



*Setting the Scene*  
**Insurance Reform:**  
**Opportunity** or **Threat?**

**CEA International Insurance Conference**  
**Athens, Greece**  
**June 16, 2011**

Steven N. Weisbart, Ph.D., CLU, Senior Vice President & Chief Economist  
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038  
Office: 212.346.5540 ♦ Cell: 917.494.5945 ♦ [stevenw@iii.org](mailto:stevenw@iii.org) ♦ [www.iii.org](http://www.iii.org)



# Capital Markets

## Will Reform Help or Hinder the Insurance Industry's Capital Management?

(and will it anticipate problems related to  
one or a string of major sovereign defaults)?

# Systemic Risk

- Is Insurance Reform...
  - ◆ an **Opportunity** for regulators to target *activities* that can create or disseminate systemic risk?
  - ◆ a **Threat** to blindly treat large firms differently from smaller ones?
    - This risks missing activities that are systemically important
    - It creates an “unlevel playing field”

# In the U.S., an Insurer Might be Systemically Important if...

1. It is “interconnected”
2. It provides a critical product or service that cannot easily be obtained from another provider
3. It has insufficient liquidity to pay claims or other obligations in a timely manner and so must liquidate assets at “fire sale” prices
4. It is highly leveraged, so that even small shortfalls are magnified
5. It isn’t closely regulated regarding the relation of its assumption of risk to its capital, so that it can take on unacceptable levels of risk
6. It is large

# Capital Adequacy

- Is Insurance Reform...
  - ◆ an **Opportunity** for each insurer to “right size” its capital to the particular risks it is assuming?
  - ◆ a **Threat** to require some or all insurers to carry much more capital than they need, in order to assure regulators that they are likely to weather any future financial storm?

# Universal Accounting Systems

## ■ Is Insurance Reform...

- ◆ an **Opportunity** to change insurance accounting so that investors can compare firms around the globe and firms in other sectors of the financial industry?
  - If so, won't this lower the cost of capital?
- ◆ a **Threat** to change insurance accounting so that results will be much more volatile and harder to understand, even for one firm over time?



