Cross Industry Analysis: 28 G-SIBs vs. 28 Insurers Comparison of Systemic Risk Indicators

11 December 2012 (London). Leading international insurance think tank, The Geneva Association has today published a cross-industry analysis comparing the named 28 Global Systemically Important Banks (G-SIBs) to 28 of the world’s largest insurers on indicators of systemic risk.

John H. Fitzpatrick, Secretary General of The Geneva Association said, “This research represents the first empirical and quantitative comparison of insurers and banks using the comparable criteria required by the International Association of Insurance Supervisors’ (IAIS) data calls. The purpose of this analysis is to provide policymakers and other stakeholders with a factual analysis that quantifies the systemic risk of banks versus insurers on these criteria to support their decision-making.”

Conclusions of the analysis include the following:

**Insurers are significantly smaller than banks.** The average bank’s assets are 3.9 times larger than the average insurer and the largest insurer would rank alongside only the 22nd largest systemically important bank. Furthermore, as insurance liabilities are substantially matched against their assets, an insurance balance sheet is much less systemically risky than that of a bank of comparable size.

**Insurers write considerably less CDS than banks.** The average bank writes 158 times the value of gross notional Credit Default Swaps (CDS) than the average insurer. Even the lowest ranked banks on average have 12.5 times the CDS sold by the average insurer.

**Insurers utilise substantially less short-term funding than banks.** Short-term funding as a percentage of total banks assets is 6.5 times higher than short-term funding as a percentage of insurer assets. Maturity transformation (borrowing short to lend...
long) is central to the business model of many banks and is a principle source of their systemic risk.

**Insurers are much less interconnected to other financial services providers than banks.** Banks carry 219 times more gross derivative exposure than the insurer average with even the lowest ranked banks carrying 66 times more gross derivative exposure than the average insurer. On average, at the measurement date, banks owed on average 68 times more than insurers in gross negative derivatives and banks are also owed 70 times more from derivatives counterparties through derivatives exposure. If issues develop in derivative markets it is more likely to have an impact on banks than insurers.

Fitzpatrick continued, "We believe that this research will provide facts useful to regulators and supervisors when they are considering the designation of systemically important insurers. What is clear is that insurers’ involvement in these systemically risky activities is significantly lower than that of the 28 G-SIBs. Furthermore, insurers generally match assets with long dated liabilities and are thus less exposed than banks to the systemic risk caused by borrowing short to lend long."

Daniel Haefeli, Head of the Insurance and Finance Programme at The Geneva Association, added, “The designation process for global systemically important insurers needs to reflect the facts as described in this report and the specific characteristics of the insurance industry and its business model.”

A copy of the research presentation is at the following link: [www.genevaassociation.org/pdf/News/GA2012_Benchmark_Study.pdf](http://www.genevaassociation.org/pdf/News/GA2012_Benchmark_Study.pdf)

**Notes to Editors**

The Geneva Association believes that the development and promotion of effective supervisory and regulatory policies to reduce systemic risk and address information gaps is for the benefit of all concerned, including the insurance sector.

Policymakers have acknowledged that traditional insurance and reinsurance activities do not create or amplify systemic risks.

The Geneva Association continues to promote an activity-based approach identifying the potentially Systemically Risky Activities (pSRA) and then determining the policy measures best used to reduce the impact of pSRA should they become SRA.

The Financial Stability Board (FSB) intends to designate Global Systemically Important Insurers (G-SIIs) in early 2013. The International Association of Insurance Supervisors (IAIS) has suggested a methodology to determine which insurers are designated as G-SIIs. Policy measures, including additional capital charges for designated insurers are in consultation until 16 December.

This benchmark study takes 17 indicators from this methodology that are comparable between insurers and banks to provide an analysis of the size of each activity. It shows that insurers are significantly smaller than banks in the overwhelming majority of the 17 indicators.

**ENDS**