide. Several members of the CR+I working group contributed to the Geneva Report No. 5 *Extreme events and insurance: 2011 annus horribilis*, which was launched on 11 March 2012, one year after the date of the Tohoku earthquake and tsunami in Japan.

The CR+I Project will integrate these insights and will focus on adaptation and managing extreme events, including climate change. The main emphasis will be on how to increase the resilience to extreme events; we therefore have to be sensitive to regional differences. A closer contact to national CROs and disaster reduction, civil protection and emergency



Extreme Events and Insurance—2011 annus horribilis

2011 has been the most expensive year in recorded history both for the national economies and the insurance sector, with an estimated direct economic cost of US$380bn and original insured losses of approximately US$105bn.

It also showed an increasing severity arising from natural catastrophes, with a series of extreme events including the 11 March Japanese earthquake, the Australian and Thai floods, the New Zealand earthquakes, and the U.S. tornadoes.

These extreme events entail huge consequences in terms of human and economic losses but they also have important repercussions for the insurance industry.

This report presents the insurance' s role in managing extreme events and the mechanisms that make these insurable, both by the public and private sectors. In this context, it provides a detailed picture of the main extreme events that occurred in 2011 and analyses their impact on local insurance markets as well as the lessons learned to efficiently manage these risks.

management offices will help, as these structures reflect the regional differences in risks. But in addition, contacts on the international level will continue. The CR+I Working Group has been adapted accordingly.

Unlike the CC+I project, the CR+I Project will incorporate a new Climate Risk Liability Sub-Committee (CR+I LSC), founded at the end of 2010, which has its own working group consisting of invited experts. Overall guidance is in the hands of the chairmen of the CR+I Initiative, Kunio Ishihara and Michael Butt; but the Liability Sub-Committee is chaired by Richard Murray, with Lindene Patton (ZFS) as deputy chair, and coordinated by Walter R. Stahel.

As the modern world sees certain governments collapsing, the number of natural catastrophes seemingly increasing and the global economy still quite fragile, people are catching on to the importance of proper risk management and insurance. Yet it will be crucial to keep separate the different actors—Insurance, States and Markets—to avoid pressure to turn the insurance industry into a globally regulated public utility, where insurance would slip between States and Markets.The Programme will thus continue to be a prominent pillar of The Geneva Association's work, both to inform and also to offer solutions to the insurance industry and the population at large.

Richard Murray
Special Advisor to The Geneva Association and Chairman of the Liability Regimes Programme

The Liability Regimes Programme

The past year of the The Geneva Association's Liability Regimes Programme has been the most active in its history. It has also been a year of reassessment and renewed commitment to expand the Programme, providing a more comprehensive resource for Members and for the industry. This increased level of activity and ambition is due to recent developments in liability law and liability insurance that were predicted by studies and conferences conducted during the Programme's first nine years.

By the start of this millennium, excess and volatility in the insurance market had led to a situation increasingly divergent from the long history of liability underwriting and from the conditions experienced in other classes of business. Liability law had become subject to economic, social and political forces that had the effect—and the intent—of expanding the frequency and severity of liability recoveries. It was also clear that adverse conditions in the U.S. and other common law countries were beginning to appear in Europe and other civil law jurisdictions as well.

The Programme was designed to bring together the experience and the expertise of Association Members and was launched in 2003 to study the unique forces that generate liability exposures for insureds and insurers. The Annual Liability Regimes Conference has since become a rich source of information and insight into those conditions and their causes.

The leading event of 2011 was the presentation of "lessons learned" by the Programme at a plenary session during The Geneva Association's annual General Assembly. The session focused on the rapidly emerging challenges of climate risk and extreme events. Extreme event liability has become a global as well as a national issue, and the drivers of change studied by the programme clearly show that the insurance sector faces an outside effort to socialise the losses and hardships arising from extreme events through innovative applications of liability law. The experiences of asbestos and tobacco claims served as models in determining possible implications for liability insurance and to anticipate future developments.

Liability Regime reports were frequently included in Association publications for the first time this year, and were the topic of three special newsletters addressing matters of particular significance to Members. This was also the first year in which work developed by the Liability Regimes Programme was integrated into the deliberations of other events organised by The Geneva Association. Programme studies and reports were presented at the annual Chief Risk Officers', Chief Communications Officers' and Chief Investment Officers' conferences, where liability lessons and projections were applied to issues of current relevance for those groups.

In late 2011, the Programme and its active members were asked to form a Liability Sub-Committee to support the expanding activities of the Climate Risk and Insurance (CR+I) Working Group. The Sub-Committee now meets regularly with CR+I and has launched a number of study projects expected to result in a series of special reports by the end of 2012.

The core activity of the Programme, the Annual Liability Regimes Conference, was expanded for its 8th edition in 2011. It was hosted by

Munich Re in October and focused on changes in how economic loss from class actions and mass torts can impact insurers. Developments in the 2010 Deepwater Horizon environmental disaster served as a platform to examine how claimants can recover with greater ease under liability laws and the effect this can have on insured losses, insurers' reputational risks and the new standards of law that will influence climate risk and other emerging exposures.

As an example, the Deepwater Horizon claims against BP and others have accelerated the use of new techniques for processing claims and have expanded the class of claimants for whom the law allows recoveries. Many of the issues under study in previous conferences were confirmed by the U.S. government overseers of gulf claims, describing such situations as "events that move the law".

The Programme initiated a new Liability Regimes event for the first time in June 2011. It was held in China (Beijing) where a comprehensive new liability law was adopted in late 2010. The event was hosted by Swiss Re, in collaboration with The Geneva Association and the active participation of Munich Re. Fears of low turnout and minimal interest of the Chinese market in liability law proved unfounded. Nearly 100 distinguished insurance, legal, academic and government officials attended the event, and two top ministers of the People's Republic of China were among the senior guest speakers at the roundtable discussions. An invitation to repeat the Beijing Conference in summer 2012 is proof of the success of the event and shows that there are likely to be other national and regional markets that would welcome such satellite conferences.

As we approach the 10^{th} anniversary of the Liability Regimes Programme, The Geneva Association has used the past six months to review and assess the Programme's future. There has been extensive dialogue with participating members and others who have expressed interest, as well as with Members of The Geneva Association Board. The support and

April 2010—Deepwater Horizon oil rig blow-out enthusiasm for expanding the scope and level of activity have been most encouraging.

- All of the previously active members of the conference Planning Board have committed to pursuing their active participation and contribution. They are Munich Re, Swiss Re, Zurich Insurance Group, SCOR, RSA and The Geneva Association.
- Lloyd's and XL have joined the Programme as active members of the Planning Board, effective at the beginning of 2012.
- The Planning Board has approved extending invitations to four other companies, for participation beginning in 2013.
- The Geneva Association has become the convenor and permanent secretariat of the Programme, providing efficiency and continuity in handling the needs of the expanded membership.
- Multi-year topic and activity planning will be part of this new arrangement, assisted by the agreement that Swiss Re, Munich Re and The Geneva Association will act as a Strategy Group.
- The European roots of the Liability Regimes initiative will be complemented by a more global and encompassing programme. This will include an effort to diversify participation on the Planning Board, in the invitations extended to the annual conferences, the venues of the annual conferences and the development of additional regional satellite conferences.
- Themes and topics addressed at future conferences will match those explored by the Liability Research Programme of The Geneva

Association. This will ensure that our attention follows the events and foreseeable liability developments of primary interest to Association Members.

Planning for the 2012 conference is underway. The event will be held in Paris on 5-6 November, hosted by SCOR, and will focus on procedural changes in liability claims processing that are most relevant to insurers, including the increasingly sophisticated use of claims aggregation techniques. The conference will also address transnational jurisdictional issues that are becoming more complex and outcome determinative, and the rapid rise in the purchase of claims by third-party investors. All of these evolving conditions affect the largest claims sectors (financial, environmental and climate risk) in ways that directly affect current underwriting and claims processing.

The original premise that launched this Programme was the belief that liability is a unique class of business, requiring special understanding and skills. Events of the past nine years have proved the soundness of that premise and have lent a truly global significance to the drivers of these conditions. The programmatic changes outlined here are designed to build upon the learning achieved thus far, to ensure that the Programme anticipates future developments and delivers research and support for The Geneva Association and its Members.

Health and Ageing

Christophe Courbage,
Head of Health and Ageing

The Health and Ageing Research Programme is focused on better understanding the changing dynamics for health provision and their implications for insurers in managing health and longevity risks.

Change in demographics, society and health technology affects the sustainability of welfare systems and other health financing institutions. The Health and Ageing Research Programme of The Geneva Association aims to investigate the role of demographics, new technologies and insurance in the management of health risk in society. It brings together analyses, studies and researches related to issues in health provision and the role of insurance in covering health risks, with an emphasis on the changing demographic structure whereby the population over 60 largely exceeds that of other groups. The key is to test new and promising ideas, linking them to related works and initiatives in the health sector and to try to find solutions for the future financing of health care.

We are particularly interested in the following topics:

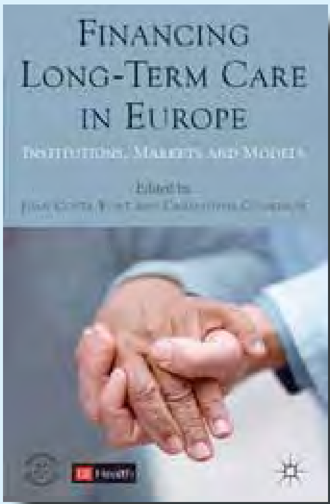
- the impact of an ageing population on health insurance systems;
- the development of insurance mechanisms for covering long-term care risks;
- the effect of technology on health insurance;
- the development of healthcare systems and the issue of their capitalisation;
- the interaction of public and private systems in health provision; and,
- health issues for an ageing population in the workplace.

To pursue these goals the Research Programme relies on various activities, in particular the development of research within the scope of the programme, the organisation of the Health and Ageing Conference series and the publication of various materials, including the publication of books and newsletters and a special issue on health of *The Geneva Papers on Risk and Insurance—Issues and Practice* on a bi-annual basis.

The two main activities were the organisation of the 8th Health and Ageing Conference on "Insurance and Dementia" in 2011 and the publication of the book *Financing of LTC in Europe—Institutions, markets and models* by Palgrave Macmillan in 2012.

The Research Programme will undertake two major activities in the latter half of 2012. The first activity will be the organisation of the 9th Health and Ageing Conference on "Genetics and Insurance" to be held in Stockholm on 8-9 November 2012. It will explore the nature of genetics and how it can influence insurance, its function and its role in covering risks.

The second important activity of 2012 will be a special edition of *The Geneva Papers on Risk and Insurance—Issues and Practice* dedicated to various topics relevant to the Research Programme, such as the issue of risk classification in health insurance, and the development of long-term care insurance, the impact of ageing on health insurers, the development of public/private partnership in health care coverage as it is applied in South Africa, China, Germany, Spain and the U.S.



Financing of LTC in Europe—Institutions, Markets and Models

Edited by Joan Costa-Font and Christophe Courbage, published by Palgrave Macmillan, 2012

The ageing of the European population brings new financial risks that call for state, market and societal responses. In 2011, the first baby-boom generation turned 65 and forecasts predict that the size of the old-age population in need of long-term care (LTC) will double in the next 50 years in Europe. How different countries are responding to the challenge of financing LTC, however, is still a question open to further examination, including the role of market development, changing intergenerational contracts and especially the constraints of state intervention.

Growing LTC needs in several European countries as well as the reshaping of traditional modes of caregiving further increase the pressure for sustainable funding of more comprehensive LTC systems. This book examines different forms of partnership and the potential cooperation of state, market and societal stakeholders. It not only offers a full understanding of the institutional responses and mechanisms in place for financing old age but also provides a deep analysis of both the demand and supply factors underpinning the development of financial instruments to cover LTC needs in Europe.

Composed of 16 chapters from the main experts in the field (including scholars and leading academics, the OECD, Swiss Re and civil servants), this book draws on past meetings that The Geneva Association has organised on the topic of LTC insurance. It addresses the different forms of LTC financing such as public coverage, insurance markets, family and housing as self-insurance for LTC.

8th Health and Ageing Conference on "Insurance and Dementia"

hosted by Sun Life Financial Toronto, 14-15 November 2011

More than 50 experts from international organisations, the insurance industry, universities, medical centres and government agencies, originating mainly from Canada and the U.S., attended the 8th Health and Ageing Conference on "Insurance and Dementia" in Toronto in November 2011.

Dementia is a progressive, degenerative condition that affects memory, thinking, behaviour, emotion and day-to-day functioning. As dementia prevalence increases with age, dementia is becoming one of the greatest challenges facing our ageing societies. For instance, it is forecast that the number of those with dementia worldwide will increase from 35.6 million people in 2010 to 65.7 million by 2030 and to 115.5 million by 2050.

Unfortunately there is no curative treatment for dementia and there exist very few treatments for prevention or slowing its onset. The ability to care for people with dementia depends on a mix of formal and informal caregiving. Support for people with dementia can be both tiring and stressful—physically, emotionally and financially. Many countries may not be well prepared to provide quality health and care services for people with dementia and their family caregivers.

Dementia could potentially have a devastating impact on public health systems because it is among the most disabling of all chronic diseases. How this trend translates in terms of costs in public health will vary greatly depending on the country and what mix of care is provided.

Insurance can help cover the risks linked to dementia, and various products are already offered on the market via health insurance, long-term care insurance, impaired and enhanced annuities, or critical illness. Insurance can also play a role in developing care for people suffering from dementia, either by integrating care services into their benefits or by investing in nursing care centres or other specialised institutions.

The aim of the conference was to understand better the nature of dementia, its future cost and how insurance can help cover this risk. In particular, the conference addressed the medical, social and economical aspects of dementia, the challenges of dementia for insurers, and the insurability of dementia and insurance markets.

All in all, this conference proved to be very successful and it undeniably offered a broad view of the issues at stake.

9th Health and Ageing Conference on "Genetics and Insurance"

co-organised with Länsförsäkringar AB, Stockholm,
8-9 November 2012

With the sequencing of the human genome, a map of all the human genes has been completed. Not only will it provide clues to the understanding of human biology, but most importantly it can revolutionise the diagnosis, treatment and even prevention of a number of diseases. In particular, gene therapy and pharmacogenetics open new and promising perspectives on curing patients. Genetic testing makes it possible to predict how likely a person is to develop a particular disease and offer access to personalised prevention.

At the same time, the availability of genetic information raises many ethical, legal and social concerns and, in particular, the issue of genetic differentiation or discrimination. This is particularly relevant for the insurance industry as genetic information can be a valuable tool in risk classification, especially for health and life insurers. Risk classification is the basis of insurance operations as it allows insurers to fight against adverse selection, and it improves their ability to predict expected loss and to set premiums accordingly. The use of genetic information by insurers generates controversy as it is widely regarded as negative for consumers on the grounds of fear of discrimination, privacy issues, loss of employment and confidentiality.

