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Insurance Economics
Information for Risk and Insurance Economics
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Winners of The Geneva Association/IIS Research Awards

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The organisers, The Geneva Association and the International Insurance Society (IIS) are pleased to announce the winners of The Geneva Association/IIS Research Awards Partnership. Authors of each best-qualified papers win US$10,000 and have been invited to present their work during the International Insurance Society's 46th Annual Seminar at the Hotel Meliá Castilla, Madrid, Spain, 6-9 June 2010. The two papers along with their abstracts are:

Management Strategies in Multi-Year Enterprise Risk Management,

by Dorothea Diers (Provinzial NordWest Holding AG)

In value and risk-based management, strategies should be selected in such a way as to fulfill the requirements on risk-capital coverage with economic capital (e.g. risk limitation) while achieving the highest possible return. One goal is to ensure effective risk diversification, which is hardly possible without the help of internal models. So for example management has to decide which strategy might improve the risk and return situation of a company if not enough risk capital is available—changing the asset allocation by lowering the part of high-risk investments, lowering risk via introduction of deductibles for the policy-holders in storm insurance policies, extending reinsurance cover, or any suitable combination of these or further strategies. We apply a sample model based on empirical data to examine the effectiveness of different management strategies on a non-life insurer's performance indicators such as EVA and return on risk-adjusted capital. With the simulation study we want to encourage the use of multi-year internal models in strategic enterprise risk management and in the ORSA process, which will be required in the new regulatory framework of Solvency II.

The aim of this paper is not only grounded in academic research, but also of high importance for insurance practice. The study wants to give a realistic and helpful idea of multi-year enterprise risk management processes for strategic management of different business segments, such as different lines of business, reinsurance, investments, where capital allocation plays an important role. Moreover the simulation study should give an idea of the ORSA process, which will be required in the new regulatory framework of Solvency II. In addition to practitioners, regulators will also benefit from this paper's results. Since the "use test" will play an important role for the approval of internal models, regulators will check if the internal model is used as a base for management decisions in enterprise risk management and in the ORSA process, whereby both should be based on a time horizon of several years.

Insurance, Systemic Risk and the Financial Crisis,

by Faisal Baluch (Commerzbank), Stanley Mutenga (Cass Business School), and Chris Parsons (Cass Business School)

In this paper we aim to provide a comprehensive assessment of the impact of the recent financial crisis on insurance markets and the role of the insurance industry in the crisis itself. We begin by examining some previous "insurance crises", noting that there has never been an "insurance crunch" which parallels the credit crunch that led to the financial crisis and subsequent world recession. We then go on to consider the effect of the crisis on insurance risk—the liabilities arising from contracts which insurers underwrite. We discuss the effects of the crisis on the demand for insurance and on claimant behaviour, identify the lines of insurance which have been most affected by the crisis and attempt to quantify the effect on insurers that write these lines. We then move on to analyse the effects of the crisis on the performance of insurers in different markets sectors (e.g. life and non-life) and in different world markets. We also compare the performance of insurers with that of banks in the same period. We then turn to the question of systemic risk in insurance, which we define in two ways. We aim to assess the extent of systemic risk in insurance and examine the channels through which systemic risk can be transmitted to insurance markets, including the development by insurers of capital markets products, bancassurance activity, participation in structured finance and the trading of risk through reinsurance and retrocession. We conclude that, while systemic risk remains lower in insurance than in the banking sector, it is not negligible and has grown significantly in recent years, partly as consequence of insurers' increasing links with banks and their recent focus on non-(traditional) insurance activities, including structured finance. We conclude by considering the structural changes in the insurance industry which are likely to result from the crisis, including possible effects on "bancassurance" activity, and offer some thoughts on changes in the regulation of insurance markets which might benefit insurance markets and limit the effects of any future crisis on them.