International Association of Insurance Supervisors

Insurance and Financial Stability
Peter Braumüller's Opening Remarks
Media Call – Tuesday, 15 November 2011

This paper is fundamental for our thinking about the role of the insurance sector in the financial system and the real economy. You may recall that just a bit more than three years ago one large insurance-focused group was at the centre of the financial crisis together with a number of major banks and investment banks or broker/dealers.

This begs the question: are there systemically important insurance companies? The key to answering this question is to examine the activities conducted by insurance-focused groups. For that I direct your attention to table 1 on page 13 of our paper. In the table we recognise that not all activities conducted by large insurance groups relate to insurance and that not all activities are subject to insurance regulation. That's why it is important to differentiate between insurance and non-insurance activities.

To complicate matters more, we also note that within the broad range of insurance activities there are some that are non-traditional. For the most part, these relate to lines of business that couple conventional insurance products with non-insurance features.

Some non-traditional products are significantly correlated either to the business cycle or to financial market performance, or to both, such as financial guarantee insurance. These non-traditional products quite often display a high degree of economic or financial market dependency, which makes them vulnerable to developments outside the conventional insurance calculus.

The main message of our paper is that the traditional insurance business is of very little or no systemic concern. There are a number of reasons for this, such as stable premium flows and non-dependency on short-term financing, or fairly predictable cash-outflows over a comparatively long time horizon, that make traditional insurance activities non systemic. You will find more about this in the paper, and I encourage you to read at least the executive summary.

When we look at non-insurance activities, the shoe is on the other foot. The recent financial crisis underscored that even financially strong insurance groups and conglomerates may suffer significant distress and become globally systemically important when they expand significantly into non-insurance activities. Examples of such non-insurance activities include credit default swaps for purposes other than hedging.

The financial crisis also showed that certain non-traditional activities could lead to distress, for example the large-scale leveraging of assets – or so-called securities lending – to enhance expected investment returns. You can see examples of both in the case studies included in the appendix.

This paper is a milestone on the road to a comprehensive understanding of the role of the insurance sector in the financial system and its interaction with other financial market participants. The content of this paper will also contribute to the discussion on the development of an assessment methodology for identifying globally systemically important insurers. The G20 expect the IAIS to complete this work in time for the Summit of G20 Leaders in June 2012.