The aim of the conference is to understand better the nature of genetics and how it can influence insurance, its function and its role in covering risks. In particular, it will address, but will not be limited to, the following topics:

- medical aspects of modern genetics (gene therapy, gene technology, pharmacogenetics, genetic testing, personalised prevention);
- legislative aspects of using genetic information by insurers;
- the role of genetics in underwriting;
- genetics and risk classification, social justice versus actuarial fairness;
- ethical issues linked to the use of genetic information;
- public perception and awareness of genetic information; and,
- liability risks linked to the use of genetics.

Long-Term Care Insurance: Partnership or Crowding Out?

by Christophe Courbage

Introduction

Finding a solution to the coordination processes that are necessary to resolve the provision of long-term care (LTC) to the old age dependent is a key institutional design question in modern societies. This short text discusses the interaction between the public and private sectors together with informal care in the financing of LTC. We focus on the role of partnership models as an alternative to the development of either state or family crowding out, i.e. the phenomenon whereby the existence of public insurance schemes or informal insurance arrangements through family reduces the development of private coverage. Against the evidence of crowding out, we contend that partnership models can potentially stand out to be welfare-improving.

Partnership Building

Public-private partnerships

Public-private partnerships (PPPs) are usually geared toward the creation of a social good, such as education or health, which has both financing and provision dimensions. The financing dimension concerns the means of payment for the good (taxation, individual resources, social or private insurance), while the provision dimension regards how the good will be produced or delivered. Responsibility for either dimension may be allocated partially or wholly to public or private sectors. In the same way, partnerships can be integrated from non-governmental sources, such as for-profit firms, and non-profit entities.

Unlike contracting out PPPs, which often derive from privatisation impulses, joint financing PPPs are set up from a desire to take advantage of multiple sources of financing. Hence, PPPs can be linked to various activities whether in terms of health insurer provider, health financing method, government support to private insurance development, and government regulation of private insurers (may be similar to public insurance). In that respect, government decision in PPPs can mainly take three forms. Governments can prioritise the type of risks that are to be publicly financed, leaving others to be privately insured or self-paid. Second, policymakers can make explicit decisions about the permitted roles of private insurance. Third, governments can influence the structure of regulation of health delivery systems, which also shapes private insurance roles.

Social partnership

A specific partnership between the state and the family and civil society would encompass an arrangement that incorporates key existing informal institutions in the redelivery of public services and in the design of market products. For instance, some countries such as Norway and Denmark began making payments directly to informal caregivers, allowing relatives and neighbours who are providing regular home care to become municipal employees with regular pension benefits. Also in Finland, informal caregivers receive a fixed fee from municipalities as well as pension payments. A number of countries with social health insurance such as Austria, Germany and Luxembourg have also started to provide cash payment to service recipients who could then use those funds to pay informal caregivers.

Crowding Out

A growing body of literature has addressed the issue of the state crowding out, i.e. a phenomenon taking place when the expansion of public coverage reduces the development of private coverage. What characterises the phenomenon is whether the public system is a primary or secondary payer. If it is a primary payer, the public system does not take into account private insurance benefits when means-testing benefits. Instead, private insurance tends to top up the public entitlement, as is the case in France. In contrast, if public insurance is a secondary payer, insurance benefits are paid first. Thus people who buy insurance may be "pushed" over the means test, even if they would have been eligible otherwise.

A classic illustration comes from the U.S. case, and in particular Medicaid. Medicaid is a means-tested healthcare programme that is jointly funded by the federal and state governments and administered by the states. It is the accidental public payment for LTC, as it was originally intended to provide care for the poor. Yet, about one-third of Medicaid budget is devoted to LTC expenses, primarily in nursing homes. Medicaid's large crowd out effect stems from the combination of means-tested eligibility and its secondary payer status for individuals with private insurance. As a result of these two features, a large part of the premium for a private policy pays for benefits that simply replace benefits that Medicaid would otherwise have provided, a phenomenon that Brown and Finkelstein label the Medicaid "implicit tax". As long as Medicaid remains means-tested, private insurance, by protecting assets, reduces the probability of being eligible for Medicaid. As long as Medicaid remains a secondary payer, private insurance benefits reduce Medicaid benefits one-for-one, even if eligible for Medicaid.

Partnership Illustrations in Financing LTC Coverage

Partnership building policies

In Europe, an extended collaboration exists between insurance markets and the welfare state. The main question is what form such collaboration should take in the field of LTC. Both theoretically and in policy experience, the public sector can promote the development of LTC insurance from both the demand and supply sides. On the demand side, the government can offer tax relief on both LTC expenditure and LTC insurance premiums. Of course the effect should strongly depend on the level of price elasticity. In the same way, governments could subsidise premiums for low-income subscribers as it is the case for private health insurance in various countries.

The government can also act indirectly by raising awareness about the risk of needing LTC in the future, such as in France where the search for new solutions to cover the risk of LTC need has been widely covered in the press. Heightened awareness of LTC risk means greater concern for its financing and coverage which supports the development of private insurance. The CLASS Act in the U.S. and the new Federal Community Living Assistance Services and Support Act should also be an illustration of these phenomena.

Partnership and cost-sharing

Another illustration of PPP in LTC financing could be to base the partnership on the level of severity of dependency. Light dependency deals with a majority of individuals and can be considered more like a stage of life and regular expenses than a risk itself. Only the state of heavy dependency would be considered as a risk and would be covered by private insurance. Light dependency could then be taken over either by a social assistance scheme for the poorest, or by individual savings accumulated over the working life for others and subject to higher levels of cost-sharing. This solution is of relevance in terms of market efficiency since heavy dependency is a risk that can be easier to identify than light dependency. In addition, moral hazard is less possible in case of heavy dependency, while it may happen more easily in case of light dependency.

Government as regulator of private insurance

The existence of market failures calls for regulation to be put in place in Europe, either by national or European bodies. Yet an important reason for this regulation is to protect the consumers by informing them, and more generally protecting tax payers against the default of an insurance company to fulfil its engagement, i.e. it offers a protection against insurance insolvability. Solvency protection measures are above all aimed at providing incentives to firms to follow sound policies. Following Baltensperger *et al*., instruments of solvency regulation can include a variety of measures, such as product and price regulation, portfolio investment restrictions, mandatory (re)insurance, emergency insurance funds, capital and reserve regulation, market entry control, general supervision and inspection. Another reason for regulation is to fight against market failure due to information imperfections such as moral hazard and adverse selection.

However, whilst such rules protect the consumer, they can also lead to adverse effects and even increase the risk of insolvency. For instance, product regulation refers to setting up regulations governing the admissibility of specific contracts. Some of these rules may be restrictive in the sense that they can impose high costs on the market and consumers.

Government as a reinsurer for private insurance companies

For some high loss/low probability events, governments are more likely to act as reinsurers for private insurance companies. This is especially the case for natural catastrophic events. In such a case, the government would merely intervene to support insurance markets where their capacity would fail. One advantage is that the government has the capacity to diversify the risks over the entire population and to spread past losses to future generations. Yet the government would provide reinsurance at a lower price than the market which could be counterproductive in terms of market efficiency. In the health and LTC insurance markets, such a solution has not been implemented yet, but this could be a possibility for the future and could fit a partnership model.

Conclusion

The limited market for LTC insurance exists because of the imperfect partnership between family, government and markets. The existence of both state and family crowding out suggests that, in the past, collaboration between these bodies in different countries has not taken place or, when it has, it has not been as efficient as one might have expected. Family, the government and the market have different roles in the provision and financing of LTC. While these roles may substitute to each other leading to some forms of crowding out, they can also complement each other leading to partnership. The challenge is then to implement the right incentives to develop partnerships over crowding out.

Life and Pensions

Krzysztof M. Ostaszewski
Research Director

The Research Programme on Life and Pensions derives its original name—The Four Pillars—from a proposal that uses part-time work for those at retirement age to solve a myriad of problems that exist with retirement, its financing and how it affects individuals, companies and the wider economy.

Insurance solutions play a key role for providing old-age security and constitute huge future potential. The Geneva Association launched the "Four Pillars" Research Programme in 1987, recognising that demographic trends—particularly increased life expectancy—offered a formidable but positive challenge for our communities and firms, as well as for the workforce within them, rather than portend the catastrophe many suggest.

The Programme has achieved strong recognition within national, European and international organisations. It takes an approach to the demographic challenge that re-thinks retirement in the context of a new design for employment throughout the life cycle. Rather than being relegated to a role of inactive consumers, people can work later in life, remain socially integrated, and continue to make a valid economic contribution to our service economies. This constitutes what our programme calls "the Fourth Pillar" in operational pension planning.

This concept owes its origin to the fact that, in most countries, the funding of pensions is based on three pillars:

- the first pillar—the compulsory, pay-as-you-go, State pension;
- the second pillar—the supplementary (often funded) occupational pension; and,
- the third pillar—individual savings (including personal pensions, life insurance and other assets).

In our publications and seminars, we have advocated the adaptation of the first pillar, a strengthening of the second pillar, and further development of third pillar resources. However, as these three pillars already exist in most countries, our attention has focused on a fourth pillar, i.e. the need for a flexible extension of worklife, mainly on a part-time basis, in order to supplement income from the three existing pillars. The reorganisation of end-of-career, and the new age-management strategy, in which gradual retirement, and the fourth pillar in general, is destined to play a key role, also correspond to many of the changes (e.g., in quality of work and the life cycle) that are key to the modern service economies.

The Research Programme has had four main objectives:

1. analysis of the key elements in organising old-age security systems;
2. research of conditions for multi-pillar systems of pension financing; in particular the second pillar based on funding, the third pillar based on savings and life insurance and a new proposed fourth pillar based

on income from a much needed extension of working life;

3. encouragement of multiple and complementary solutions to the challenges of ageing; and,
4. understanding the role of insurance in the provision of old-age security systems.

Societal challenges—opportunities from a fourth pillar

There are five key issues that are of interest and/or relevance to the insurance sector:

1. A global partnership between public and private sectors. As welfare systems begin to crumble under the weight of our increasingly numerous and expensive elderly population, a key challenge has been to consolidate the partnership between the public and private sectors. Almost all countries have had to redesign or readjust their welfare policies on health and pensions so as to avoid creating public deficits which would otherwise place too great a burden upon future generations. The developments and potential outcomes of this changing relationship are very pertinent to insurers as a key counterparty in the private sector.
2. Development of second- and third-pillar pensions. With recent and current reforms of public pensions aimed at future funding—involving, inevitably, a fall in the relative value of old-age benefits—the development of second- and third-pillar pensions has become a priority. In many countries, second-pillar pensions have been made compulsory and, where not already compulsory, have been encouraged by all kinds of financial and fiscal incentives. Private pension funds will play a growing role in securing future retirement income.
3. Research into the extension of working life, i.e. of a fourth pillar. Even substantial development of second- and third-pillar pensions will probably not be sufficient to compensate both longer life expectancy and a rising proportion of people over 65 years. With good health expectancy it is not only possible, but also essential to plan for a flexible extension of one's working life. Pension solutions must encourage and facilitate this extension, which will also benefit the insurance sector workforce.
4. Encouragement of global savings and life insurance. In a more general way, it is essential to encourage long-term savings, providing for retirement and longer life expectancy. Insurance companies have a key role in designing adequate and tailored products to cater to a wide range of needs and means.
5. Age management of the workforce of insurance companies. In insurance, as in other sectors of the economy, workforce ageing will require planning for improved age management as a matter of urgency. Our studies at the European and international levels have shown that, among other things, continuing training, work-time

reduction, job redesign, and a review of the seniority-pay principle, will increasingly need to be addressed by businesses. Codes of employment might be an ideal place to start in developing new age management strategies. Insurance would be well served by being seen to lead in this important field in the future.

Current research

On 14 September 2011, Illinois State University Actuarial Program Director, Professor Krzysztof M. Ostaszewski, was appointed Research Director of The Geneva Association's Life and Pensions Research Programme. Professor Ostaszewski is responsible for defining and implementing the Life and Pensions research strategy of the Association, managing The Geneva Association's networks in the life insurance and pensions subject areas; initiating and overseeing conferences and other events for the programme; and providing strategic, intellectual and conceptual leadership for the Association's activities in the programme. He is also the Editor of *The Four Pillars Newsletter* on life and pensions and issues other specialist papers and monographs relevant to the output of the programme.

In addition to the regular publication of *The Four Pillars Newletter*, this programme is now involved in several projects:

- The publication in June 2012, under the direction of Patrick M. Liedtke and Kai-Uwe Schanz, of The Geneva Report No. 6, *Addressing the Challenge of Global Ageing—Funding Issues and Insurance*, discussing current issues in global retirement systems, with emphasis on the Four Pillars and their role in finding solutions to social problems related to retirement systems.
- A research conference on The Four Pillars Programme, and the vision it can provide for the next quarter-century for global retirement systems, planned for late 2012.
- A special edition of *The Geneva Papers—Issues and Practice* planned for October 2013, to be edited by Krzysztof M. Ostaszewski and Anthony Webb of the Center for Retirement Research at Boston College, is planned with the purpose of studying the challenges confronting the Four Pillars Programme and, more importantly, the global retirement systems in the next quarter century.

We believe the next quarter-century will be a period of great challenges for global retirement systems and we plan to provide global intellectual leadership in addressing those challenges, and serving the needs of the insurance industry during possibly turbulent times in the future.

The Four Pillars Newsletter

No. 50 March 2012

Editorial

The Four Pillars: Looking at the Last 25 Years and the Next 25 Years

by Krzysztof Ostaszewski[+]

It is my honour and pleasure to introduce myself to you as the new Director for Life Insurance and Pensions at The Geneva Association, and the Editor of this Four Pillars Newsletter. This year, 2012, marks the 25th anniversary of the Four Pillars Programme. The Programme was set up in 1987, with the aim of studying the key importance in the new service economy of Social Security, Insurance, Savings and Employment, the four key components of retirement systems. The Programme focuses on the future of pensions, welfare, insurance and employment.

The main key drivers for this work are changing demography and its financing impact; complementarity between social security and insurance; and the changing perspective of the welfare state, employment and life cycles.

The related research activities have had four main objectives: 1) analysis of the key elements in organising old-age security systems; 2) research of conditions for multi-pillar systems of pension financing; 3) encouragement of multiple and complementary solutions to the challenges of ageing; and 4) understanding of the role of insurance in the provision of old-age security systems.

As we enter the second quarter century of this Programme, the world looks dramatically different than at its onset. In 1987, world politics was still viewed through the prism of the Cold War, while world economics experienced the shock of the largest one-day global stock markets crash in the recorded history on 19 October 1987. But the stock market debacle did not prompt any significant action from governments and no significant real economy effects appeared subsequently. In the world we see today, the stock markets debacle of 2008 was followed by very painful real economy dislocations. As of early 2012, the United States economy is showing signs of mild growth but its levels of unemployment remain at levels not seen since 1983. The European economies are struggling with the sovereign debt crisis, and the future of the common European currency, the euro, is uncertain.

