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EDITORIAL

Today's Key Issues and Opportunities

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This 15th issue of the Insurance and Finance newsletter is dedicated to featuring the key insights from the 10th Insurance and Finance Seminar on "Today's Issues and Opportunities" that was held in London, 4 November 2014. Each article in this newsletter is from the seminar's speakers. The seminar coverage article, provided on page 4 of this newsletter, supplements the articles with descriptions of this insightful event.

From the three panels and three keynote speakers, which included CEOs, Insurance executives and industry experts, we gleaned many challenges that lead to major opportunities.

In discussing the challenges, alternative capital and low interest rates emerged as the main challenges. All panellists noted that (re)insurers are challenged by the liquidity available in the markets due to alternative capital. The availability of capital has been generated from the prolonged period of low interest rates and the search for higher returns. Speakers emphasised that, at this stage, collateralised reinsurance and catastrophe (cat) bonds have dominated the alternative capital market. This alternative capital puts pressure on pricing and profitability, especially because of low catastrophe losses in recent years.

There are many positive aspects to the liquidity trend, showing the attractiveness of the insurance industry. In addition, since the liquidity is not coming with risk management expertise, there are many opportunities available for insurers to utilise and promote their expertise. Underwriting and risk-based pricing are in the insurers' domain and are valuable in the marketplace.

Furthermore, the pressure on underwriting and profitability requires the development of new fields and products. This could be done through the use of big data analytics in search of new trends and also by moving talents from profit centres to centres for innovation.

All the speakers in the seminar noted that the industry was well positioned to take a leadership position in big data analytical patterns through models and new discoveries. One area already explored was "uninsured markets."

The technical presentations by the industry executives showed that insurers are able to manage through the low interest rate environment with asset/liability matching and investments that support their products and products innovation. An example was provided by a U.S. insurer that was able to successfully create appropriate asset/liability management in order to take over pension liabilities of large corporations, despite the low interest rates.

Other challenges and opportunities discussed were on the assets side. Since insurers are also investors, they are increasingly less protected. Regulators have increasingly tended to protect the debtor, not the creditor. In addition, the extraterritorial reach of some national governments has become problematic for insurers. On the other hand,

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the position of insurers as long-term investors gives them opportunities for collaboration with governments regarding infrastructure investment and to enter uninsured markets.

The messages that came clearly from the industry were that insurers are suited to rethink their role in society as contributors to general safety, infrastructure and risk management. Our outside expert added a dimension relating to having “potentially better results with shifting investments to local businesses.”

The topics of regulatory risks and regulations centred around the challenge for a global industry to respond to national regulation and the unintended consequences of new regulatory initiatives for global systemically important insurer (G-SII) companies. As was the case in prior years, there were calls for the need to separate the insurance model from that of the banks.

In the area of modelling into insights and innovations that can prevent the next crisis, the speakers indicated the opportunities to use the expertise of insurers in modelling. This could add value to the assessment of past occurrences and give new insights and innovation.

Last, but not least was the topic of cyber-risk, which is challenging and provides great opportunities. The seminar’s participants kept emphasising the major need for the use of big data analytics and the best talents from hi-tech industries.

The rest of this newsletter includes a guest editorial by the Chairman of The Geneva Association Mike McGavick, who also gave the opening keynote speech. This follows with a more detailed overview of the 10th IF Seminar. The rest of the newsletter is dedicated to articles of participating speakers in the seminar.

I hope the readers will find this issue informative, enlightening and instructive. Many thanks to Prudential U.K. for hosting the seminar.