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Editorial

Issues in Risk, Insurance and Finance

by Etti Baranoff¹

This issue of the Insurance and Finance (IF) newsletter is devoted to a mix of three topics of major importance in the world of risk and insurance. The first article relates to longevity risk and pension transfer products. The second is an article on systemic risk that discusses whether the insurance business model can generate systemic risks. The third topic is mergers and acquisitions (M&A) in the insurance industry, a phenomenon that has increased in the current economic environment.

The first article is our 'Featured Insurer Corner', which presents an interview with John Strangfeld, Chairman and CEO of Prudential Financial, Inc. The interview focuses on Prudential's products that offer solutions to longevity risk. The insurer is helping individuals and institutional customers grow and protect their wealth through its life insurance, annuities, retirement-related services and investment management businesses.

The second article, by Christian Thimann, Member of the Executive Committee, AXA Group, provides a non-technical exposition of the systemic risk differences between banks and insurers as players in the financial sector. He suggests that the FSB's macro regulation tools be different for insurers and banks. Loss absorbency is key to the differentiation between insurers and banks. The difference between the loss absorbency capacity of insurers and bankers is demonstrated by the fact that insurers have achieved what is currently considered for banks, a partial loss absorption capacity of liabilities beyond equity, i.e. a form of bail-in. Thimann also debates the differences between systemic risk and a systemic role. Overall, the study is a strong illumination of systemic risk issues and financial stability in insurance.

The last paper featured here serves as an introduction to our upcoming Symposium on Insurance Strategies (formerly the Insurance and Finance Seminar) to take place on 6 November 2015 in London, hosted by Aviva. The topic of this year's symposium is 'Consolidations in Insurance: What is it about?'. Following last year's event that included discussions on the potential consequences of alternative capital and the excess liquidity in the market, this year's event focuses on consolidations as one of the outcomes. The paper is 'Mergers and Acquisitions in the Global Insurance Industry: Valuation Effects' by J. David Cummins, Paul Klumpes and Mary A. Weiss. It is a summary of an event study examining value creation by acquiring firms and target companies. The results indicate that both cross-border and within-border transactions lead to substantial value creation for targets, and that the within-industry gains are significantly larger. The authors' findings support the general contention that M&A deals are more likely to be value creating for targets than for acquiring firms.

The Newsletter closes with the Announcement of the 11th Symposium on Insurance Strategies at Aviva in London on 6 November 2015 addressed to the Members of The Geneva Association, their senior executives and invited experts.

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