The world has also changed in ways that affect retirement systems in profound ways.

The costs of retirement systems are affected by a variety of factors, but the most important ones are: 1) levels of interest rates and rates of return available from investment portfolios, for private systems, or the growth rate of the underlying economy for public systems; 2) length of retirement period, affected by the timing of retirement, as

The Four Pillars 25th Anniversary

2012 marks the 25th anniversary of the Four Pillars Programme. The anniversary happens at a time of great challenge for global retirement systems. The effects of the credit crisis on those systems and in the insurance industry were discussed in the 49th issue of the *Four Pillars Newsletter* by Patrick M. Liedtke, Secretary General of The Geneva Association, and then in the 50th issue by Krzysztof M. Ostaszewski, the new Research Director of the Life and Pensions Programme at The Geneva Association and editor of *The Four Pillars Newsletter*.

The Silver Workers Institute
(*www.silverworkers.ch*)

The Silver Workers Institute (SWI), an affiliated organisation of The Geneva Association, was established in 2007 following an important empirical study of post-retirement actions in Germany. The SWI's crucial mission is to raise awareness of how the active ageing of seniors can have a positive impact for firms and communities—economically and socially—and propose policy action for companies as well as governments. The Institute has been led since its inception by its co-founders Jürgen Deller, Professor for Business Psychology at Leuphana University in Lüneburg, Germany, and Patrick M. Liedtke. It has provided its work to The Geneva Association for input to the Four Pillars Research Programme and to stimulate thinking among insurers. At the same time, it has carried Geneva Association output to interested parties beyond the scope of the insurance industry, thus widening the impact of the work and strengthening the influence of insurance on relevant old-age security debates.

Academic discussions on work and ageing—"silver work"—have grown substantially over the past years, reflecting in part the need for better solutions and the political pressures to make existing pension systems financially more sustainable. Research and studies by the SWI have been well and widely received, with a primary focus on Europe and North America, where the results of its work have been presented at several conferences:

- The paper *Motivation for post-retirement work*: the case of senior experts in Germany was discussed at the 15th European Congress on Work and Organizational Psychology in Maastricht, the Netherlands, 25-28 May 2011 and later in November 2011 as part of the 64th Annual Scientific Meeting of The Gerontological Society of America in Boston, M.A.
- In August 2011, at the annual meeting of the Retirement Research Consortium at the National Press Club in Washington, D.C. This consortium includes the University of Michigan Retirement Research Center, the Center for Retirement Research at Boston College, the NBER Retirement Research Center, as well as the Social Security Administration of the United States.

- In September 2011 during the 7th biannual meeting of work and organisational psychologists from Austria, Germany, and Switzerland on the topic of the retirement planning of engineers.
- In November 2011 at the "Age Cohorts in the Workplace: Understanding and Building Strength through Differences" small group meeting of the European Association of Work and Organizational Psychology (EAWOP) at the University of Trento, Italy. The prominent research findings of the SWI led to its publication in a special journal issue as well as in a chapter of the book *Bridge employment in Europe: Building flexible transitions from work to retirement* edited by C.M. Alcover, G. Topa, M. Depolo, and F. Fraccaroli.

Media coverage intensified throughout 2011 and early 2012, including various interviews in both print and video media as well as numerous press articles and references.

Silver work from the perspective of silver workers

A consequence of longevity is a longer post-retirement lifespan, with many people remaining able and willing to continue work well after reaching the statutory retirement age. Given the predicted shortage of skilled workers in many countries in the future, post-retirement activities can potentially contribute both to organisations and society.

The SWI has been producing empirical findings about silver work from the perspective of silver workers themselves. In this regard, "Activities in Retirement: Individual Experience of Silver Work" by Jürgen Deller and Leena Maxin can be considered one of the most important recent papers produced by the SWI. Published in 2011 in the journal *Comparative Population Studies*, the paper first touches upon the prerequisites for productivity in retirement age, the changed nature of retirement at present for active retirees, and the extent to which activities are continued at retirement age. An empirical study reveals that paid employment still occurs beyond the applicable retirement age to increasingly older age, primarily among self-employed persons and individuals providing long-term care to family members.

Individual experiences of the transition into retirement, the reasons for and the framework of post-retirement activities, motivational factors in job design, as well as physical and intellectual demands before and after retirement, are then presented at the explorative level. The qualitative data indicate that retirement requires a shift towards a more flexible organisation of one's daily activities. It also reveals that fundamental reasons for engaging in paid post-retirement activities are: the desire to help; pass on knowledge or remain active; personal development and contact with others; and, gaining appreciation and recognition. It thus vindicates important theoretical work by Orio Giarini and Patrick M. Liedtke carried out in the 1990s where these trends were first identified, discussed and then predicted to become more relevant in the future.

A flexible employment schedule and a degree of freedom in decision-making constitute major elements in shaping post-retirement working activities. Studies also highlight a desire for autonomy as well as diverse and meaningful tasks. The SWI work essentially shows that the transition from working life to retirement should be made flexible enough accommodate the realities of post-retirement life, much in line with the Four Pillars concept. ■


14.238
11.800
14.152
07
08
B
9.031
6.991

Insurance Economics

Christophe Courbage
Head of Insurance Economics

The Research Programme on Risk and Insurance Economics is aimed at stimulating research in areas linked to economics and insurance and at fostering progress in the understanding of insurance. It comprises the theoretical and academic activities of the Association.

The Research Programme on Risk and Insurance Economics comprises the theoretical and academic activities of The Geneva Association. In this sense, it is dedicated to:

- making an original contribution to the progress of insurance through promoting studies of the interdependence between economics and insurance;
- highlighting the importance of risk and insurance economics as part of the modern general economic theory;
- detecting and defining special aims for research programmes in risk and insurance economics;
- stimulating and supporting academic and professional research work in risk and insurance economics throughout the world; and,
- diffusing knowledge and the results of research in risk and insurance economics worldwide.

The activities of the research programme are organised around various axes and networks.

Newsletters

The Research Programme publishes a newsletter twice a year that contains highly topical research articles on issues such as insuring long-term care risks, D&O liability insurance, sovereign disaster risk financing, best practice in insurance models related to insurance, the role of statistics in insurance models, novel perspectives on risk classification and the history of moral hazard. Each newsletter also contains information on conferences and publications in the field of insurance economics and the results of research grants and prizes offered by the Association when relevant. Finally, a section is devoted to the activities of the European Group of Risk and Insurance Economists (EGRIE).

Activities

European Group of Risk and Insurance Economists (EGRIE) (*www.egrie.org*)

EGRIE, an affiliated organisation of The Geneva Association, is a non-profit organisation devoted to promoting academic research on risk and insurance economics. It was founded by The Geneva Association in 1973 and has been supported by the Association since then. From its inception, a key activity of EGRIE has been to organise an annual seminar which brings together academics from most European universities and is considered one of the most prestigious academic meetings in risk and insurance economics worldwide. Each seminar starts with the Geneva Risk Economics Lecture by a leading academic on a key problem in insurance and risk economics. Past lecturers include John Campbell, David Cummins, Louis Eeckhoudt, Paul Embrechts, Kenneth Froot, Christian Gollier, Martin Hellwig, John Pratt, Michael Rothschild, Agnar Sandmo, Hans-Werner Sinn, and Joseph Stiglitz. *The Geneva Risk and Insurance Review* is today considered to be the official journal of EGRIE.

In 2008, EGRIE created two annual awards to support excellence in academic research. These awards are both funded by SCOR. The first one is the SCOR-EGRIE Young Economist Best Paper Award for the best paper presented by a young economist (under age 40) at the annual EGRIE seminar. The second is the SCOR-Geneva Risk and Insurance Review Best Paper Award for the best paper of the year published in *The Geneva Risk and Insurance Review*.

World Risk and Insurance Economics Congress (WRIEC) (*www.wriec.org*)

Every five years, The Geneva Association and the three leading global academic societies in risk and insurance—the Asia Pacific Risk and Insurance Association (APRIA), the American Risk and Insurance Association (ARIA), the European Group of Risk and Insurance Economists (EGRIE)—organise the WRIEC as part of their annual regional conference. The aim of the Congress is to stimulate global awareness and interest in risk-related research and provide a forum for networking among academics, industry and government professionals worldwide. The World Congress also provides limited financial aid to selected junior authors from developing economies whose papers are chosen from the programme.

The first WRIEC took place in Salt Lake City, Utah, in 2005 and was hosted by ARIA. The second WRIEC was held at the Singapore Management University campus on 25-29 July 2010 under the auspices of APRIA. Other sponsors include AXA, MunichRe, SwissRe and Allianz. The next Congress will take place in Europe in 2015 at a location yet to be determined.

2011 SCOR/EGRIE Prize Winners

SCOR/EGRIE Young Economist Best Paper Award

The 2011 SCOR–EGRIE prize for the best paper presented by a young economist at the annual seminar of EGRIE was awarded to Carole Bernard and Steven Vanduffel for their paper *Financial Bounds for Insurance Claims*. The amount offered to the laureate of the award is €2,000.

The selection committee is composed of five people representing the following institutions: EGRIE, SCOR, Fondation du Risque, the Institut d'Economie Industrielle (IDEI), and The University of Paris-Dauphine.

SCOR/Geneva Risk and Insurance Review (GRIR) Best Paper Award

The 2011 SCOR/GRIR Award for the best paper of the year published in *The Geneva Risk and insurance Review* was awarded to Sharon Tennyson, for "Incentive Effects of Community Rating in Insurance Markets: Evidence from Massachusetts Automobile Insurance", published in *The Geneva Risk and Insurance Review*, Vol. 35, Issue 1, June 2010. The amount offered to the laureate of the award is €1,000.

The selection committee is composed of the Editors and Associate Editors of *The Geneva Risk and Insurance Review*.

Joint Seminar of the European Association of Law and Economics and The Geneva Association (EALE)

Since 1985, The Geneva Association and The European Association of Law Economics (EALE) have developed a close collaboration to promote cross-fertilisation between the fields of law and economics in insurance research. Every two years, a joint seminar between EALE and The Geneva Association takes place in a European country and 14 seminars have been organised since the start of the initiative.

Topics of recent past seminars have included “Law and Economics of Natural Hazard Management in a Changing Climate”, “Insuring Corporate Liability Risk”, “Insurance, Law and the Environment” and “Risk Classification and Public Policy”. A representative of EALE is then invited to edit a half-special issue of *The Geneva Papers* dedicated to the seminar.

Amsterdam Circle of Chief Economists (ACCE)

The Geneva Association created ACCE in 1999 with the objective of uniting a special group of insurance economists and strategists to allow them to exchange ideas and visions. A seminar takes place each year in Amsterdam in early February under the auspices of ING and gathers insurance economists from Members’ companies of The Geneva Association. Topics of recent past meetings have included “Insurance and the Post-Crisis Environment”, “Insurance and the Credit Crisis”, “Organising Risks in Insurance” and “The Insurance Value Chain”. Thirteen seminars have been organised since the start of the initiative.

Summary of the 14th ACCE Seminar
Amsterdam, 23-24 February 2012

The 14th meeting of the Amsterdam Circle of Chief Economists focused on “Insurance Prospects 2012 and Beyond”. It was attended by about 20 participants representing, amongst others, Allianz SE, Assicurazioni Generali, BNP Paribas, Fortis, Eureko, the German Insurance Association (GDV), Hannover Re, ING Group, the Insurance Information Institute (III), the Italian Insurance Association (INIA), Malakoff Mederic, Munich Re, Swiss Re, and Tryg. Topics of sessions included: 1) Key macro themes for 2012, 2) Extreme economic uncertainty—How to prepare, 3) Don’t feel safe—Major threats for insurance in the ongoing discussion on systemic relevance, 4) The role of insurers as investors, 5) Turning (non-life) markets: history, triggers, catalysts and impediments.

Participants at the meeting concluded that insurers have to remain vigilant towards major macro risks such as sovereign risk, the spectre of a renewed recession and a disintegration of the eurozone. For the latter scenario, specific implications from an insurance company point of view were discussed, such as changes in legal regimes and contracts, unexpected changes in customer behaviour, capital flight to safe havens, and reduced savings. In addition, the meeting addressed one of the most pressing issues the global insurance and reinsurance industry is currently facing: the question of whether it should be considered systemically relevant and, therefore, subject to additional regulatory requirements such as capital surcharges or curtailed degrees of entrepreneurial freedom. Participants agreed that, despite encouraging signals from regulators, premature complacency is misplaced as some issues remain unresolved such as the treatment of conglomerates and insurers engaged in banking activities. It was also apparent from the presentations that insurers have to prepare for a new higher risk, lower return investment paradigm which could depress the earnings prospects of the industry. However, it also emerged from the discussions that the changed investment environment has not yet prompted a broad-based market hardening as the decline in current investment income can still be offset by realising capital gains.

Prize, research grants, awards

In its role of promoting research in risk and insurance economics, The Geneva Association also awards a series of prizes and research grants every year.

The Ernst-Meyer Prize

The Ernst-Meyer Prize awards a university research work, mostly in the form of a doctoral thesis, which makes a significant and original contribution to the study of risk and insurance economics (worth CHF5,000).

List of last Ernst-Meyer Prize Winners:

- Sabine Wende (2011) for a thesis on *Three Essays on the Effects of Diversification and Organisational Form of Insurance Companies*
- Renaud Bourlès (2010) for a thesis on *Essays on the Stability of Mutual Insurance Agreements*
- James R. Thompson (2009) for a thesis on *Insurance and Credit Risk Transfer: A Study of Moral Hazard and Adverse Selection*
- Nadine Verena Gatzert (2008) for a thesis on *Implicit Options in Life Insurance: Valuation and Risk Assessment* and Alexander Kling (2008) for a thesis on *Modellierung, Bewertung und Risikoanalyse von Zinsgarantien in konventionellen deutschen Lebensversicherungs-verträgen*
- Wenan Fei (2007) for a thesis on *Secondary Risks in Insurance Markets* and Yijia Lin *for a thesis entitled Mortality Risk Management*
- Bidénam Kambia-Chopin (2006) for a thesis on *Prevention of Risks, Insurance Markets and Environmental Liability: Essays on Incentive Theory*
- Jörg Schiller (2005) for a thesis on *Insurance Fraud as an Economic Problem: A Contractual Approach*
- Amy Finkelstein (2003) for her work on *Adverse Selection and Government Intervention in Life and Health Insurance Markets*

Research grants and subsidies for theses

Each year The Geneva Association also awards two research grants for submissions—usually doctoral theses carried out in the field of risk and insurance economics. Each grant is worth CHF10,000 and past topics awarded include: climate change and public health, non parametric testing for asymmetric information, the impact of demand conditions and technological change on the structural evolution of the insurance industry, adverse selection and moral hazard in agricultural insurance contracts.

