



4-10

17. 06. 2010

International Association for the
Study of Insurance Economics

Information on Geneva Association activities and publications

Geneva Association Information Newsletter

Press Release

Insurance Industry Reaction to International Association of Insurance Supervisors (IAIS) Position Statement on Key Financial Stability Issues

Geneva, 17 June 2010 – Leading insurance economics think tank, The Geneva Association, has issued a letter to the Finance Ministers and Central Bank Governors of the G-20 in advance of their upcoming meeting in Toronto on 26 and 27 June. The letter highlights the findings of the International Association of Insurance Supervisors (IAIS) in their 4 June statement on Key Financial Stability Issues and calls on the G20 to take into account existing and impending insurance regulation and the specific characteristics of insurance from other financial services in any regulatory responses.

The text of the letter is as follows:

Letter on IAIS Position Statement to the G-20

The Geneva Association is mindful of the important work being undertaken by the G-20 and the FSB as well as the need for active and constructive dialogue among governments, regulators, supervisors and the insurance industry in addressing the challenges created by the financial crisis.

It is highly important that any solutions designed to increase the resilience of the financial system appropriately acknowledge the specific characteristics of insurance from other financial services. To that end, we encourage the G-20 to take the IAIS positions and their insurance supervisory expertise into consideration as you and the FSB, move forward with the development of recommendations for addressing potential systemic risk in the global economy.

The statement, issued on 4 June as part of the IAIS's ongoing analysis on systemic risk in the insurance sector, assesses the potential for financial instability in the sector and determines what, if any, regulatory and supervisory action might be appropriate. In doing so, the IAIS has examined risks and circumstances where systemic risk might apply to the insurance sector regardless of whether these circumstances emanate from the insurance sector or are merely transmitted to the insurance sector from another financial sector. This analysis, under the direction of the world's insurance supervisors, found that:

The insurance sector is susceptible to systemic risks generated in other parts of the financial sector. For most classes of insurance, however, there is little evidence of insurance either generating or amplifying systemic risk, within the financial system itself or in the real economy.

In circumstances where insurers may amplify risk, an effective regime of regulation and supervision can mitigate these possibilities.

Non-regulated entities of financial conglomerates and some specific activities (such as financial

guarantee insurance) **can generate or amplify systemic risk** and may be instrumental to contagion within conglomerates or between sectors.

The IAIS is promoting enhancements to supervision and supervisory processes, combined with stronger risk management and enhanced approaches to international issues related to resolvability to minimize adverse externalities. These enhancements include group-wide supervision (including non-regulated entities) and the development of a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). The IAIS is also promoting cross-sectoral macro-prudential monitoring of potential build-up of systemic risk and planning to develop measures for national authorities to assess degrees of systemic risk.

Whilst some of the concerns of the IAIS on potential systemic risks differ from the conclusions of The Geneva Association as detailed in its March 2010 systemic risk report, we welcome the fact that the IAIS took careful note of the insurance business model (including the differences and similarities to banking), analysed systemic relevance and systemic risk vis-a-vis size, interconnectedness and substitutability, underlined the realities associated with the run-off or rehabilitation of insolvent (re)insurers and proposed supervisory enhancements, which are broadly supported by the industry. We trust the FSB will take due account of these elements in the draft report it will submit to you soon.

Should you wish to discuss the contents of this letter or our systemic risk report in more depth, The Geneva Association would be delighted to engage further in this matter.

Yours faithfully,

Dr. Nikolaus von Bomhard
*Chairman of The Geneva Association
Chairman of the Board of Management, Munich Re Group*

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

For further information, please contact:

Anthony Kennaway
Head of Communications, The Geneva Association
+41 22 707 66 06
anthony_kennaway@genevaassociation.org

Notes to Editors

The Geneva Association is the leading international insurance “think tank” for strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. It is the leading voice of the largest insurance groups worldwide in the dialogue with international institutions. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 80 Chief Executive Officers (CEOs) from the world’s top (re)insurance 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.