

CALCULATED RISKS

Mario Greco, the CEO of Zurich Global Life, talks to IESE professor Ahmad Rahnema about the impact of the financial crisis and growing life expectancy on the insurance business



Despite an overall fall in the industry, Zurich's final results for 2009 show a 6 percent increase. How did you manage this?

We were very pleased with the 2009 results. The company took an appropriate position when the crisis started. We were very defensive. We launched a lot of initiatives to protect, not just the share value but also policyholder values, so we were able to launch new products, new initiatives all around the world. The company remained pretty profitable.

Zurich had to make huge payouts after the September 11 attacks and since then some companies have included so-called terrorist clauses in their policies or insurance contracts. In the wake of this crisis, do you expect any new clauses to be introduced?

I wouldn't expect to see new clauses, but I think there are at least three different features of the insurance business that might change over time. First of all, really, the credit exposure was never thought of as something risky, because the idea was that companies don't easily default. We have seen a lot of defaults in the past 12 to 18 months, many more than we ever expected, so I think there will be much more attention to defaults and credit exposure. The second thing which I guess everybody learned through the crisis is that whenever you provide guarantees for long-

term returns or services to customers you really have to be aware of what can happen in detail of the distribution of probabilities that you are facing, because many of the guarantees which were given were normally acceptable ones, but not acceptable in the distribution details. So I think everybody will be much more careful about this. And the final thing is that if you move into directors and officer coverage, which was seldom used in the past, it immediately became important during the crisis because a number of board members, director and officers were caught up with responsibilities or issues about responsibilities. And again, I think this type of product and service will be offered in the future and a more cautious approach will be taken than in recent years.

Lots of analysts and experts say that 2010 will probably be the year that we start to see the light at the end of the tunnel. What's your view?

We'd like the tunnel to be short, but in fact we think it's pretty long. We are seeing some signs of improvement in the economy. Asia is doing much better than a year ago. Even the United States is slowly moving in the right direction. However, we are still very concerned about Europe. We think that the adjustment process in Europe will still take much longer. So, altogether, we think that the restructuring of the world economy will take quite a long time.



What is your view on the increasing demand for stricter regulation of financial markets and the financial industry?

I think we need different regulation. I'm not sure we need more, because in fact in some areas we have too much regulation. I think that it's inevitable that when governments save so many private companies and so many financial institutions, they then ask for more control so as to avoid it being repeated, but I think we also have to be very careful that by doing this we don't destroy the free market.

Consumer behavior has changed and investors are more risk-averse, which must be good for the insurance industry. Are consumers looking for a specific kind of product, such as credit default swaps?

Consumers have still not settled anywhere. In a sense, they are still changing their preferences and their modes. But we have seen a lot of changes over the past 12 to 18 months, depending on the news, depending on the reaction of the government. Certainly the most common one is that they have become very cautious about risk and I would say that today the greediness and the appetite for quick and big income streams is gone. Even in Europe people are saving more for the long term. I think the overall picture is that customers are trying to secure their wealth and they are very well aware of the



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fact that whatever they lose today will take years and years to recover.

Does this manifest itself differently between individual customers and corporate customers?

Yes, it does, because corporate customers are very much in the game of saving money and reducing costs, and maybe even under-insuring. Individuals are more long-term oriented and they prefer to continue insuring themselves.

Looking at general trends, such as the aging population, the low birth rate and also the high rate of unemployment in most European countries, the public system may not be able to meet demand, so the alternative would be the private welfare system or social insurance. What is your view?

There are two trends that we see as relevant. One is the trend toward longer life. This we expect to continue because of medical progress and the better quality of life we have. So we will live longer, though not necessarily better. So this is where we need to find solutions that will give everybody an even better quality of life, and when I say better, I don't mean from the medical standpoint, but with regard to the needs and resources that people need during their lifetime. So insurance can help with this, although this is a market that is growing and developing. It never existed before. But we expect this market that is based around longevity to be relevant in the coming years. The other phenomenon that we hope will not last for that long is the fiscal crisis facing many governments. We hope that over time the government will be able to manage this in a way that will not create further recession.