Subsidies of up to CHF3,000 are also granted to authors of university theses on risk and insurance economics to help defray printing costs and to support the publication of high quality work.

Geneva Association/IIS Research Partnership Award

The Geneva Association and the International Insurance Society (IIS) research partnership award is designed to foster original, practical-oriented applied research in insurance. The award is aimed at research

2011 Winner of the Ernst-Meyer Prize

The Geneva Association awards the prestigious Ernst-Meyer Prize for university research work annually, usually in the form of a doctoral thesis, which makes a significant and original contribution to the study of risk and insurance economics. This time, the Ernst-Meyer Prize 2011 went to Sabine Wende for her Cologne University Economics PhD Dissertation, *Three Essays on the Effects of Diversification and Organisational Form of Insurance Companies*. We wish to congratulate her and give our readers the opportunity to learn more about her work.

***Three Essays on the Effects of Diversification and Organisational Form of Insurance Companies*, by Sabine Wende**

This thesis consists of three essays on insurance companies. The essays cover two important areas of insurance research: the effect of regulation on insurance companies and the effect of business strategy choices on insurance companies' performance. The first paper focuses on the impact of regulation on the relative efficiency of different organisational forms (stock, mutual and public insurers) in Germany. This essay uses the 1994 deregulation of the German property-liability market as a natural experiment to examine the effect of two completely different regulatory regimes on insurance companies' efficiency. The second and the third essays cover business strategies for insurance companies. The main focus of these essays involves the following strategic business decisions: (1) the degree of product diversification; (2) targets for how quickly to grow the business; (3) levels of financial leverage of the firm; and, (4) the optimal size of the company. Additionally, the third essay examines how economic factors like capital market development, competition, and property rights in a country affect the diversification-performance relationship.

that addresses issues of concern to global insurance leaders and directly influences business operations on a practical level. The winning research is presented at the annual IIS meeting—in 2012 this will be in Rio de Janeiro, Brazil, 17-20 June 2012. The research is published in a special edition of *The Geneva Papers on Risk and Insurance—Issues and Practice* and distributed by The Geneva Association and the IIS. Awards of up to US$10,000 are presented to the winning researcher.

Insights on the 2011 Geneva Association Research Grants

The Geneva Association offers one or two grants for research into risk and insurance economics each year. In 2011, Stephan D. Werner from the London School of Economics and Nan Zhu from the Department of Risk Management and Insurance, University of Georgia, were awarded these research grants. We would like to congratulate them and give the opportunity to our readers to learn more about their work.

Quantitative Performance of Reinsurance Companies during the Interwar Period, by Stephan D. Werner

Specialised reinsurance companies that provide insurance coverage for primary insurance companies are commonly assessed by their solvency. Maintaining a sound long-term solvency whilst simultaneously having to comply with irrational profit expectations creates a dangerous area-of-conflict for the companies. The Interwar Period provides necessary conditions to analyse this very issue.

This project hypothesises that irrational investor expectations in the performance of reinsurance companies created additional endogenous risk. This was then transmitted to the sector as companies struggled to meet these expectations.

The research questions are as follows:

1. "How did investor expectations affect the business strategy of reinsurance companies during the Interwar Period?"
2. "How were reinsurance business operations affected by the depression in the real economy?"
3. "Which impact did external policy changes have on the performance of reinsurance companies?"

Publically-traded, specialised and globally operating reinsurance companies are the focus group of the project. Topics from actuarial ruin theory and the problem of optimum dividend payment are connected with theories and models of irrational behaviour in financial markets.

Based on this general theoretical approach, a comprehensive quantitative assessment of the three research questions at hand is provided. Two original data sets are compiled, one consisting of stock price quotations and the other of relevant insurance performance indicators. Both cover the core period 1924-1935 are analysed by using descriptive quantitative methods as well as standard financial and econometric tests.

The specific aim is not only to provide the first comprehensive quantitative analysis of the global reinsurance market during the Interwar Period, but also to focus specifically on investor expectations in order to establish a "lessons-learned" for future crises as well as the upcoming new EU insurance regulatory regime, Solvency II. The conducted research is intended to increase general awareness for topics related to investor relations, risk management as well as corporate governance for both sides, investors and reinsurance companies.

Lifetime Uncertainty: Models, Applications, and Economic Implications, by Nan Zhu

This work addresses economic and mathematical aspects covering uncertainties in human lifetimes. Specifically, it includes two distinct research topics that analyse economic risks associated with the uncertainty of individuals' lifetimes: volatilities of human mortality projections; and the economics of the emerging life settlements market. This work provides new insights into incorporating lifetime uncertainty into economic models and what at times highly unexpected repercussions this risk factor may have.

2011 Winners of The Geneva Association / IIS Research Awards

The organisers, The Geneva Association and the International Insurance Society, selected the winners of The Geneva Association/IIS Research Awards Partnership. Authors of each best-qualified papers won US$5,000 and were invited to present their work during the International Insurance Society's 47th Annual Seminar at the Fairmont Royal York Hotel, Toronto, Canada 19-22 June 2011. The two papers along with their abstracts are:

Structure, Principles and Effectiveness of Insurance Regulation in the 21st Century: Insights from Canada,
by Mary Kelly (Wilfrid Laurier University) Anne Kleffner (University of Calgary) and Darrell Leadbetter (Property and Casualty Insurance Compensation Corporation)

The 2007-2009 financial crisis resulted in failures of many large financial institutions. Among G-8 countries, only Canada did not have to provide financial support to distressed institutions. We first examine the existing Canadian regulatory architecture in relationship to underlying principles arising from the public theory of regulation. Elements of the Canadian regulatory framework that contributed to the success of the insurance industry in weathering the crisis include the presence of a federal regulator who monitors system-wide issues and also ensures consistent solvency standards; investment guidelines that encourage prudent risk-taking; and a holistic approach to insurer monitoring. A comparison of the Canadian experience with that of other jurisdictions highlights the importance of a holistic risk management approach to firm viability, especially in light of the inherent risks arising from complex group structures. A lesson from the crisis is the need for effective ex ante and ex post cross-border and holistic supervision as most distressed institutions belonged to large complex groups operating in multiple regulatory jurisdictions.

Principles for Insurance Regulation: An Evaluation of Current Practices and Potential Reforms,
by Robert W. Klein (Georgia State University)

The recent financial crisis and its cascading effects on the global economy have drawn increased attention to the regulation of financial institutions including insurance companies. While many observers would argue that insurance companies were not significant contributors to the crisis, the role of insurance companies in the financial economy and their potential vulnerability to systemic risk have become matters of considerable interest to policymakers and regulators. In this context, this paper examines the basic economic principles that should govern the regulation of insurance and employs these principles in assessing current regulatory practices and potential reforms. Specifically, it articulates the basic rationale for insurance regulation, which is the remediation of market failures where regulation can enhance social welfare. In insurance, the principal market failures that warrant regulatory intervention are severe asymmetric information problems and principal agent conflicts that could lead some insurance companies to incur excessive financial risk and/or engage in abusive market practices that harm consumers. This provides an economic basis for the regulation of insurers' financial condition and market conduct. At the same, the regulatory measures that are employed to correct market failures should be efficient and effective. Judged against these principles, the systems for solvency and market conduct regulation in the United States warrant significant improvement. There appears to be little or no justification for regulating insurance rates in competitive markets and the states should move forward with full deregulation of insurance prices. The EU appears to be much further ahead in terms of implementing best practices in the regulation of insurers' financial condition under its Solvency II initiative. It is also much closer to the desirable goal of full price deregulation than the United States.

IA ASSOCIATION

- **Liaison Officers/Affiliated** Organisations

- Other Events

- Publications

- Website

Liaison Officers/Affiliated Organisations

Katsuo Matsushita,
Liaison Officer for Japan and East Asia

The Geneva Association Representation in Japan and East Asia

The Liaison Office for Japan and East Asia was established in October 2009 by Katsuo Matsushita. Its role is to promote and increase recognition of The Geneva Association in the region by developing new relationships with insurance companies, stakeholders, and the media. He also assists The Geneva Association in increasing its regional focus, notably by strengthening ties with Members' companies.

Economic and societal challenges in Asia

The future of the global economy is still uncertain as policymakers, economists and market participants remain concerned with the outcome of the sovereign debt issues in the eurozone, higher oil prices, political and diplomatic tensions in the Middle East, and a growing unemployment ratio among young people in both developed and developing countries.

The higher economic growth of the Asian region (except Japan) is expected to continue, filling the vacuum caused by lower growth in the EU. The Asian economy is, however, coupled with the rest of the world, especially developed markets. Therefore, one of the policy challenges for Asian countries is to move from export-driven to domestic consumption-driven economies, as well as increase intra-regional trade in goods and services.

Due to economic development and urbanisation, Asian countries are tackling the societal issues that developed countries have been engaged in for many years. For example, political leaders in Asia are forced to handle sustainable growth, the reduction of greenhouse gas emissions, the income gap between urban rich and rural poor residents, inflation (especially concerning food, fuel and electricity prices), corruption, rapidly increasing exposure in large cities to mega risks such as natural disasters or pandemics, and the strengthening of social cohesion.

Asia is, of course, a diversified region, with large emerging economies like China, India and Indonesia running alongside developed economies such as Japan, Korea and Singapore as well as less developed economies. However, policymakers in Asian countries share two major agendas: the "middle-income trap" and population growth. Avoiding the middle-income trap implies supporting economic growth not by internationally lower wages but by relying on productivity and technology to enhance competitiveness. Continued investment in both higher education and research and development is crucial, along with strategies to attract talented human resources. Some Asian countries are already engaged in the race for human resource procurement.

The second agenda involves the demographic boom of Asian countries which, with few exceptions, is facing a turning point earlier than generally expected. In China, for example, the population growth ratio of people aged 15-64 is set to be lower than the growth of the total population in 2015. While the degree of urgency or imminence of the two issues differ from country-to-country, these two phenomena have social, fiscal, technological and economic implications. Business entities including insurance companies, be they local or multinational, have to develop strategic plans to cope with the changes these phenomena will inevitably bring.

Overview of the Asian insurance market

Several changes have occurred over the past 5-10 years that can be summarised as follows:

1. With the wider use of IT, and being driven by competition in the market, distribution channels have evolved into the age of multi-channels.
2. Regulations, in both prudential and market conduct, edge closer to that of the international standards discussed and codified by the IAIS. Asian regulators and the insurance industry are also monitoring Solvency II development in the EU and the solvency modernisation initiative in the U.S. Regulators and the industry agree in principle that high quality regulation, not excessive regulation, is an important ingredient for the sound development of insurance markets.
3. Competition has meant that only seriously committed capital investment in the insurance sector survived, while opportunistic or naïve capital was forced out. Market growth is not a ticket to success.
4. An increasing number of large-size mergers and acquisitions and divesture have become common in Asia as well. This is perhaps due to strategic decisions made by multinationals rather than local insurers.

Other aspects of the market have not changed. Here also, we provide a brief summary:

1. While efforts by insurance companies, intermediaries and governments have been increasing the insurance penetration ratio, the gap between economic losses caused by large scale natural catastrophes and insured losses remains huge.
2. A considerable gap still exists between the potential needs of pension and health insurance for an ageing society, and actual penetration. In China and some other countries, the “mortality protection gap” (difference between resources needed and resources already available for dependents to maintain their standards of living after the death of an income gainer) has become wider in the past several years.
3. In some jurisdictions, an industry-wide database is still in the developmental stage. This would become a matter of concern for the wider implementation of risk-based pricing, etc.
4. While a series of catastrophic events that occurred in Asia Pacific region in 2011 increased the public awareness of risk and insurance, the gap between the important role of insurance in society and its recognition among the public and media remains significant.
5. The shortage of talent in the insurance sector due to the lack of industry recognition in society creates competition among insurers for the relatively shallow layer of the talent pool.

The role of insurers

Insurers have to strengthen their advocacy for the adaptation and mitigation of risks brought about by catastrophic events such as earthquakes, tsunamis and extreme weather. After the earthquake and tsunami in Japan, and the flood in Australia and Thailand, several ideas for insurance schemes with public and private partnership have been discussed in Asia Pacific. The insurance industry is expected to take a leading role in developing policy planning and proposals and must continue to close the gap between economic losses and insured losses.

Commercial or business customers should be strongly encouraged to review their existing risk management, loss prevention and insurance coverage, including business interruption, even if they did not suffer serious damage from the recent earthquake and floods. In supply chain management, for example, they are moving their focus away from efficiency inventory management towards balanced inventory management; they apply risk management policies beyond immediate partners to subcontractors. In this regard, paying financial compensation in the event of an insurance claim is no longer considered adequate service from an insurer. Businesses expect the combined role of risk management service provider and insurance cover provider.

As to the enhancement of industry perception and image, repeated advertisements are not enough. The industry will be judged not by what it explains or preaches, but by how it actually behaves and what it achieves. In 2011, the Asia Pacific region suffered huge losses from earthquakes, tsunamis and floods. Insurers demonstrated their resolve, paid claims rapidly and responded to enquiries in a timely manner. People appreciated the efforts made by insurance companies, and provided them with constructive feedback and important impetus to improve their products and services. Continued engagement with customers and society is an ideal way to achieve a more favourable image.

The role of The Geneva Association in the Asia Pacific region

The basic role of insurance is to solve or mitigate the financial impact of losses that affect people and society. To achieve this, the insurance industry relies on the most up-to-date scientific, economic and sociological knowledge.

Although insurance companies, intermediaries, consultants, risk model vendors and risk managers of corporate customers frequently exchange ideas and share best practices, there is no such thing as “the perfect template” for insurance services or products. This is partly because we are handling and coping with many different variables, such as a shifting risk landscape, the unpredictable emergence of accumulated exposure, changing legal and liability regimes, empowered consumers and regulatory changes.

In short, the insurance sector faces a never-ending learning process. It is constantly searching for a better—not a perfect—solution to customer and society needs. Many reports and research papers published by The

Liaison Officers/Affiliated Organisations

Geneva Association have been widely recognised and have attracted interest from the insurance industry people as well as regulators in Asia Pacific.

Gordon Stewart, Liaison Officer for North America

The Geneva Association Representation in North America

The main objective of the North American Liaison Office is to develop a general strategy for increasing and improving awareness of The Geneva Association in a huge and highly complex "marketplace" of ideas, political alignments, economic interests, and of course, insurance. Gordon Stewart, the Liaison Officer, continues to introduce major U.S. research organisations, think tanks and others to The Geneva Association's extensive amount of valuable research over many years. Possibilities for collaboration, which has always been one of The Geneva Association's strengths, are being explored.