# Mergers & Acquisitions

## Will Reform Stifle or Boost M&A?

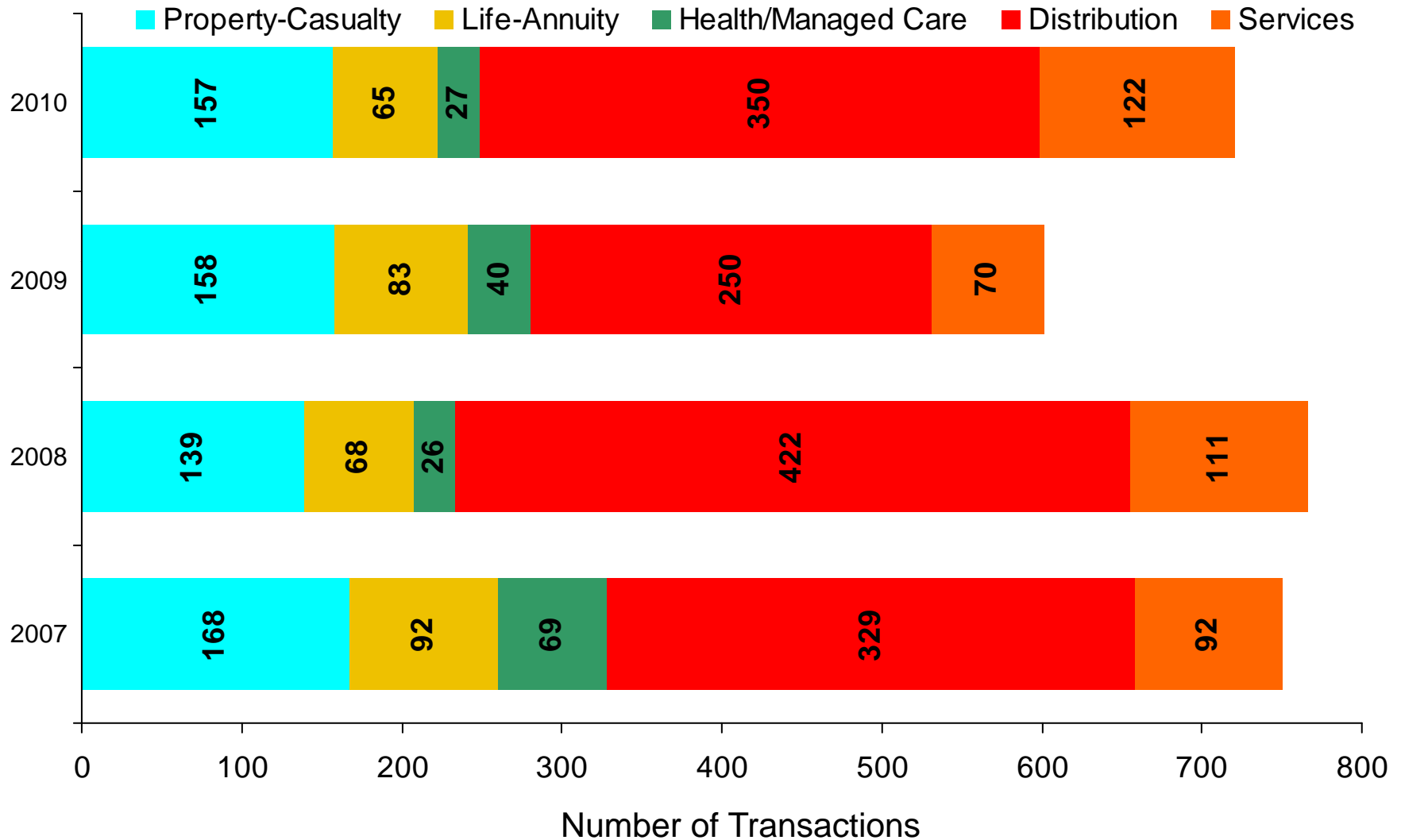
# Is Large Scale Now Necessary? Or Is It to be Avoided?

