

Back to basics' call from global insurance leaders

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If the global insurance industry is to prosper in the post-global financial crisis world, it must reacquaint itself with the classic virtues of integrity, prudence, fairness and restraint.

That was the view expressed by Ikuo Uno, chairman of Nippon Life, as he addressed assembled global insurance leaders at the International Insurance Society (IIS)'s 46th Annual Seminar in Madrid today (7 June).

Uno, a veteran of the Japanese financial crisis of the 1990s, explained that all financial crises share common causes.

He said the Japanese crisis had its roots in a gradual abandonment of tried and tested company management techniques in favour of short-term business strategy as the bubble economy inflated.

This loss of fundamental principles led to the excessive risk-taking that eventually caused the disaster, he explained.

Similarly, Uno noted that the current financial crisis had its roots in excessive confidence in financial engineering and too much leverage by banks.

Uno recounted the collective shunning of financial conservatives during boom periods - but reminded his audience that the only way to manage a trust-based industry such as insurance was to pursue consistent long-term conservative growth.

The senior executive added that a failure to follow what he described as the cardinal virtues inevitably leads to disaster.

But, somewhat pessimistically, Uno noted that humans are often not very good at learning from our mistakes.

"Even dogs learn lessons quicker," the senior life executive lamented.

Uno's words found favour with the assembled IIS delegates and a leadership panel chaired by Brian Duperreault of Marsh that included Stefan Lippe, CEO of Swiss Re, and José Manuel Martínez, CEO of Spanish-headquartered insurer Mapfre.

Leadership panellists agreed that only a reassertion of the essential integrity, decency and social usefulness of insurance as a product would prevent the industry being tarred with the same brush as bankers, as regulators formulate new supervisory and capital regimes following the financial crisis.

Martínez reiterated the view that it was not insurers but bankers who caused the financial crisis and that the sector should not be penalised.

He added that he believed that the insurance industry was sufficiently well capitalised at present, although he expected a tightening of capital regimes in the near future as regulators make doubly sure that new crises do not occur in the near future.

Lippe said that it was up to (re)insurers to explain that their product was at the cornerstone of capitalism and this should be achieved by "communication, communication, communication".

He called for the sector to see off regulatory threats with a single united voice, which he lamented was often absent.

The Swiss Re CEO also explained that financial crises often brought the best opportunities and that it was up to insurers to keep innovating new products to take advantage of this.

Lippe highlighted longevity and long-term healthcare as areas particularly ripe for exploitation.

The Swiss executive's cautious but optimistic tone was echoed by José Manuel Martínez who, while reiterating his firm's fundamental conservatism, extolled the high insurance growth of emerging markets.

Martínez warned that companies exposed only to the developed world were likely to see their performance compare unfavourably with players who were pioneering in faster-paced territories.

Greenberg warns IIS of industry over-regulation

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Maurice "Hank" Greenberg has warned industry leaders that an overreaction from global regulators threatens to rob the insurance sector of its ability to make acceptable returns for shareholders.

Addressing the International Insurance Society (IIS) in Madrid, the industry veteran and CEO of CV Starr said the industry now faced a rising tide of over-regulation.

Greenberg told delegates that insurance would be in danger of becoming a single-digit-return business if regulators went ahead with plans to load the sector with additional capital requirements in an effort to prevent another financial crisis.

"If they go ahead with the new capital regimes they are going to turn insurance into a 5 percent return on equity business," Greenberg told the IIS' 46th annual seminar.

"Who the hell wants to work in a business like that?"

The former head of the American International Group also criticised the Dodd's Bill making its way on Capitol Hill, arguing that the global financial crisis was not caused by a shortage in regulation but a lack of effective oversight for dynamic and innovative markets.

Greenberg said he found the Washington proposals incoherent, unwieldy and illogical, given that the official US government inquiry into the causes of the financial crisis had yet to complete its report.

Lamenting the amount of new regulatory bodies likely to be created by new laws, Greenberg joked with the 200-strong crowd that soon there would be "more regulators than people in the audience!"

Greenberg said he particularly feared product innovation would be stifled if the regulatory backlash went too far.

Looking to the global economy, the executive said that given weak lending and anaemic private sector business activity he would not be surprised to see a "double dip", in the US economy with gross domestic product shrinking in the second half of the year.

This meant that the US could not perform its habitual role as the growth engine for the global economy as it emerges from recession.

However, despite praising China for its efficient government structures, solid growth and sound financial management, he noted that the People's Republic was not yet ready to pick up the baton from the US as the driver of global growth.

China was well run but "not without its problems," Greenberg conceded.

Greenberg was optimistic that innovative insurers would continue to prosper wherever they operate in the world despite the poor economic and regulatory outlook.

However, the former AIG chief said the key for the industry was to differentiate itself and find new niches to provide services in.

AIA 'a bridge too far' for UK Pru, says Greenberg

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Prudential's failed \$35bn bid to buy American International Group (AIG)'s Asian business, AIA, was "a bridge too far" for the UK life insurer, according to Maurice "Hank" Greenberg.

The former AIG CEO and architect of AIA's multi-decade growth strategy told industry rainmakers in Madrid that the deal was inherently risky, as Prudential had to raise more than its market capitalisation to finance the deal.

Greenberg told the International Insurance Society (IIS) that a successful takeover would have forced Prudential to lose 25 percent of its sales force and created regulatory problems in China.

AIA is the only foreign-owned insurer with 100 percent ownership of its Chinese operations.

Greenberg divulged that the Chinese authorities had stipulated to him that AIA's licence was given specifically to AIG and that it was "not transferable".

The industry veteran said that AIA's proposed initial public offering in Hong Kong could never raise anything like the \$35bn given the limitations of marketplace.

He also doubted the intrinsic valuation of AIA after its recent loss of key staff in the wake of its parent's bailout crisis.