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A Numero Uno Solution to the Crisis: "Go for the Golden Mean"

In this crisis, the only real solution is for CEOs to focus on being conservative and staying focused on the long term to ensure sustainability. CEOs must embrace a sense of nobility in their business ethics and move towards achieving the Golden Mean to meet the needs of society and the individuals for protection.


Mr Ikuo Uno

With this message, keynote speaker, Mr Ikuo Uno, Chairman of Nippon Life of Japan, received a historic standing ovation from the 400-odd delegates at the opening ceremony of the 46th IIS with the theme, "The Aftermath of the Financial Crisis".

Where is the Changed Behaviour?

In his wide ranging and thought provoking speech, the 75 year old industry expert, said: "Perhaps most serious of all, fundamental change has not yet come out of this crisis. Basic reforms have not been developed". He called for markets to work in accordance with governments so that the "over-swung pendulum is brought back to the mean."

His presentation, laced with jewels of quotes from legendary economists, noted that the single major cause of the crisis was the over-confidence in the mantra: "that the market was efficient and self-correcting".

The Japanese Lessons

Sharing the experience of the dramatic collapse of its "bubble economy" in the 90s, Mr Uno said that in the aftermath, only 3 of the 15 major banks, and 10 of 20 domestic life insurers survived. He attributed the failure to the management focus on short-term profits to attain instant corporate and personal glory while taking excessive risks. The survivors were those who had a long-term perspective with a desire for sustainable reasonable growth.

Several delegates hailed the speech as having important takeaways for the various discussion groups over the next three days of the conference. Some wanted more micro-prescriptions for the industry and the CEOs, especially as he touched on the industry working in harmony with society and striving for a greater moral conscience.

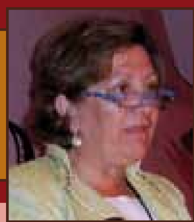
Priority to restore confidence in the sector


Ms Esperanza Aguirre Gil de Biedma

Welcoming some 400 delegates from around the world at the opening ceremony yesterday, Ms Esperanza Aguirre Gil de Biedma, President of the Region of Madrid, Spain said that as the insurance sector is one of the main market makers and movers in the global financial industry, its first priority is to restore confidence and reliability in the sector. "The global financial crisis has brought about a general sense of false security and the main lesson that we all should take from this crisis is that there is no such a thing as a perfect system. One must also remember to listen to the whispers of common sense," she added.

A New Strategy for IIS

The IIS will move to engage its members more actively said Mr Mike Morrissey, President & CEO of IIS. The Society will look at organising regional mini-seminars to provide more interaction throughout the year.



"Insurance must be a part of the solution to the crisis and not be a cause of the problem."

Ms Pilar Gonzáles de Frutos, President Unespa, Spain

The Dream Mean

In the keynote, he drew the picture of the Golden Mean drawn from the synthesis of Eastern and Western cultures. In Aristotelian terms, the Golden Mean is defined as the "desirable middle between two extremes". To him, the "golden mean' is a paramount value that transcends all cultural, economic, and political differences."

Re-asserting Integrity

He ended the keynote with the parting shot to "re-establish integrity, character, and a moral sense of 'the golden mean' in our leaders as the most important step to recovery." This is especially true to the insurance industry, which depends upon keeping its promises of protection to policyholders over long periods of time.

At the Global Leadership Panel, the question was raised whether it was "hypocritical" to talk of integrity when one was in the business to make profits and higher returns for shareholders. Mr Donald Stewart, CEO, Sun Life Financial of Canada said that it was all the more fundamental in the insurance business as it is based on good faith. Mr Stefan Lippe, CEO of Swiss Re said that integrity was a must and extended beyond lip service. It hinged on the promise to deliver even or especially at a time of a crisis, he added.

Are Insurers Well Capitalised?

Insurance companies have enough capital and should not be treated with the same broad stroke by lawmakers in the remodelling of financial sector regulations, said the Global Leadership Panel on the Road to Recovery.

The panel with MAPFRE Chairman José Manuel Martínez, Mr Geoffrey Bell, Executive Secretary of the Group of 30, Mr Stefan Lippe, CEO of Swiss Re, and Mr Donald Stewart, CEO of Sun Life Financial and chaired by IIS Chairman Brian Duperreault, said that insurers have proven their resilience and clearly do not pose systemic risks.