## ■ Is Insurance Reform...

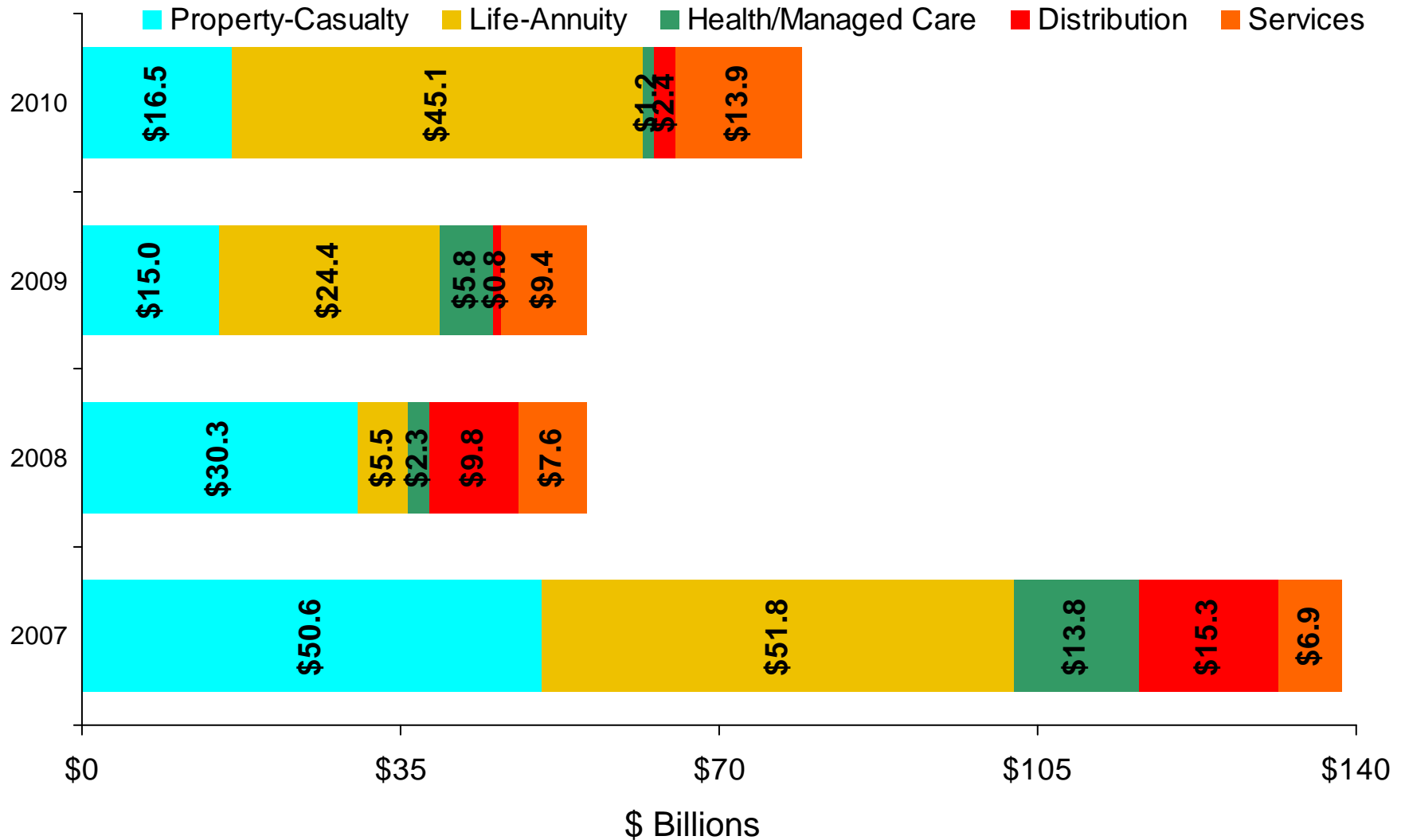
- ◆ an **Opportunity** to facilitate insurer diversification of operations and/or lower costs through greater scale?
- ◆ a **Threat** to raise the cost of regulatory compliance for large firms and thereby favor smaller firms over larger ones?