The Liaison Office in North America has been helping to secure a favourable reception for The Geneva Association's views on systemic risk and insurance in the U.S. This has been a common theme and priority of the many well-established, well-staffed insurance trade associations in the U.S., as well as many state insurance regulators and some Congressional staff members.

The research papers and other materials produced by The Geneva Association have been warmly welcomed and widely utilised by these U.S.-based organisations. They are logically the major drivers of the education effort on this central issue for the insurance industry in the U.S., whose staffs, along with the government affairs offices of individual insurers, are appropriately the front lines of interaction.

However, when it comes to ideas and opinion, influence in the United States is much more decentralised than is common in the many countries where the political, financial, intellectual and media capitals tend to be concentrated in one central city. The North American Liaison Office has been particularly active in New York, where most of the national media are centred, and the reason why the effective Insurance Information Institute (III) remains centred there. The research centres at Wharton in Philadelphia and Harvard in Boston are easily accessible and their views are naturally much sought after by U.S. officials and policymakers. This makes engagement with their influential thinkers a key part of any education effort that involves specific and detailed policy questions, especially those concerning the differentiation of systemic risk between insurance, banks and other financial institutions.

This said, the overwhelming majority of Americans do not interact with, or evaluate the views and roles of the insurance industry in the relatively narrow though highly influential areas of policy analysis and outreach to officials. In the climate that envelopes the public sphere of the U.S. in 2012, the contrast between large bases of tranquillity and even larger seas of tumult has rarely been greater. Moreover, it is hard to envision how the stakes could be higher.

Fortunately, as was the case in 2011, the huge space where most Americans are likely to interact with insurance—the lines of personal non-life insurance for homes and automobiles—remains in an historically stable condition from the perspectives of both customers and firms. This has positive implications for all lines of insurance. The III polling begun years ago, and conducted on a consistent basis since, continues to demonstrate that the U.S. public view of insurance as a whole tends to be closest to the areas it views the least favourably. Partly because approval for lines of auto and homeowners insurance remains high, the numbers for the industry as a whole are not currently problematic.

However, the prevailing and deteriorating conditions are far more unsettled in two other major areas of insurance: life insurance as an integral part of how citizens provide for their financial security in old age and access to health care, which is inherently the most vital area of insurance for everyone. The causes and manifestations of these two large insurance storm centres are very different, but their potential consequences—discontent with insurance solutions to the challenges most people face in the course of their lives—are similar.

It is ironic that even as the global markets seem far less tumultuous overall than they did following the financial typhoons of 2008-09, the sense of economic security felt by individuals is, if anything, growing more unsettled. North American Liaison Officer, Gordon Stewart, has prepared a paper about the situation in the U.S. for The Geneva Association's 25th Anniversary of the Four Pillars Geneva Report in which he assesses the condition of pensions systems around the world today. He suggests that the virtual collapse in the U.S. of occupation-based pensions (Pillar II) combined with the so-far insufficient strength of individual pension savings accounts (Pillar III) presents an historic national challenge. A failure to overcome the significant obstacles to constructing a credible basis for old-age economic security will have serious social and political consequences.

This challenge comes at a time when the dominant monetary doctrine of the world's central banks, including very prominently the U.S. Federal Reserve, is to maintain interest rates close to zero, or even at negative levels for short-term funds when fees are included. Certainly the "crisis in slow motion" that is the U.S. retirement system today seems almost to cry out for insurance-based solutions and there is obviously a key role for the industry in developing, implementing, and maintaining them. However, insurance initiatives that are part of the premise for financial security products, and which would be complex undertakings under normal monetary conditions, become especially daunting when there is no such thing as a time value for money in the non-equity markets and the equity markets cannot be relied upon prudently or legally.

But even a gathering storm of this magnitude is obscured in the U.S. today by the political, fiscal and emotional hurricane called health care. For those who might think this an overstatement, when was the last time, if ever, that a national battle so involved with insurance has risen to the level of a Constitutional confrontation that is already having great consequences for insurance and the country? The intensity of this battle will only grow no matter which way the U.S. Supreme Court rules, probably in June 2012, on the more than 2700-page "Patient Protection and Affordable Health Care Act of 2010".

The core Constitutional question is whether or not the government can compel (mandate) U.S. citizens to buy private sector products. In yet another huge national irony, it may be that the underlying grounds on which a 5-4 majority of the Court may find the act unconstitutional is the Obama administration's decision to drop the so-called "public option" it had initially favoured, in the hope that this would encourage consensus support. It did not. The Act (PPACA) passed the U.S. Senate with all Democrats voting for it and every Republican voting against it.

This last fact is particularly important to understanding the U.S. today. It shows starkly that regardless of how the Court rules, dealing with the consequences will take place in a bitterly divided political, ideological and cultural context. Last year, this report predicted that, "The U.S. itself may face its most divided and contentious period since its Civil War". It is fair to say this has now become the current reality in the Presidential election year of 2012, and the consequences for every area of public life in the U.S. are profound.

It is also worth considering that, strange as this may seem to many, the effects of the outcome of the 2012 U.S. Presidential election on the country and insurance may well be as unpredictable if the incumbent Barak Obama is re-elected than they will certainly be if his likely opponent Mitt Romney becomes President. This is not only because it is hard to know what any President may seek to accomplish when he no longer faces a struggle (or the opportunity) for another term, but because even after almost four years in office, and despite much rhetoric from all sides, President Obama's bottom line convictions remain remarkably obscure. As Gordon Stewart observed in an article requested by the *New York Times*, "We will find out who he is, and so will he". So far the only two causes for which he has been willing to wage all-out political war have been those to get and keep his own job.

Whatever the outcome of the 2012 U.S. elections, the essence of this report is that the greatest challenges as well as opportunities for the insurance industry in 2012 and beyond derive directly from the historic levels of serious threats to the nation's future as a market free society. And these do not arrive from beyond its borders, but arise from within.

This fact is far from an individual or singular view of The Geneva Association's Liaison Officer for North America. In fact, one of the most useful features of this 2012 report should be the analysis that nearly every important book, essay, monograph or study on the state of the American Union today takes as its central theme a view that the greatest challenges facing U.S. today result from conditions within its borders. This is true even for the most influential works about international relations, military assessments and national security affairs. What matters is not whether the overview and tone of these authors, think tanks, study groups, task forces or commissions is optimistic or pessimistic, but the consensus view that the internal political, economic, demographic facts of the U.S. today point toward crises and challenges as severe and historic as any the nation has ever faced.

Understanding this reality is essential for the insurance industry, not only in terms of overcoming its own obstacles, but perhaps even more importantly to enable it to play a role in the necessary and inevitable national responses of the U.S. to its challenges that are uniquely well suited to insurance concepts, mechanisms and organisations...and thus become embedded in the foundation of economic security that the nation must and will construct together for the general well-being of its citizens. This was a rationale for its Constitution at the start and remains a precondition for its continuation as a mature market democracy.

For all these reasons, The Geneva Association's current activities in the U.S. are directed towards explaining and strengthening the industry's ability to contribute to a more secure and stable world. In 2012, we will continue to explore ways in which insurance can effectively assist the leadership and people of the U.S. in meeting the serious uncertainties it and the world's other mature economies face today and tomorrow.

The Geneva Association Liaison Office in Eastern Europe

Jan Monkiewicz, Liaison Officer for Eastern Europe and Vice Secretary General of The Geneva Association

The Central and Eastern European region covers 17 countries in Central Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia) and 11 Commonwealth of Independent States (CIS), Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Its insurance market is still insignificant in terms of written premium (ca. €63bn in 2011) and the share of the three largest countries amounts to approximately 73 per cent: Russia ca. 43 per cent, Poland ca. 20 per cent and the Czech Republic ca. 10 per cent. The population of this region has reached 400 million inhabitants, offering high potential for insurance development. In almost all countries of Central Europe, laws regarding insurance have been recently reformed and are in the process of being modified in most of the CIS countries. The value of gross written premiums in the region is still insignificant at the world level and insurance penetration very low. Such a mix, however, makes prospects for the insurance market development in the region positive in the long run.

Statistical data confirm these observations. In the past ten years (2001-2010), premiums per capita and the penetration ratio in Central and Eastern Europe (CEE) increased more than twofold. After two years of decline, many countries of the region posted an improvement or a moderate increase in their insurance markets. The situation further improved in 2011 and prospects for 2012 are also positive. A rough estimate based on half-year results shows that the growth of written premiums in Russia rocketed in 2011 by almost 20 per cent, while in the second-largest Polish market insurance premiums increased by 16 per cent. A prevailing majority of other CEE countries also posted positive trends and this positively impacted the overall results for the whole region.

The economic outlook for CEE countries in 2010-2015 is also optimistic. According to the World Bank *World Development Report 2011*, average GDP growth rate in the region will be 3.8 per cent, which is twice that for the EU27 but slightly lower than the forecast for the world as a whole. These positive trends in economic development should further strengthen growth of the insurance industry in the region.

The Liaison Office in Warsaw was set up in 2008 as the first external office of The Geneva Association in the world. It has been established and maintained with generous support from PZU SA, a Polish Member of the Association. The mission of the Liaison Office is to administer the PROGRES Research Programme and coordinate East European exposure of The Geneva Association.

This fits in well with the PZU drive for the modernisation and internationalisation of its activities. The Warsaw Liaison Office also implements the PROGRES Research Programme, organises the Annual High Level Meeting (HLM), the PROGRES Seminar, and facilitates a dedicated dialogue network on regulatory and supervisory affairs. It also assists PZU, a relatively new and internationally inexperienced Member from Eastern Europe, to engage actively in the activities of The Geneva Association. PZU officers have become, so far, members of three working groups: Chief Risk Officers, Chief Investment Officers and Chief Communication Officers.

In 2011 the Warsaw Liaison Office focused on the following basic issues:

- Assistance in organising the HLM 2011 and the 27th Annual PROGRES Seminar dedicated to the debate on “Balancing Regulation and Supervision: in search for optimal global solutions”.
- Preparation of the concept, draft programme and selection of the most competent speakers for the 2012 HLM and 28th Annual PROGRES Seminar.
- Assistance in organising the 9th Chief Communication Officers Meeting in Warsaw in 2011. Its programme included a round-table debate on challenges and opportunities for insurance communications and four sessions on: damages caused to the insurance industry by world economic rescue, the latest Geneva Association Board discussions on systemic risk and climate change, education on sustainability, and the use of traditional and social media by the insurance industry. The meeting, hosted by PZU, took place on 29-30 September 2011 and was highly valued by all participants.
- Coordination of the work of a team of 33 top-level experts representing practitioners, supervisors, regulators, academics and international insurance organisations in compiling the book *The Future of Insurance Regulation and Supervision. A Global Perspective*.

Liaison Officers/Affiliated Organisations

Good relations have been maintained with the two most significant non-EU players in the region—Russia and Ukraine—especially in light of The Geneva Association's policy towards CEE and The Geneva Association's new advocacy function. The Geneva Association is perceived as a well-positioned and potentially major group player in the world arena, helpful to East European and CIS insurance companies in voicing their needs and catching up with rapid global changes. For their part, companies and institutions in the region have local knowledge and contacts to decision-makers and legislators. Closer relations with them may be of real value in our advocacy function.

With the PZU and the Polish Re initiative, the Warsaw Liaison Office therefore intends to assist in convening a meeting of selected CEE insurance industry players to discuss their needs further and to investigate a potential role for The Geneva Association in the process. Initial contact has already been made with a group of distinguished partners: Ingosstrakh from Russia, ASKA from Ukraine, Standard Insurance from Azerbaijan, UNIQA Versicherungen AG and VIG AG from Austria, Triglav from Slovenia, Belgosstrakh from Belarus, Imedi L International from Georgia and BTA Insurance Company from Latvia. The initiative is meant to create a strong platform for regionally-focused strategic discussions, including a regulatory and policy dialogue, and make it possible for the participating organisations to voice their ideas, concerns and requests, both at the regional level and beyond.

The Applied Services Economic Centre (ASEC) Services and Vulnerability Project

(www.asecinfo.org/)

Brian Woodrow,
Co-Director of ASEC and
Director, World Fire Statistics Center

For more than 25 years now, the Applied Services Economic Centre (ASEC) has drawn attention and contributed to the evolution of a continuing series of emerging services-related trends and issues: first during the 1970s, the emergence of services as an economic sector and the notion of a "service economy"; then during the 1980s, 1990s and after, the negotiation of important international trade in services agreements; and by the year 2000, the need to begin to rethink the role and function of services within a globalised economy.

Since the turn of the millennium, economies and societies worldwide have evolved increasingly into "service economies". The conventional notion of services as simple units of production has changed, as services have now become closely tied up with our notions of uncertainty/certainty, risk and value. This poses a fundamental intellectual challenge both to neoclassical economics and to conventional thinking about the operation of modern economies and societies.

ASEC initiated therefore as of 2000 a sequence of invited seminars which sought to explore these changing functions of services. Through a continuing association with the Club of Rome, these ideas about services and the "service economy" have progressively been developed and disseminated widely. Though ASEC is not committed to any particular point of view or commercial interest, the Centre firmly believes that continuing liberalisation of trade in services establishes an essential foundation for further evolution towards a modern global service economy.

ASEC continues to champion the need for a thorough rethinking of prevailing understandings of services to study the implications of how our increasingly global world economy has become more and more a "globalised service economy". Since 2003, however, the Centre has focused primarily on its Services and Vulnerability Project, since it maintains that the concept of vulnerability, as distinct from related notions of risk, hazard and uncertainty, is a controlling concept for understanding our 21st century world.

The Centre has proceeded in particular towards the development of metrics, diagnostics and coping strategies for dealing with technological, environmental and financial vulnerabilities that affect the "global service economy". ASEC further undertakes studies on specific vulnerabilities affecting our 21st century world and is engaged in developing and promoting the concept of vulnerability as it relates to overlapping notions of uncertainty, risk and hazard. Work includes a concise paper on the generic concept of systemic risk, incorporating both financial and non-financial aspects of that notion.

ASEC is co-directed by Professor Brian Woodrow of the University of Guelph and Patrick M. Liedtke and operates both out of Geneva and Guelph in Canada as a loose consortium of researchers and practitioners in the field of services and insurance. It offers a forum for open discussion and exchange of views on key topics, conducts studies and advises on services issues, participates in and sometimes sponsors seminars and conferences, and seeks to stimulate interaction among business, government and officials of international organisations through seminars, conferences and other activities.

The ASEC Vulnerability Research Database

The ASEC understands vulnerability to refer to inherent or circumstantial conditions which may result in an event/outcome occurring with causes or consequences unknown. In terms of Donald Rumsfeld's now infamous formulation, vulnerabilities are the missing category—the "unknown knowns"—where we know more or less what the problems and issues are but often lack the requisite knowledge about their specific incidence and consequences to take appropriate and effective actions.