Mr Martínez said supervisors must resist the "easy temptation" of increasing capital requirements for insurers as they deal with the banking problem with the reminder that policyholders would be the ones to ultimately bear the increased cost of additional capital. This would pose a burden to not only consumers but also governments, he added.

Agreeing, Mr Lippe said: "Raising capital means policyholders will have to pay more and if they're not willing to, then governments would end up picking up the tab when natural catastrophes occur."

Urging insurance companies to work in concert with governments to make clear representations for the benefit of all, he said: "If we don't speak in our voice, how can we get the right understanding on the part of regulators?"

Not divorced from reality

With the BIS (Bank for International Settlements) looking at raising banking capital requirements, the insurance industry must also brace itself for some form of change in their capital demands going forward. There are talks that Tier 1 capital ratio for banks is likely to be increased from 8% to 10% within the next 12 months. Switzerland has in fact passed laws to raise it from 8% to 16%.

Mr Bell who agreed that the insurers didn't need that much more capital, said the buffer capital requirement currently proposed for banks – in the form of preferential shares or fixed income instruments that may be converted into additional capital – may also eventually catch up with the insurance sector. He implied though that it was better to have buffer capital "as in times of difficulty, nobody will give you any capital".

Stressing that insurers were adequately capitalised as of now, Mr Stewart alluded to the reality that insurance companies may be required to have more capital as a result of the stress-testing.

"One of the things I worry is that from the fragile base that we have today, extreme stress testing will tend to point towards the need for additional capital. My fear is we may be looking at having more capital in 12 to 24 months time," he added.

Financial reforms are taking place in major markets at differing degrees. Coupled with the fact that global economic growth is facing headwinds from the European debt crisis, uncertainty in the US recovery and the risk of a double-dip recession, insurers must be ready for a long-term conservative approach to growth.

From L-R: Mr Brian Duperreault, Mr Stefan Lippe, Mr José Manuel Martínez, Mr Donald Stewart, Mr Geoffrey Bell

Asia in the Lead

Sources: Sigma No 3/2009 and AIR database

Asia (including Japan) generated US$933.4 bln in premium volume for 2008 and registered 21.86% market share of the world's total premium volume.

China's total premium volume ranked 6th in the worls at US$141 bln, up 52% from 2007. Life accounted for US$96 bln, while non-life posted US$45 bln.

India's total premium volume ranked 14th at US$56 bln, a decrease of 2.8% from 2007. Life accounted for US$49 bln, while non-life recorded US$7.3 mln.

Microinsurance

More than 60 million people in developing Asia remained living below the US$1.25 a day absolute poverty line in 2009 – a number that spells enormous potential for microinsurance in the region.

Microinsurance is also sold nationwide in China with Shandong province leading the market.

India now has the most dynamic microinsurance industry in the world. In 2002, it became a legal requirement for all insurers in the country to provide insurance to the rural and social sectors.

Takaful

Malaysia is the 2nd biggest takaful market in the world with contributions at US$950 mln, next to Saudi Arabia's US$2.9 bln. It is one of the only two countries with dedicated takaful legislations.

With 85% of its 222 million population being Muslim, and having the largest number of Islamic insurers with 38 takaful operators, Indonesia is expected to play a major role in the global development of takaful.

Pulling through the crisis

The recent financial crisis served as a rare but trying chance for insurers to prove their mettle, and most of them emerged from it stronger than ever. Going back to that dark episode, what were their most terrifying lessons and challenges?

Don't lose sight of what's important

If you navigate through a crisis, it is imperative not to lose sight of what is important – the trust of your clients, employees, investors and other stakeholders. This requires an ongoing dialogue with your stakeholders, explaining the company's priorities.

At Swiss Re, we focused on three things: Concentrating on our core reinsurance business, ensuring our capital strength by de-risking our balance sheet, moving away from everything that did not support our core business and improving efficiency to sharpen our competitiveness.