# # of Mergers & Acquisitions, Worldwide, Hasn't Changed Much (2007-2010)



# \$ Value of Mergers & Acquisitions, Worldwide, Sharply Down (2007-2010)





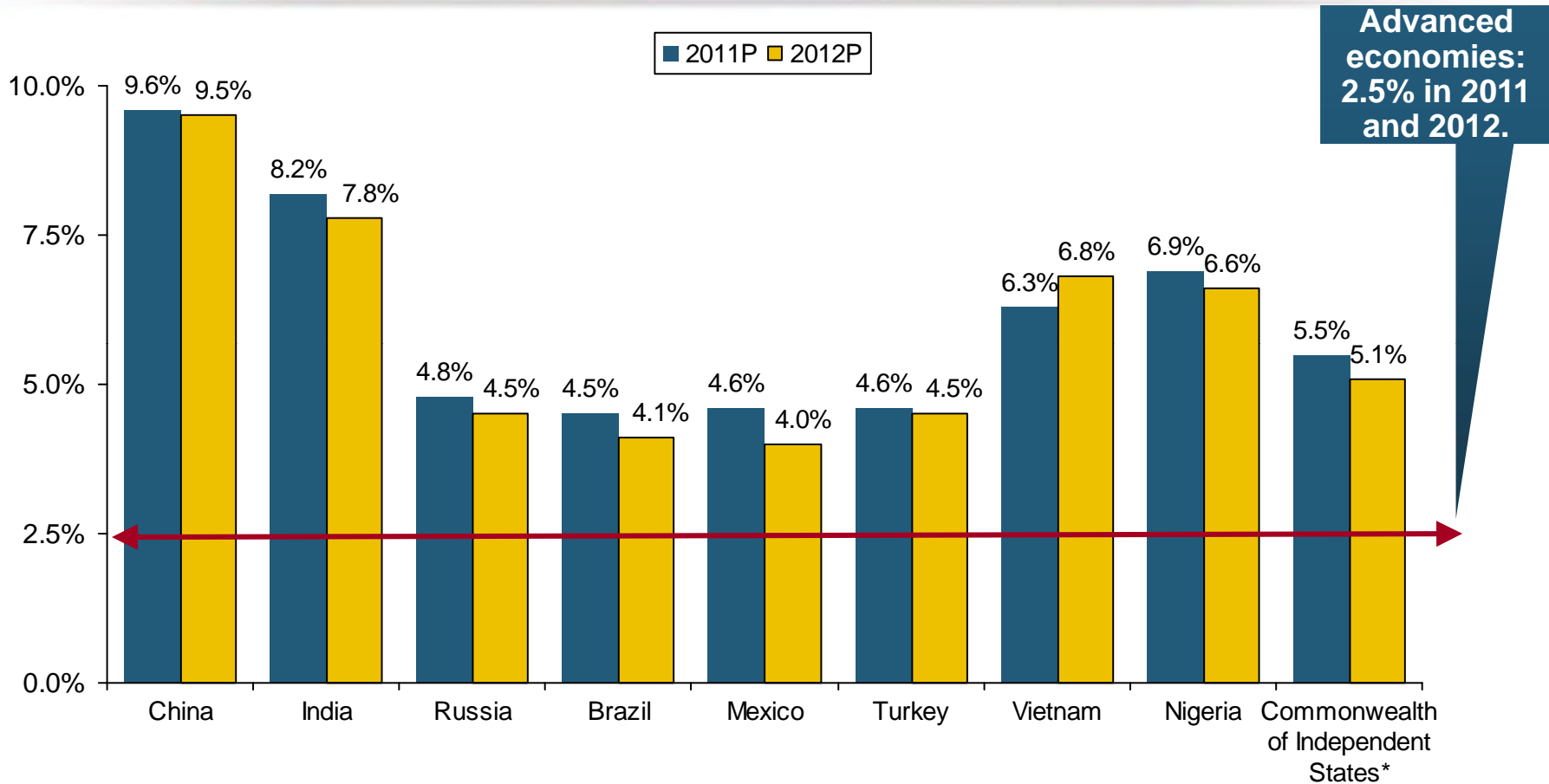
# Growth in Emerging Markets

**Low Insurance Penetration  
and Density  
in Rapidly-Growing Economies  
Implies Much Room for Growth**

# Greatest Growth Prospects

- Is Insurance Reform...
  - ◆ an **Opportunity** to lower the obstacles to expansion of operations around the globe?
  - ◆ a **Threat** to raise the cost of compliance, hindering expansion of operations around the globe?