Vulnerability is a most difficult concept to nail down. It is a term commonly used in popular parlance and increasingly in more specialised discourses, but without any common and agreed meaning. In popular parlance, vulnerability is often presented in terms of threat, peril or weakness—the threat of a bird flu pandemic, the peril of nuclear disaster, the weaknesses of the Internet or of other critical infrastructures—but the essential character of the vulnerability is usually left unexplored.

In the more specialised lexicon such as insurance, as well, vulnerability equates to the notion of "collective perils" or "emerging risks" but, we will argue, needs to be given more embedded meaning than simply a composite or open-ended list of subjects and issues which might pose liability problems. Our early 21st century world is very much a world sensitive to vulnerability, even though we have failed until now to pay much attention to the essential concept.

Liaison Officers/Affiliated Organisations

Over the past three years, one specific task of the ASEC Services and Vulnerability Project has been to identify, catalogue and analyse how a number of prominent and often quite diverse institutions and organisations have increasingly adopted and introduced a vulnerability approach into their thinking, work and activity. The Vulnerability Research Database chronicles how each institution or organisation understands the concept of vulnerability, to what extent and how it underpins and informs their research, and how they utilise and apply it in their work and activities.

Prominent examples include the World Economic Forum's Global Risks Initiative, the Organisation for Economic Co-operation and Development (OECD)'s Emerging Systemic Risks and Global Shocks Projects, the International Monetary Fund (IMF)'s Global Financial Stability Reports, the United Nations Development Programme (UNDP) and the United Nations International Strategy for Disaster Reduction (UNISDR)' work on Disaster Management, the Intergovernmental Panel on Climate Change (IPCC)'s Climate Science programme, the International Risk Governance Council, and the ProVention Consortium. This Vulnerability Research Database will provide the foundation for ASEC to become an important information hub for research in the vulnerability field.

World Fire Statistics Centre (WFSC)
(www.wfsc.info)

The World Fire Statistics Centre (WFSC) has operated since the late 1970s as an important locus for data collection and dissemination of national statistics on the incidence and cost of fires worldwide. Surprisingly and despite its clear importance, comprehensive work on fire statistics has generally not been undertaken by national governments themselves, nor by any of the possible international organisations which might have taken on the task.

Grounded upon the shared interest of the insurance industry in learning more about the risks posed by fire and driven by the talents and energy of its founding Director Tom Wilmot, then later his successor Tony Paish, and now Brian Woodrow, The Geneva Association has provided the platform within which the WFSC could operate and develop over the past 30 years. Over those years the WFSC revised and applied the basic methodology for assessing fire costs in the European context, specifically with regard to structure and property fires, and then extended coverage to North American and selected Asia/Pacific countries.

The Centre is concerned with the practical problem of reducing economic and material losses from fire. The main focus of its work, the collection, analysis and dissemination of internationally comparable fire cost statistics, is thus seen very much as a means to an end: providing reliable national data on fire costs, their incidence and estimated costs and national efforts at fire protection, prevention and research, but also persuading governments to adopt coherent fire strategies aimed at reducing national fire costs.

Each year WFSC collects and collates fire cost statistics, under seven main headings, from a number of leading countries worldwide, mainly within Europe but also including, for example, the U.S., Japan and Canada. Currently, the data fields queried include: Direct Fire Losses;

Indirect Fire Losses; Human Losses—Fire Deaths and Injuries; Fire Brigades; Fire Insurance; and Building Protection.

Each Annual Report from the Centre to the United Nations, through its United Nations Economic Commission for Europe (UNECE) Committee on Housing and Land Management, forms the basis for an annual information bulletin, *World Fire Statistics*, that presents data on national fire costs from over 20 leading countries in an effort to persuade governments to adopt strategies aimed at reducing the cost of fire. It has a worldwide direct circulation to relevant government departments, fire protection associations, fire brigades, insurance companies, fire engineers, the trade press and academic fire experts. First published in March 1984, *World Fire Statistics* is now available on The Geneva Association and WFSC websites and is consulted frequently, showcasing how WFSC statistics can be utilised effectively to deal with current fire problems and issues.

The Geneva Association has organised or supported international meetings and seminars every three to four years, generally in Geneva, in order to enable the Centre's latest work to be presented and discussed and to provide a forum for other fire experts working in related fields. Planning is underway for a Geneva Association-sponsored conference/ seminar on world fire statistics in 2012.

Efforts are being made to extend and enhance the work of the WFSC. In September 2011, the WFSC presented its Annual Report to the UNECE Committee on Housing and Land Management which was, as usual, warmly received. As well, the annual WFSC Information Bulletin which reports current fire loss data was published and, so as to showcase WFSC work more effectively, will in future be supplemented with topical articles on the fire situation in specific countries or regions as well as analyses of important comparative trends.

A complete dataset of all WFSC statistics collected from 1979 to 2007 has now been prepared and work is being done to make the data more accessible. Attempts are also ongoing to fill in country gaps in the existing fire losses dataset and to recruit national correspondents in countries beyond the current 20 or so countries.

The Future of the WFSC

Not only will it be important in the coming years to increase the number of countries reporting and especially to extend their global reach and representativeness, it will also be important for the WFSC to take account of the changing contexts and conditions within which fires arise and cause death and destruction. In particular, it will need to go beyond the structures and property damage data currently collected to pay more attention to wildfires and fires associated with other natural disasters.

Greater attention needs also to be directed towards viewing fire in a broader risk management and disaster mitigation perspective. In articles and interventions at numerous conferences over the past two decades, the WFSC has called repeatedly for governments to develop "national risk management strategies" within which "a national fire strategy" would be one important component. In addition, it is also important to situate fire among the wide range of natural disasters occurring worldwide each year—from volcanoes and earthquakes to windstorms and heat waves—and to understand the possible linkages and comparabilities among them. Only then can we see where fire fits in the broader picture and how governments, practitioners and informed citizens can make proper decisions about and take cost-effective actions in adopting risk management and disaster mitigation strategies in the years to come.

One common theme underlying these new understandings of fire is the notion of fire as vulnerability. The concept of vulnerability is drawing increasing attention within the natural, physical and social sciences over the past decade or so and provides an interesting way of understanding the future role and importance of fire. The ASEC's Services and Vulnerability project is just one example of such a focus on the concept of vulnerability.

In essence, vulnerabilities are those contexts and conditions, inherent or circumstantial, which precede the occurrence of extreme events whose specific causes and consequences may be largely unpredictable. Uncontrolled fire, as is evident in the increasing incidence of wildfires worldwide or the continued burning of fossil fuels which release CO_2 into the atmosphere, may act as one vector of vulnerability which leads to or presents itself in extreme events or, through rising global temperatures, contributes to global climate change of significant size and scope. Indeed, the Intergovernmental Panel on Climate Change (IPCC) has only recently identified fire as just such a vector of vulnerability and significant contributor to global climate change in its most recent climate models. Just as our understandings of fire itself and its causes and consequences are changing, so too are our requirements for comprehensive and relevant world statistics on fire.

Liaison Officers/Affiliated Organisations

Improving how the WFSC operates

"Fire as Vulnerability" views the incidence and occurrence of fire as a vector of vulnerability which runs throughout our increasingly urbanised world, and is amplified and enhanced by the processes of ongoing globalisation and environmental change. The traditional model for measuring uncontrolled fire occurrence has been to categorise and determine the cost of these various incidences of fire and to collect data in terms of:

- annual fire incidence and estimated insured and uninsured fire losses;
- deaths and injuries attributed to fire as their cause;
- government, and to a lesser extent private sector budgets for fire protection services and prevention;
- professional and volunteer fire services personnel employed; and,
- imputed cost of structure and property protected against uncontrolled fire.

This is the approach which the WFSC has pioneered—and will continue to utilise in the years to come. Major national fire protection and insurance industry bodies, as well as country and international health authorities that report on fire statistics in most of the countries for which the WFSC currently assembles data, follow a broadly similar approach.

Going forward, the WFSC faces three main tasks: modernising the way it collects and analyses its data; making sure that the statistics it collects and disseminates remain reliable and relevant in light of changing times and conditions; and expanding the national coverage of our statistics so as to present a truly global picture. All inputs for data collection, adjustments to the collected data and historical statistics have now been digitised, allowing the Centre to maintain a fully electronic WFSC database going forward.

Efforts are also underway to review and possibly expand the types of fire data that the WFSC currently collects, particularly with regard to insured losses, fire services administration and public/private fire protection activities. In addition, we continue to expand the WFSC database to include forest/wildfires and fire attendant upon other natural disasters. We are now forming an international advisory group on world fire statistics and preparing a first meeting on data needs and requirements to be held in 2012. An essential first step is to collect and collate relevant and reputable national statistics on fire occurrence that take into account the different ways that uncontrolled fire affects our 21st century world. After that, the four common steps in risk management and disaster reduction—preparedness, prevention, response, and recovery—can all be adapted to deal with our various fire vulnerabilities.

Just as important is the need to ensure that the data we collect and the statistics we produce are both reliable and relevant. Especially since the 1990s, wildland fires of various sorts and sizes have become increasingly prominent in a swath of countries around the world and each year we read of one country or other facing severe fire emergencies. These fires typically start in forest or scrub lands but soon infringe upon the urban and semi-urban areas where concentrations of people live and where houses and property are damaged or destroyed. Fire can likewise often be concomitant to other natural disasters such as earthquakes, volcanic eruptions, prolonged excessive heat, or flooding which can spark electrical fires.

It is also important to keep in mind that despite modern fire protection and preparedness, increasing concentrations of population in "megacities" create the basic conditions—inherent, circumstantial and contingent—under which large urban fires can occur with significant potential costs and consequences. Fire is a vector for vulnerabilities which may be triggered by a range of extreme events and natural disasters, large and small, a recent example of which is the Russian wildfires of 2010 which caused only 100 or so actual fire deaths but is estimated to have led to more than 50,000 excess deaths among the Russian population. Work by the WFSC must encompass all these evolving trends.

The WFSC's most immediate task, however, is to expand the number of countries for which national fire statistics are collected and reported. It is a striking fact that the governments of many countries do not themselves collect systematic data on fire occurrence within their country and that often only partial information from multiple sources—fire protection services, insurance industry associations, and national or international health authorities—is currently available.

It is fitting testimony to the dedication and good work of our national correspondents over the past 30 years that the WFSC has been able to produce the world fire statistics that we currently have. However, we need urgently to recruit from all parts of the world national correspondents and volunteers who can contribute to the WFSC database. Recent efforts have allowed us to bring in Portugal and Spain, and the WFSC is stepping up its efforts to recruit volunteers in other select countries. The WFSC would be pleased to receive enquiries from individuals or organisations interested in taking on responsibility for reporting data on their country.

Conferences and Other Events

Overview of Events 2011/2012

2011

April

7, Geneva, The Geneva Association/IAIS Executive Committee High-Level Meeting (Members only), hosted by The Geneva Association

7-8, Geneva, 27th PROGRES Seminar on Insurance Regulation and Supervision

6-8, Rome, 16th International Space Insurance Conference on "Space Activities Development—Risk Management and Insurance Aspects", organised by Pagnanelli Risk Solutions Ltd., co-sponsored by The Geneva Association

May

12-13, Basel, 9th ART of CROs, hosted by Bâloise-Holding

25-28, Rio de Janeiro, 38th General Assembly of The Geneva Association (Members only)

June

17, Beijing, 7.5 Annual Liability Regimes Conference, hosted by Swiss Re

July

12-13, Bermuda, M.O.R.E. 25 on Mapping and Modelling Risks and Opportunities (MMR+O 2), hosted by the Bermuda Underwater Exploration Institute (BUEI)

19-22, Toronto, The Geneva Association/IIS Research Award Partnership

September

19-21, Vienna, 38th Seminar of the European Group of Risk and Insurance Economists (EGRIE)

29, Warsaw, 9th Chief Communications Officers' Meeting, hosted by PZU

October

4, Rome, Italian AXA Forum, organised by AXA/MPS, ANIA and The Geneva Association

7, Trieste, 9th Geneva Association Associates Meeting, hosted by Generali Group

18-19, Singapore, 3rd CR+I Seminar on "Interactions between the Private Sector and Asian Policymakers on Mitigation and Adaptation for Extreme Events and Climate Risk", hosted by the Institute of Catastrophe Risk Management (ICRM) of NTU, organised in collaboration with the Disaster Risk Financing and Insurance (GFDRR) Programme of the World Bank, the National Climate Change Secretariat (NCCS) Office of the Singapore Prime Minister's and The Geneva Association

27-28, Munich, 8th Annual Liability Regimes Conference, hosted by Munich Re

Conferences and Other Events

November

14-15, Toronto, 8th Health & Ageing Conference on "Insurance and Dementia", hosted by Sun Life Financial

16-17, Rüschlikon, 7th CRO Assembly, jointly organised with Swiss Re and the CRO Forum

December

6, London, 1st Bancassurance CEO Roundtable of The Geneva Association, hosted by HSBC

7-8, London, 8th International Insurance and Finance Seminar of The Geneva Association

2012

January

10, New York, Joint Industry Forum for P&C Insurance Industry, co-sponsored by The Geneva Association

30-31, Singapore, 2nd Asian Climate Change Summit on "Tackling Climate Change—Being Ready to Face Threats & Opportunities", co-hosted by Asia Insurance Review and The Geneva Association

February

15-16, Singapore, 12th Asia CEO Insurance Summit, co-organised by Asia Insurance Review and The Geneva Association

23-24, Amsterdam, 14th Meeting of the Amsterdam Circle of Chief Economists, hosted by ING (ACCE members only)

March

1, Zurich, 6th Meeting of Chief Investment Officers in Insurance, hosted by Catlin Group (CIO members only)

22, Geneva, The Geneva Association/IAIS Executive Committee High-Level Meeting (Board members only), hosted by The Geneva Association

22-23, Geneva, 28th PROGRES Seminar on Insurance Regulation and Supervision, hosted by The Geneva Association

The 38th General Assembly of The Geneva Association

25-28 May 2011, Rio de Janeiro, Brazil

The General Assembly of The Geneva Association is the most prestigious gathering of insurance executives in the industry calendar and has been an annual event since The Geneva Association's inception by former French Prime Minister, Professor Raymond Barre, in 1973. It allows Members to exchange their ideas and discuss key strategic issues that are major opportunities or challenges for the development of the sector and to prioritise long-term strategic issues.

For its 38th General Assembly in May 2011, The Geneva Association held the event for the very first time in Latin America, convening the CEOs

Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association, and Nikolaus von Bomhard, Chairman of The Geneva Association.

of the world's leading insurance companies in Rio de Janeiro, Brazil. During their meetings, the CEOs discussed a series of current insurance issues which were of concern to them, in particular the current regulatory discussions. In this regard, the 2011 General Assembly highlighted how far the insurance industry has travelled in one year in speaking with one voice on the issue of financial stability.

