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EDITORIAL

Insurers' Strength and Relevancy in Light of Regulatory, Technological and Coverage Challenges

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The theme of this Insurance and Finance (IF) newsletter is how the global insurance industry has demonstrated its strength both by providing the coverages needed and by helping to maintain economic growth and stability. The success and the need to remain relevant is in light of regulatory, technological and products challenges which is featured in the various contributions.

In this issue of the IF newsletter, our readers will discover an interview with David Long, the CEO of Liberty Mutual, giving them an opportunity to learn about yet another global player that delivers to its constituencies and helps them manage their risks, thereby maintaining the world's continued prosperity. Liberty Mutual is the IF newsletter's eighth featured insurer and, as all other featured companies, it is an insurer that serves local communities in its global outreach.¹

With the prevalence of currently strong and successful insurers, Katsuo Matsushita and Kuniyoshi Kawasaki point out in their article ("Remaining Relevant and Contributing to a More Inclusive Society Going Forward", p. 7) that the global insurance industry should continue to "remain relevant ... and contribute to building an inclusive society and economy." While, the feature insurers presenting past and current states, the authors are providing challenges for the future with the call for "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." As the reader can see by reviewing the past eight issues of the IF Newsletters with featured insurers, these insurers are already operating on the cutting edge of innovation and involvement in each community they serve. The sustainability efforts of IAG, the "giving" of Liberty Mutual, are just two examples. One clearly sees that the industry, while decades old, is young at heart and does rise to emerging challenges as highlighted by Matsushita and Kawasaki. The industry uses its resources, both financial and intellectual, to "fulfil a major role going forward."

While we feature insurers' strength, resilience and stability, the global insurance industry is very aware of and immersed in the post-financial crisis of 2008 regulatory challenges. The Insurance and Finance programme of The Geneva Association has published numerous studies regarding systemic risk in insurance and financial stability. This body of work shows that failed insurers do not disturb financial markets and economies. An abundance of studies can be accessed at the [Insurance and Finance](#) programme webpage. Among them is the report on resolution of insurers published in 2012 (*Insurance and Resolution in Light of the Systemic Risk Debate*). Currently, the work regarding insolvencies in light of systemic risk and resolution is ongoing. Case studies of the relatively small number of insolvent insurers around the world have been carried out or followed by the Insurance and Finance programme.

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¹ In the past seven IF Newsletters, featured insurers included a variety of insurers in terms of product line specialties and geography. All these insurers are successful and most valuable to their communities.

The article in this issue “The orderly resolution of Lumbermens” by John K. Conway, James W. Schacht, and Kenneth R. Wylie (p. 8) provides a synopsis of another insolvency case study. This large workers’ compensation specialty U.S. insurer underwent voluntary run-off and, in so doing, did not disturb any of its stakeholders. This is a further example that shows not only a lack of contagion effect from insurance failures but also the common availability of substitutions for their products.

The regulatory challenges for the industry are on-going. Few interested in the international regulatory developments for the insurance industry will have missed the ongoing state vs federal discussions in the U.S. It was a subject raised by Connecticut Insurance Commissioner Tom Leonardi at The Geneva Association’s Regulation and Supervision Seminar earlier this year. We provide a transcript of his speech that outlines the key challenges facing the implementation of global capital standards in the U.S.

While delving into U.S. regulation, this newsletter sidesteps the regulatory risk issues to discuss the U.S. markets for combination life insurance products. Products development and their sustainability is a major challenge to the industry. In this light, the IF programme produced studies relating to specific products as some of them became the focus of the systemic risk investigation/examination by the International Association of Insurance Supervisors (IAIS). The focus on non-traditional non-insurance (NTNI) products culminated in The Geneva Association research report *Variable Annuities—An Analysis of Financial Stability*. The industry is rich in products and product innovation. The article entitled “LIMRA Study Shows Life Combination Products in Double-Digit Growth Pattern” by Catherine Ho (p. 13) provides an insight into the creativity of insurers in providing responses to consumers’ needs. The growth in longevity risk led the industry to develop combination products such as life insurance with long-term care coverage. The industry is continuing to innovate with the changing environment and population age mix. The growth in sales of such products is indicative of the strength and resilience featured by the insurers described in past issues of this newsletter.

In addition, insuring cyber risks—a topic largely discussed in the media—is an area of potential growth and innovation for the industry. In their article “Insurability of Cyber Risk” (p. 16), Christian Biener, Martin Eling and Jan Hendrik Wirfs provide an analysis of the insurability of such risks in terms of pooling and data. With “the G20 group denoted cyber-attacks as a threat to the global economy ... considering that expected annual losses from cyber risk are estimated between US\$300bn and US\$1tn ... Insurance is seen as one possibility for managing cyber risk exposure. The market, however, lags behind the expectations for this potentially huge new line of business....” Winners of this year’s Shin Research Excellence Award, Biener, Eling and Wirfs conclude that “with increasing market development, the insurance risk pools will become larger and more data will be available.”

The final article in this newsletter, “Cloud Computing: a Fundamental Shift in IT” by Farhad Khalilnia (p. 19) discusses innovation of “cloud technology” and its benefits for the insurance industry. The Geneva-based cloud provider describes the technology and compliance support. This kind of innovative IT technology helps insurers remain versatile and agile in this era of mobility and speed in the information arena.

Finally, in closing, the IF programme of The Geneva Association is preparing the 10th Insurance and Finance seminar to be held in London on 4 November 2014. Extremely pertinent issues in insurance and finance will be discussed along with changes in the markets, financial analysis, capital and risk issues, and products.