# IMF Forecasts: Real GDP Growth in Selected Emerging Economies in 2011 & 2012

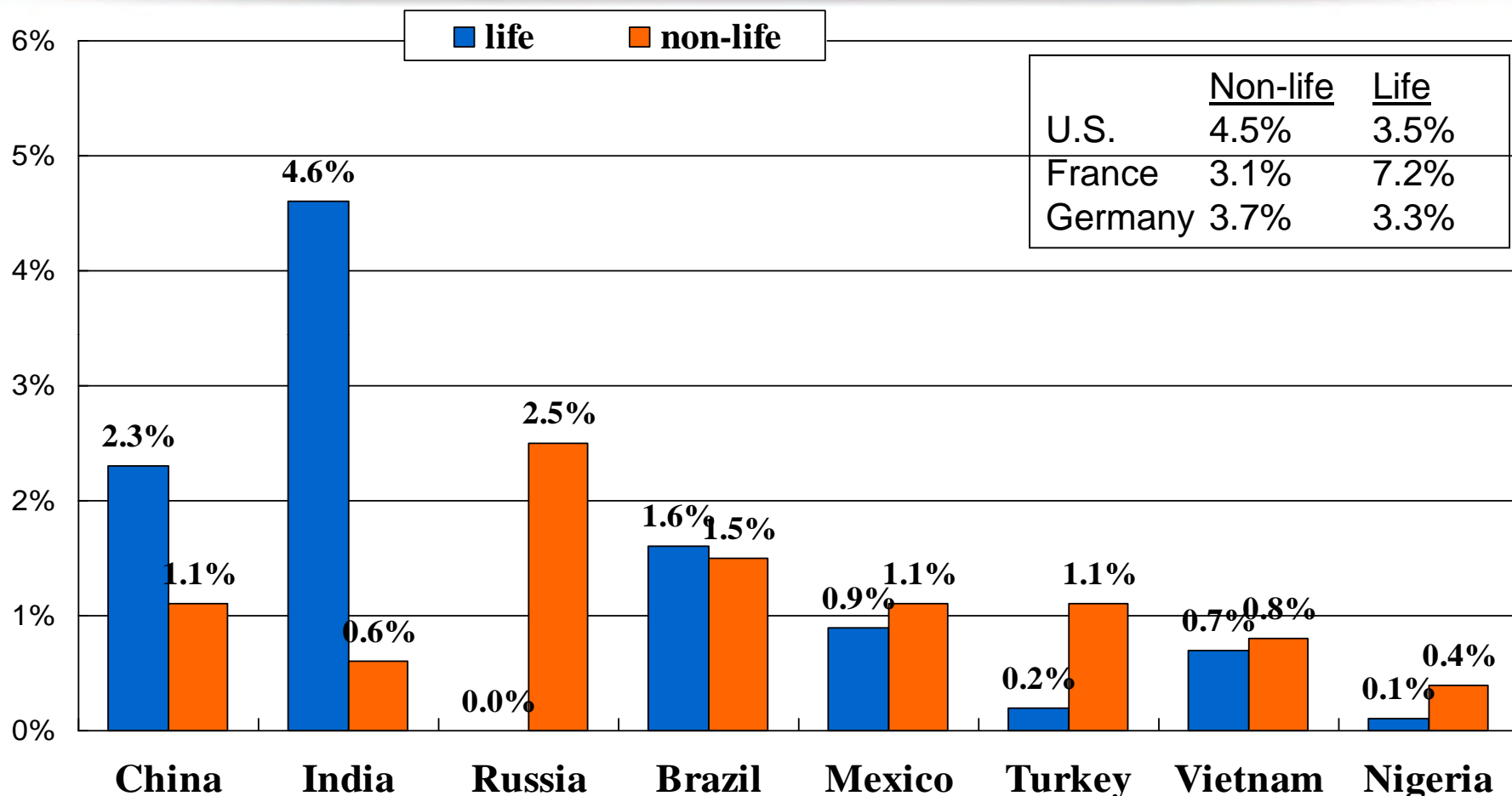


**Growth in emerging and developing economies implies more rapid growth of insurance exposures relative to the U.S., W. Europe and Japan. But will exposure growth mean comparable (or greater) premium growth?**

\*excluding Russia

Sources: IMF, World Economic Outlook, April 2011 Update; Insurance Information Institute.