In particular, the activity-based methodology for appraising systemic risk proposed by The Geneva Association has contributed successfully to a better understanding at the regulatory level of how the roles of banks and insurers in the economy differ substantially. As shown at the General Assembly, such research has helped foster greater coordination and cooperation on a global level between the insurance industry and regulatory bodies, as well as within the insurance industry itself.

Climate-related risks also emerged as a primary concern among member CEOs, who expressed the desire for greater public-private cooperation in creating a suitable economic and regulatory framework to enable insurance mechanisms to play their part in protecting people and economic actors from climate-related risks. They would also like to see governments take a stronger role—especially in the developing world. Indeed, insurance has considerable expertise in managing extreme events and can assist the public sector in addressing the fragility or absence of insurance mechanisms and in improving risk management and adaptation programmes.

The fundamental role played by the insurance industry in the performance of a modern economy is highlighted in the many works published by The Geneva Association and also became apparent at the press conference prior to the General Assembly. Latin American and international press displayed a strong interest in the economic and social aspects of insurance activities, with The Geneva Association's work on climate risks and its impact on developed and developing countries again drawing particular attention.

The General Assembly also brought the emerging intersection of climate risk and liability law, namely the rapid growth of liability risks for insurers arising out of weather-related extreme events, to the attention of the CEOs. Research by The Geneva Association shows that the prospects for serious claims and losses in the near future cannot be safely ignored by insurers and this topic will undoubtedly gain increasing attention at future meetings.

The 38th General Assembly of The Geneva Association was generously hosted by local insurers SulAmérica Seguros and Bradesco Seguros and supported by CNSeg and IRB-Brasil Re. Honorary and Expert Guest Speakers at the Assembly included: Mr Nelson Barbosa, Executive Secretary, Ministry of Finance, Brazil; Mr David Fried, Group General Manager and Group Head of Insurance, HSBC, Hong Kong Prof. Scott Harrington, Wharton School, Philadelphia; Mr Yoshihiro Kawai, Secretary General, IAIS, Basel; and Mr Mark Lewis, General Manager, Global Insurance Industry, IBM Corporation, New York.

9th CCOM Meeting

29 September 2011, Warsaw

The 9th Chief Communications Officers Meeting (CCOM) took place in Warsaw in September 2011 and was hosted by PZU SA. The programme focused on three core areas: insurance communications on the subject of regulation; the evolution of traditional and social media; and climate change initiatives viewed through the lens of liability law.

The CCO meeting was opened by PZU Board Member Marcin Halbersztadt, who launched the event on a positive note, after which session I discussions reviewed the global challenges confronting the insurance industry today.

Anthony Kennaway of The Geneva Association summarised four major areas of concern for communications: financial stability regulation, climate risks and insurance, demographics and the reputation of the insurance industry. Overviews of the U.S. and European media relations environment for insurance were also provided by Jeanne Salvatore of the Insurance Information Institute (III) and Janina Clark of European Insurance (former CEA) respectively. Katsuo Matsushita, East Asia Liaison Officer for The Geneva Association, submitted a paper on the media landscape for insurance in Asia in absentia.

In session II, outside speaker Jonathan T. Scott, Senior Lecturer at Kozminski University in Warsaw, spoke engagingly on how to educate audiences on issues of sustainability. On day 2, Jeanne Salvatore discussed the evolution of traditional and social media and drew on the many successful strategies and tactics implemented by III to provide examples of how to meet the challenges for insurance communications created by the emergence and transformation of new media.

General Assembly 2011 press conference.

From left to right: Kunio Ishihara, Chairman of the Board, Tokio Marine & Nichido Fire Insurance Co., Vice Chairman of The Geneva Association and co-Chair of The Geneva Association's Climate Risks and Insurance Group; Patrick de Larragoiti Lucas, CEO SulAmerica Seguros and Board Member of The Geneva Association; Dr Nikolaus von Bomhard, Chairman of the Board of Management, Munich Re and Chairman of The Geneva Association; and, Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association.

A topic of growing importance in light of environmental initiatives such as Principles for Responsible Investment (PRI) and Principles of Sustainable Insurance (PSI) was presented by Richard Murray, Special Advisor to The Geneva Association. Building on the current direction of tort law in the U.S. and elsewhere, he raised the concern that liability law could make climate change the next "big tobacco" for the insurance industry.

These discussions raised a number of comments and provided participants with new perspectives on the issues. The selected themes also offered a look at how industry communicators can collaborate and coordinate their efforts to serve the wider industry more effectively. Special thanks go to PZU SA and its staff for their considerable efforts and efficiency in making the meeting a great success.

Publications

Overview

The Geneva Association publications take different forms in addressing its various audiences:

- two journals, *The Geneva Papers on Risk and Insurance—Issues and Practice* and *The Geneva Risk and Insurance Review* (formerly *The Geneva Papers on Risk and Insurance Theory*);
- reports on major themes discussed throughout the year, otherwise known as *The Geneva Reports*;
- seven different newsletters;
- *Etudes et Dossiers*, or working papers from conferences and meetings; and,
- books and monographs written by Geneva Association staff and/or external collaborators.

Health and Ageing Newsletter

No. 26 April 2012

Guest Editorial

Screening for Dementia and the Impact on Mortality and Morbidity in Long-Term Care Insurance

by Marc A. Cohen[+], Jessica Miller[++] and Xiaomei Shi[+++]

Introduction

Carriers providing long-term care (LTC) insurance have historically invested significant resources in risk management activities designed to ensure that policies are properly priced and that premiums can remain relatively stable for consumers. An important focus of such risk management activities has been the medical underwriting process and more specifically dementia screening. Dementia-related claims continue to present the single largest claim liability to LTC carriers. Moreover, left unmanaged, this potential liability can threaten the long-term stability of premium rates, something that is of particular importance to carriers, policyholders and insurance regulators. Dementia is also related to mortality, which means that as the average age of life insurance applicants increases, the ability to accurately screen for dementia becomes increasingly important.

Over the past decade, there have been significant improvements made in the ability of cognitive screens to identify individuals at the earliest stages of cognitive decline—a state known as "Mild Cognitive Impairment (MCI)". MCI is a subtle but measurable memory disorder and a person with MCI experiences memory problems greater than normally expected with ageing, but does not show other symptoms of dementia such as impaired judgment or reasoning. Nearly eight years ago, a new cognitive screen was introduced to the market and is now extensively used by LTC carriers. The test called Enhanced Mental Skills Test (EMST) is designed to detect applicants at the very earliest stages of cognitive decline (Shankle *et al.*, 2005). This test generally replaces an earlier cognitive screen called the Delayed Word Recall (DWR) (Knopman and Ryberg, 1989), which was seen as somewhat less effective in capturing people during the MCI stage of decline.

Purpose

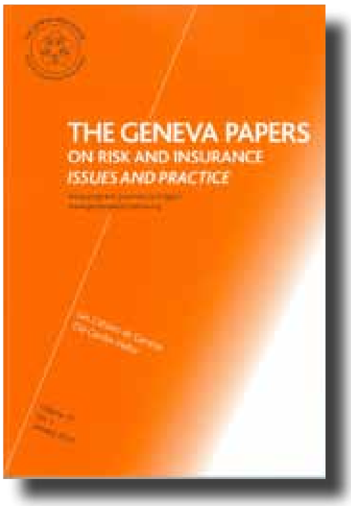
The purpose of this article is to report on research that examined the relationship between the very earliest stages of cognitive decline (i.e. MCI) and subsequent mortality as well as evaluate the efficacy of screening on early morbidity experience as measured by the incidence of dementia-related LTC claims. We focus on the screening experience of each of these cognitive screens: (1) the DWR, and (2) the EMST.

The year 2011-2012 has seen the emergence of many global and national economic and financial issues that could impact the insurance industry. The Geneva Association has responded to this increased diversification by publishing a number of special issues. The Association remains particularly active in the financial arena and shows its versatility and proactivity through a plethora of publications. The other major highlight at the beginning of 2012 was the modernisation and streamlining of The Geneva Association's newsletters and e-newsletters, with a new design and layout.

Journals

The Geneva Association's main publication, *The Geneva Papers on Risk and Insurance Theory* was founded in January 1976 under the auspices of the first President of The Geneva Association, Prof. Raymond Barre. As stated by Prof. Barre, the goals of *The Geneva Papers on Risk and Insurance* were first and foremost to become the voice of insurance at the highest world level to help elaborate and confront key strategic issues for the sector; and second, to stimulate a constructive dialogue between insurance and its social and economic partners. In 1990, with the development of more theoretical studies on risk and insurance, *The Geneva Papers on Risk and Insurance* were separated into two series: *The Geneva Papers in Risk and Insurance—Issues and Practice* and *The Geneva Papers on Risk and Insurance Theory*; the latter was later changed to *The Geneva Risk and Insurance Review.*

Both journals present peer-reviewed articles and are issued by Palgrave Macmillan. Archives are fully digitised and those less than three years old are available in the archives section of the Palgrave website (*www.palgrave-journals.com/gpp/index.html*). Those older than three years are available in the virtual library of The Geneva Association website.



The Geneva Papers on Risk and Insurance—Issues and Practice

Founded in 1976 and issued quarterly by Palgrave Macmillan, *The Geneva Papers on Risk and Insurance—Issues and Practice* publish papers which both improve the scientific knowledge of the insurance industry and stimulate constructive dialogue between the industry and its economic and social partners. It is essential reading for academics and researchers in insurance, insurance industry executives and other professionals who are searching for a deeper insight into the strategic options for their sector. It bridges the gap between these groups, highlighting overlapping areas of interest and providing mutually beneficial research and dialogue. The journal utilises Palgrave Macmillan's industry-leading Advance Online Publication (AOP) service. These AOP articles are fully citeable, as Palgrave publishes only the final versions of papers, and they can be referenced as soon as they appear on the AOP site, using the digital object identifier (DOI).

The Geneva Papers on Risk and Insurance—Issues and Practice has displayed healthy growth since 2009. The journal has benefited in particular from revenue associated with the *Insurance in Asia* supplement, member subscriptions deferred from 2009 and good returns from aggregators. It has also benefited from analytical and informative articles published in 2010 and early 2011—so much so that The Geneva Association decided to issue a special edition on insurance in Asia (GPP 35(SC1)), featuring high-level analysis on the state of insurance in the region.

Issues published in 2011/2012:

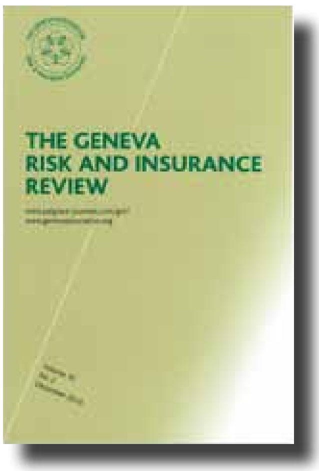
- GPP 36(2) in April 2011 offered papers on a variety of issues, namely life insurance, its productivity, demutualisation, control and efficiency; pensions issues, such as solvency measurement in Swiss occupational pension funds and the adequacy of retirement income in the U.S.; financial issues, including derivatives' usage, and cost of capital and risk margin estimation.
- GPP 36(3) in July 2011 was a tripartite edition of The Geneva Papers that covered on insurance and regulation in a global regulatory reform framework, other issues in insurance and a Special Contribution that provided a retrospective on what The Geneva Risk and Insurance Review has brought to the study of insurance in high academic circles in 2010.
- GPP 36(4) in October 2011 was a Special Issue on Longevity, edited by Drs David Blake, Christophe Courbage, Richard MacMinn and Michael Sherris. The issue was dedicated to selected papers presented at the 6th International Longevity Risk and Capital Markets Solutions Conference that was held in Sydney in September 2010. This volume addressed the issue of longevity risk and capital markets, insurance-linked securities, modelling mortality, reverse mortgages, financial risk for life insurers, and incidence experience.
- GPP 37(1) in January 2012 offers contributions on a wide variety

of essential subjects in insurance and the economy, including papers on life insurance markets, regulation, price discrimination and microinsurance. This issue also showcases the two Geneva Association/IIS award-winning papers in 2011, focusing on the topics of insurance and regulation today.

The Editors and Editorial Board of *The Geneva Papers on Risk and Insurance—Issues and Practice*

The Editorial Board is looking to make *The Geneva Papers* more forward-looking and to enhance the journal's position at the forefront of research in the field of insurance economics. As leaders in this area, members of the Editorial Board are asked to peer-review each article submitted for publication. From 2002 to February 2012, the Editor-in-Chief of *The Geneva Papers* was Patrick M. Liedtke. In February 2012 this role was transferred to Christophe Courbage, Head of the Health and Ageing and Insurance Economics Programmes of The Geneva Association. We are very grateful to the Editorial Board for their steadfast dedication and input on the submissions and look forward to their continued support in 2011-12, and also to thank all reviewers for their invaluable contribution.

The Geneva Risk and Insurance Review



The Geneva Risk and Insurance Review targets academics and university scholars in economics. It is published by Palgrave Macmillan in annual volumes of two issues. Its purpose is to support and encourage research in the economics of risk, uncertainty, insurance and related institutions by providing a forum for the scholarly exchange of findings and opinions.

The journal utilises Palgrave Macmillan's industry-leading Advance Online Publication (AOP) service. These AOP articles are fully citeable, as Palgrave publishes only the final versions of papers, and they can be referenced as soon as they appear on the AOP site, using the digital object identifier (DOI).

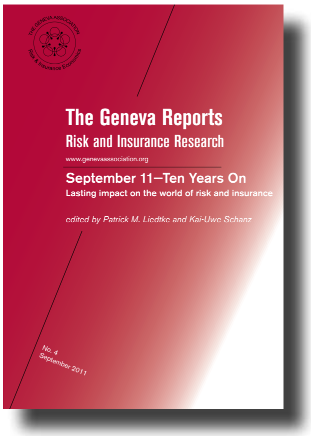
The Editors-in-Chief of *The Geneva Risk and Insurance Review* are Prof. Keith J. Crocker, William Elliott Chaired Professor of Insurance and Risk Management at The Pennsylvania State University and Prof. Achim Wambach, Director of the Institute for Economic Policy, University of Cologne.

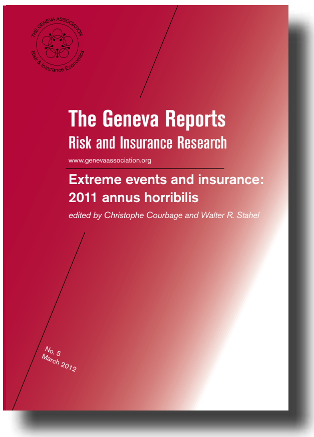
The Geneva Risk and Insurance Review is today considered to be the official journal of the European Group of Risk and Insurance Economists (EGRIE).

