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Remaining Relevant and Contributing to a More Inclusive Society Going Forward (Insurance for the Greater Good)

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In order to create and sustain economic and social growth, countries need to come up with solutions to major issues such as climate change, water resources shortage, prosperity sharing, youth unemployment, decreasing opportunities for social engagement, etc. The decline of the middle class (due to structural inequality and less earning power) eats away at social wealth and ultimately poses a risk to democracy. One is reminded how governments proved to be ineffective in the face of major economic crises.¹

Adding to the equation is the technological innovation and developments that are pushing us into a totally new era. We are seeing a major change in our social infrastructure. We shall soon see smart-grid-based cities and driverless cars become the norm. But it is yet to be seen whether these infrastructure changes will lead to greater good for the public or to more social inequality.

The debate on the interests of a few against many attracts people at the top as well. Bank of England Governor Mark Carney recently argued better financial regulation, despite its short-term creation of market distortion, will in the long run contribute to balancing free-market capitalism with the needs of society.² This is something we need to think about.

We as an industry need to raise our awareness of these issues and changes. We need to keep up with the times and changes to remain relevant in an ever-evolving world and contribute to building an inclusive society and economy. The question is how do we do this?

Firstly, there is still much more we can do in terms of tackling underinsurance. Climate change will bring on more frequent and increasingly large natural catastrophes, and we need more public-private partnership-based efforts to provide affordable and sustainable insurance to every person, household and business that needs it. Insurance should be inclusive and lead to solidarity but it also needs to remain fair. Reward those who make an extra effort in regard to risk management and risk prevention. Insurers should also advocate for and invest more in nation-wide disaster prevention and mitigation. In addition to their day-to-day supervisors, insurers need to communicate with and appeal to a wider range of officials, everybody from national infrastructure development ministries to disaster management agencies.

Secondly, insurance needs to be less about just paying out claims and more about helping businesses affected by losses get back on their feet. The payment of claims is a given. What will keep insurance relevant is how it makes the aftermath just a little bit easier for those affected. Businesses should be able to depend on insurers to help

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¹ Governments had no solid solution so they depended on central banks for monetary stimulus to keep the economy running (while turning a blind eye to its market distortion effects and its fuelling of the next financial bubble). We are all too aware of this as we are now on the receiving end of this fundamentally flawed structure where central banks, the ones responsible for creating distorted market conditions with artificially low interest rates, are threatening to hold insurers accountable should something go wrong.

² Speech by Mark Carney at the Conference on Inclusive Capitalism, London, 27 May 2014.

them with business continuity and supply chain management. Our recent experience supporting customers cope with and recover from the Thai floods and the Tohoku earthquake was a sobering reminder that such disasters—and more importantly how we respond to them—define us as an industry.

Thirdly, insurers should remain advocates of insurance affordability and sustainability backed by diverse capital. We are seeing an alarming rise in regulatory and compliance costs. Excessive regulatory requirements will become a de facto entry barrier, and higher prudential requirements will lead to consolidation. The market is at risk of becoming stale. We need a healthy turnover (reasonable market entries and exits) to keep our market deep, liquid and innovative.

Fourthly, insurance needs to be provided on a level playing field. All capital should be regulated in a consistent manner. Certain capital (e.g. alternative capital making its way into reinsurance) should not benefit from a difference in supervisory approaches based on capital form. Alternative means of coverage need to meet the same requirements as highly regulated capital (traditional capital).

Fifthly, insurers need to think about the bigger picture and act in advance. Prepare for uprising industries and businesses. Insurers should form strategic alliances with developers and operators of smart grids, driverless cars, seawater desalination plants, etc., and work together on getting the data necessary to come up with innovative, effective and sustainable insurance products.

Lastly, insurers need to be long-term capacity-providers and not a fair-weather fan. Being there to provide insurance coverage when a catastrophe is imminent or remaining in the market after a major event is what is expected of us and what will keep us relevant. Raising premiums discretionally or taking away coverage immediately after an event questions the integrity of our business. In order to make this model work, there need to be systems in place. For instance, any profit recognition for major risks with a return period of tens (hundreds) of years needs to be smoothed out across the same period. This is not philosophy; it is simple economics. Accounting standards should allow for pre-event cat reserves. This too allows insurance to contribute to creating an inclusive society. Natural catastrophe-ridden countries (many in Asia) are interested in and seriously considering this approach.

There must be many other approaches to keep insurance in the centre ring amid fluid and challenging times. This will be particularly important as governments and central banks look for ways to create and sustain growth in a fair and balanced way. We too must rise to that challenge and show we have the financial and intellectual recourses to fulfil a major role going forward.