The biggest danger for the (re)insurance industry is the threat of a regulatory backlash, with additional layers of regulation and overly restrictive capital requirements. There is no doubt that global regulatory oversight must be improved to avoid such crises in the future.

That said, new rules must not hinder (re)insurers in the fulfillment of their fundamental role. In particular, the financial crisis made it obvious that the nationally fragmented supervisory systems are no longer able to cope with global financial markets and institutions.

***Mr Stefan Lippe*,**
CEO, Swiss Re Group

Extremely high returns not sustainable

We have had to face the worst recession in 80 years. One lesson learnt is that extremely high returns on capital of up to 20%, as achieved by many banks and a small number of insurers before the crisis, could not be sustained, because the returns did not reflect the incurred risks. On the other hand, the insurers' core business was able to withstand this crisis.

One crucial challenge for the reinsurance industry will be how to grow. This is still possible when we consider what has changed due to the crisis. One remarkable effect is the increasing risk awareness. Many people realised during the financial crisis that globalisation implies risks they had never even thought of.

Simultaneously, risks are becoming more and more complex in an increasingly connected world. Insurers and reinsurers with deep expertise in risk can help manage these interconnected risk factors and achieve growth at risk-adequate prices.

***Dr Ludger Arnoldussen*,**
Munich Re Board Member for Asia Pacific, Africa and Germany

More solidity and capital strength needed

The banking crisis hit most of the global players, not only in insurance, but also in the real economy and even sovereign states. For insurers like Allianz, essential survival tactics did not differ from our long-term business model: a strong capital position, risk diversification for the investment portfolios, and prudent management of risk and counterparty limits.

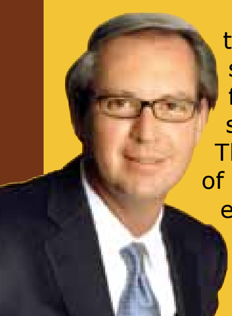
However, we were taken by surprise about the velocity, interconnectivity and reach of problems in the money and derivatives markets. On the insurance side, we experienced that customers require even more solidity and capital strength, especially in the life and pension business. Areas with specific focus during the crisis included liquidity management and credit insurance.

***Dr Volker Deville*,**
Executive Vice President, Allianz SE

Combating misinformation

In the midst of one of the worst economic climates in recent memory, Chartis' greatest challenge was combating the significant amount of misinformation in the marketplace regarding our financial strength and competitive standing. We are proud of the way we aggressively managed these issues by executing one of the largest marketing campaigns in our history. In the process, our business became even stronger, and we grew ever closer to our brokers and customers and received extraordinary support from them in return.

We also spoke regularly with our employees as clearly and transparently as possible, which helped keep employee retention rates at their historically best performance levels.



From an operational standpoint, Chartis has maintained an intense focus on strategies that further strengthen our financial position, optimise our balance sheet, and enhance our use of capital. This will better position us in the event of another economic crisis and will also enable Chartis to better serve its clients.

***Mr Kristian Moor*,**
President & CEO, Chartis Inc

Staying cool on regulatory front

There is much talk of more regulations for insurers. But here we bring you a fresh air of reassurance from a regulator, Mr Young Goo Kang, Deputy Governor and Head of Insurance Supervision Division Financial Supervisory Service, Korea, who will do his invitational address this morning.

"Many market experts and observers also say that traditional insurance activities did not contribute to the crisis. As such, we do not see a need to introduce significant changes to the current prudential regulatory framework. However, I think that the consumer protection schemes need to be strengthened. Indeed, insurance regulators in many other jurisdictions are also working to enhance consumer protection. However, I suppose what insurance regulators are actually doing to improve consumer protection may differ from country to country depending on their market situation."

Mr Young Goo Kang

The Gusto of Toledo!

Sprawling cobble-stoned hills, ancient buildings and colourful flags of Toledo were flaunted to busloads of curious delegates on their walking tour through the old imperial capital. Celebrating its annual procession of the Most Holy Corpus Christi, parades of decorated streets were a memento of the rich history of Christian, Jewish and Arab influence to personify: "The City of Three Cultures". Delegates were further indulged with a kings' feast at a hill-top restaurant giving breathtaking views to Toledo in the distant valley.

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