The Geneva Reports—Risk and Insurance Research

The Geneva Reports series tackles issues of strategic importance to the insurance industry that warrant special attention and particular analysis under the direct guidance of Secretary General Patrick M. Liedtke. The series is published on an "as appropriate" basis and is available both in printed and electronic versions. Two reports were issued in 2011 and early 2012:

Publications





September 11—Ten Years On: Lasting impact on the world of risk and insurance

Ten years after the terrorist attacks of 11 September 2001, The Geneva Association initiated a comprehensive research effort focusing on the lasting impact of an event which was the most expensive man-made disaster for insurance ever and which, in its immediate aftermath, was widely viewed as heralding a new era in global politics, economics and business. This effort builds on The Geneva Association's seminal special monograph *Insurance and September 11—One Year After: Impact, Lessons and Unresolved Issues* which, written and published in 2002, has proven remarkably prescient in many respects.

Extreme events and insurance: 2011 annus horribilis

2011 was the most expensive year in recorded history both for the national economies and the insurance sector. This report presents the insurance's role in managing extreme events and the mechanisms that make these insurable, both by the public and private sectors. In this context, it provides a detailed picture of the main extreme events that occurred in 2011 and analyses their impact on local insurance markets as well as the lessons learned to efficiently manage these risks.

Newsletters

Seven newsletters on the main research activities, as well as on World Fire Statistics, have been published throughout the year. They are published twice a year, except for the annual *World Fire Statistics Information Bulletin*. They are disseminated in hard copy and in the form of e-newsletters, both forms now benefitting from modern and more journalistic-style layouts, distribution and promotional channels.

Insurance Economics

This newsletter for risk and insurance economists serves as an information and liaison bulletin to promote contacts and research collaboration between economists at universities and in insurance and financial services companies with an interest in risk and insurance economics.

Risk Management

This publication summarises The Geneva Association's initiatives in the field. It is open to contributions from any institution or company wishing to exchange information on the subject.

Four Pillars

The newsletter of the Research Programme on Social Security, Insurance, Savings and Employment was initiated in 1985, and provides information on research and publications in this area. It also covers themes linked to the life insurance sector.

PROGRES

The aim of the PROGRES newsletter is to contribute to the exchange of information on studies and initiatives aimed at better understanding the challenges arising in the fields of insurance regulation, supervision as well as other legal aspects.

Publications

Insurance and Finance Newsletter

No. 9, February 2012

Editorial

Financial Stability in Insurance—A Built-in Resilience Mechanism

by Etti Baranoff[+]

The efforts to study and contribute to the financial stability debate and regulatory developments have continued to dominate the agenda of the Insurance and Finance Programme at The Geneva Association. In the past year, we progressed from explaining the insurance activities and products, and the differences between the insurance and the banking business models, to working on a methodology for identifying potentially systemically risky activities and Systemically Important Financial Institutions (SIFIs). The distinctions between the two financial sectors achieved acceptance through The Geneva Association's published studies: the seminal report of March 2010, *Systemic Risk in Insurance,* that was followed by additional reports about AIG and activities that could potentially lead to systemic risks.[1] Recognition of the focus on insurers' activities as distinct from those of banks was evident in the November 2011 report *Insurance and Financial Stability* of the International Association of Insurance Supervisors (IAIS). The IAIS report agrees that traditional insurance activities are not systemically risky, as the results of the major research work conducted by The Geneva Association.

The acceptance of the differences between the activities and the business model of insurance from that of banks for the purpose of designating SIFIs in insurance is a starting point for the methodology to be developed by the IAIS. The IAIS was appointed by the Financial Stability Board (FSB) to provide a methodology for potentially designating insurers as SIFIs, which later will be adopted by the G-20 for macro regulation in financial stability. The IAIS is currently in the process of developing this methodology and is in the midst of a major data collection and analysis effort. During the Insurance and Finance Seminar of The Geneva Association in early December 2011 in London, Monica Mächler, Chair of the IAIS Technical Committee, noted that while the activities-based methodology is the centrepiece of the IAIS report, it is critical to develop a methodology that links the potentially systemically risky activities with markets and business risks. The IAIS report appears to be taking two of the three-prong insurance mechanism for financial stability (featured in the Exhibit below) into account: the products or activities and the business model of insurers.

Health and Ageing

This publication seeks to bring together information and analyses linked to issues in health, and to try to find solutions for the future financing of health and the role that insurance solutions can play in them.

Insurance and Finance

This newsletter for finance directors, senior financial managers in insurance companies and reserachers in the field of finance is published as an information and liaison bulletin to promote knowledge and understanding of financial issues in insurance.

World Fire Statistics Information Bulletin

Published annually, this information bulletin presents statistics on national fire costs from over 20 leading countries in an effort to persuade governments to adopt strategies aimed at reducing the cost of fire.

Etudes et Dossiers

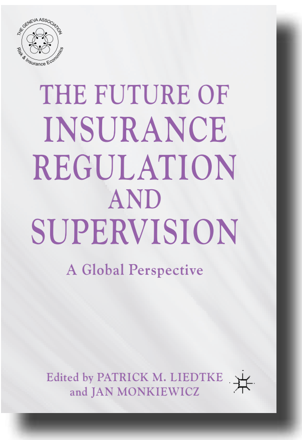
Etudes et Dossiers are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association.

Documents from conferences organised by The Geneva Association are made available freely on the Association's website, albeit with restricted access (private area), within a week following the event. This ensures swift dissemination of information among conference attendees and this system has received much positive feedback. It also means that each person responsible for a conference is more systematic and timely in collecting material, thus speeding up the production process.

For conferences co-organised by The Geneva Association or organised by an external source, the *Etudes et Dossiers* are placed directly in the virtual library and available freely to the general public.

The Geneva Association Working Papers *Etudes et Dossiers* appear at irregular intervals about 10-12 times per year. Distribution of hard copies is limited. Hard copies are automatically sent to all of The Geneva Association's Members.

Special reports, monographs, books and co-publications

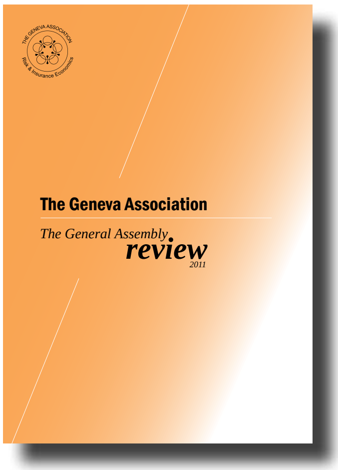


The Future of Insurance Regulation and Supervision—A Global Perspective

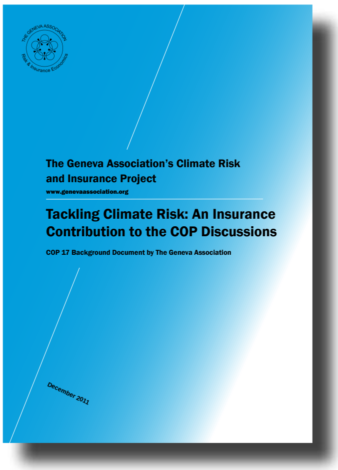
Edited by Patrick M. Liedtke and Jan Monkiewicz, Palgrave Macmillan, (2011)

The recent financial crisis has provoked a broad spectrum of regulatory observations and possible responses. Currently most of these proposals have been quick solutions to politically pressing questions and often only address parts of regulatory systems, but not the whole. At times, the result has been more confusion than clarity. Although historically wide-ranging reshaping has been a common phenomenon after the severe failure of an existing financial infrastructure, there is an important difference this time—the global reach of today's markets and enterprises.

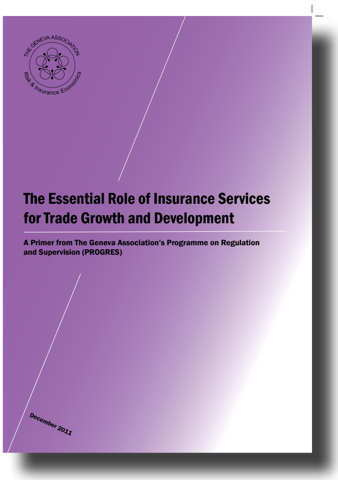
Moreover, never before have so many reforms following a banking crisis not only affected the banking sector but also other parts of the financial services sector, such as insurance, the social systems and, of course, our real economy. Written by leading academics, researchers and insurance industry experts, this book offers a diversified perspective on how the regulatory and supervisory framework for the insurance sector will develop over the coming years. It is supported by The Geneva Association, the world-leading think tank of the private insurance industry.



The General Assembly Review 2011 (July 2011)
The review is a retrospective on some of the key discussions at the 38th annual General Assembly of The Geneva Association in Rio de Janeiro. Comprising essays by CEOs, Chief Regulators and leading commentators, it is intended to provide an insight into the most prestigious gathering of insurance CEOs worldwide, and some of the strategic issues discussed by the insurance leadership. Subjects include financial stability in insurance, climate risks, developments in liability and law, demographics and opportunities open to the industry.



Tackling Climate Risk: An Insurance Contribution to the COP Discussions—COP 17 Background Document (December 2011)
At a time when negotiators were gathering for the Conference of the Parties 17 (COP 17) in Durban, South Africa, The Geneva Association published this paper to emphasise the key role that insurance plays when it comes to dealing with climate and environmental risks, and how this industry can contribute in a positive way to cope with the challenges confronting humankind. The document builds on the central messages of The Geneva Association's 2009 Kyoto Statement and the 2010 Developing Countries Statement, issued in collaboration with ClimateWise, the Munich Climate Insurance Initiative (MCII) and UNEP-FI.



The Essential Role of Insurance Services for Trade Growth and Development—A Primer from The Geneva Association's Programme on Regulation and Supervision (PROGRES) (December 2011)
By Julian Arkell, Special Advisor on Global Services and Trade and Investment Issues

This document considers the essential role of insurance services in trade growth and development around the world and the main factors that influence it. In the context of the role and function of insurance in the economy and the principles and restrictions that underlie the regulation of insurance, it examines the implications of the World Trade Organization (WTO) and the Doha Development Agenda Round of

trade negotiations and the work of the United Nations Commission on Trade and Development (UNCTAD) as they relate to insurance. This publication is intended as a reference document and primer on these issues that affect the globalisation of the insurance industry.

Financing Long-Term Care in Europe—Institutions, Markets and Models

Edited by Joan Costa-Font and Christophe Courbage, Palgrave Macmillan (2012)
Composed of 16 contributions from primary experts in the field (including leading academics, the OECD, Swiss Re and civil servants), this book examines the potential cooperation and different forms of partnership between state, market and societal stakeholders in the financing of LTC. It not only offers a full understanding of the institutional responses and mechanisms in place for financing old age but also provides a deep analysis of both the demand and supply factors underpinning the development of financial instruments to cover LTC needs in Europe.

The Geneva Association Website: Information Hub in Risk and Insurance Economics

Christophe Courbage, editorial of *Insurance Economics Newsletter*, January 2012

Insurance economics, risk management and related fields have not been spared the easy flow in today's society of ideas and research among individuals, organisations, companies and countries. The Geneva Association therefore decided a few years back to improve the functionality of its website. Publications and other materials related to risk and insurance economics are now publicly and freely available, creating, in effect, a virtual library of more than 4,300 documents. It has been created to benefit to as many people as possible and provides a powerful tool for researchers and all parties interested in risk and insurance economics.

Many activities of The Geneva Association, if not all, stimulate research and thinking in insurance economics and risk management, not only by academics, but also by researchers in insurance companies, public organisations and other interested parties in the field. Indeed, between the conferences it organises, the publications it develops, the research it carries in-house or through expert networks, and its involvement in global economic and financial issues, The Geneva Association's original objective to promote and stimulate risk and insurance research is widely met.

To strengthen its specific role as information hub in the field of insurance economics, The Geneva Association has recently decided to expand this virtual library to include all the articles of its two leading journals, *The Geneva Papers on Risk and Insurance—Issues and Practice* and *The Geneva Risk and Insurance Review*. Publisher Palgrave Macmillan has agreed that The Geneva Association can freely republish articles three years after their publication date. This means that to date, past issues of *The Geneva Papers on Risk and Insurance* from 2009 back to January 1976 can now been downloaded from the Association's website, totalling 1,209 articles. This provides an historical view of the discipline, with instructive contributions by outstanding economists such as Karl Borch, Kenneth Arrow and Joseph Stiglitz. Past issues of *The Geneva Risk and Insurance Review* are also available, totalling 203 articles thus far. Articles from both journals are added every three months.

Another important source of information available to the users of the website is the contributions published in the working papers series of The Geneva Association, *Etudes et Dossiers*. These include all the proceedings of the conferences organised or supported by The Geneva Association since the beginning of its activities, including all papers presented at past EGRIE seminars, the first two World Risk and Insurance Economists Congresses (WRIEC), and the joint seminars of the European Association of Law Economists (EALE) and The Geneva Association, as well as powerpoint presentations made at various conferences of The Geneva Association (Insurance and Finance, Health and Ageing, Chief Risk Officers or Chief Economists seminars).

The seven newsletters published by The Geneva Association (*Insurance and Finance*, *Health and Ageing*, *Risk Management*, *The Four Pillars*, *Insurance Economics*, *PROGRES*, and *World Fire Statistics Centre Information Bulletin)* are included in their entirety in the virtual library. Articles from these newsletters are regularly picked up by specialised press as basis for further thinking and reading in the field.

The Geneva Association launched in 2008 a new series of publication entitled , which tackle issues of relevance that warrant special attention. Past issues deal with topics such as regulation and intervention in the insurance industry, climate risk, or analysis of the recent credit crisis. These reports are free for downloading on its website.

In addition, The Geneva Association is now compiling various compendiums which are regularly updated and made available on its website. The online versions have been made user-friendly, with relevant links that redirect the reader to the desired publication or organisation website, or send e-mails to the indicated contacts. A new compendium listing the education programmes in insurance economics in Europe is in preparation and should be available soon. Furthermore, timely reports printed by The Geneva Association are added to the virtual library and can be downloaded for free. These include reports on the highly topical issues of systemic risk in insurance and climate risk, amongst others.

Photo credits:

pp. 12/13 Stocksnapper-Fotolia; p. 26/27 SVLuma; pp. 34/35 Matjaz Boncina; p.41 NOAA/USCG; p.42 jenn-Fotolia; pp. 44/45 enjoynz/Jamie Farrant-istockphoto.com; p. 47 freshidea-Fotolia.com; pp. 50/51 Duncan Walker-istockphoto; p.56/57 sellingpix-Fotolia; p.78 Akiyoko-istockphoto.com.

www.genevaassociation.org

International Association for the Study of Insurance Economics—“The Geneva Association”
Route de Malagnou 53, CH-1208 Geneva | Tel: +41 22 707 66 00 | Fax: +41 22 736 75 36