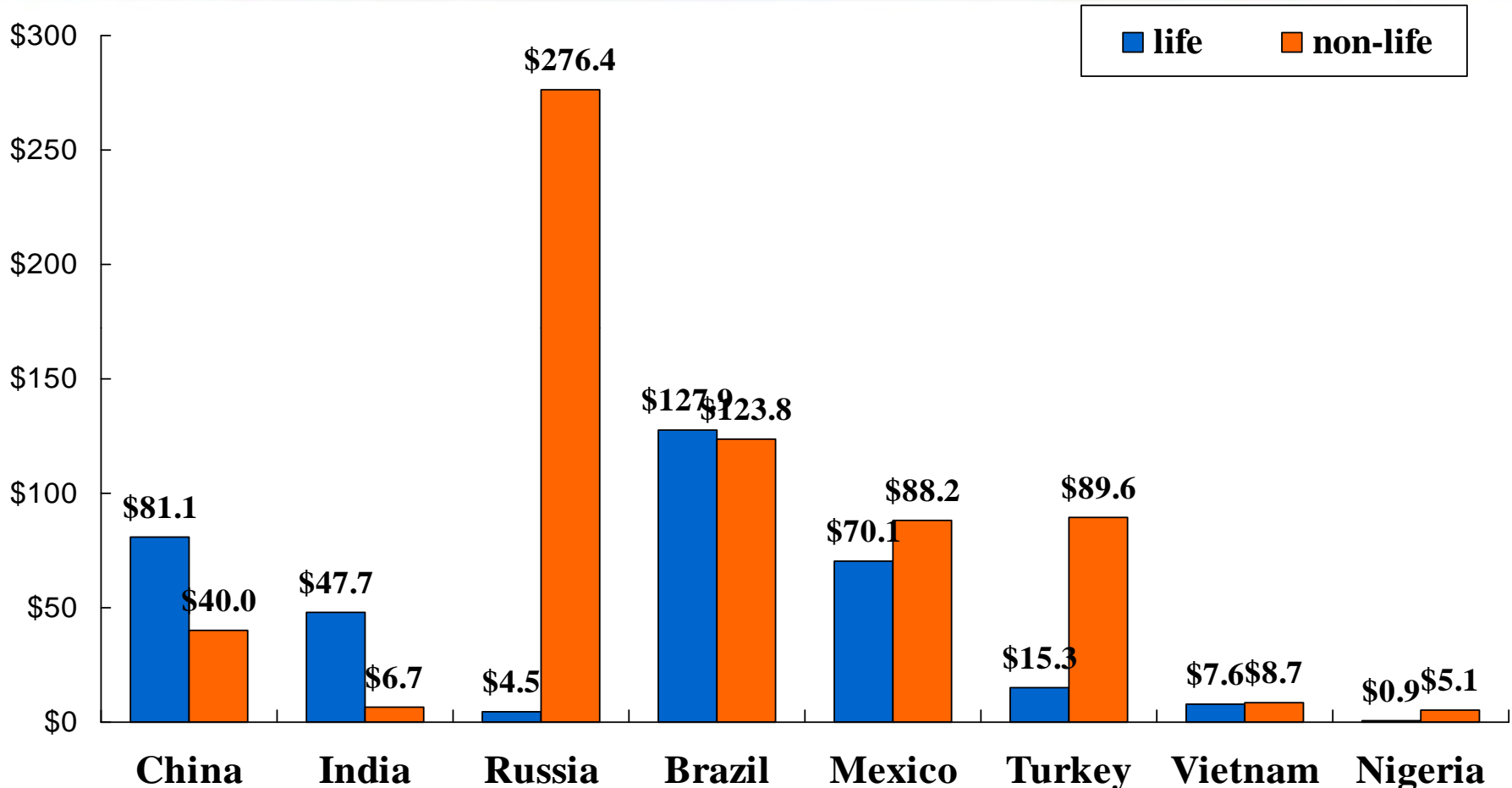
# Premium/GDP\* (Penetration) in Selected Emerging Economies, 2009



	<u>Non-life</u>	<u>Life</u>
U.S.	4.5%	3.5%
France	3.1%	7.2%
Germany	3.7%	3.3%

Even despite the rapid growth in these economies, insurance penetration is increasing at a high rate. The combination—growing penetration in a rapidly growing economy—implies extremely rapid premium growth.

# Premium\* per capita (Density) in Selected Emerging Economies, 2009



**From 2001-2009, Non-life Insurance Density in India tripled, and in China it grew 5-fold. But the most spectacular Density growth in these years belongs to Russia: in 2009 non-life Insurance Density in Russia was 9 times what it was in 2001!**

\* premiums measured in U.S. dollars, exclude cross-border business

Source: Swiss Re *Sigma*, various volumes



# What Reform Shouldn't Change



# Lessons Learned

- The insurance sector's business model is robust and generally able to withstand and conduct normal operations during
  - ◆ a sudden and sharp asset value meltdown
  - ◆ a soft pricing market,
  - ◆ an eroding exposure base, and
  - ◆ a challenging [man-made and natural] CAT environment

***All at the same time!***

# In the Last Crisis, the Insurance Sector Helped Stabilise the World Economy

- “...the insurance sector has arguably helped to provide a stabilising influence in light of its longer-term investment horizon and conservative investment approach.”

***Thank you for your time  
and your attention!***