Mario Greco: The Impact of the Crisis on the Insurance Industry

Insurance, they say, is necessary to protect companies from being held liable when business takes a wrong turn. But now serious questions are being asked. In this exclusive interview, Mario Greco, CEO of Global Life of Zurich Financial Services, discusses the impact of the crisis on his industry with Ahmad Rahnema, professor of Financial Management at IESE.

Here follows a partial transcript of their conversation.*

How Will the Industry Change After the Crisis?

AHMAD RAHNEMA: During 2001, due to the September 11 attacks in the United States, your company, like many in the insurance industry, suffered some losses. There were huge payouts. What was learned from September 11? I know many companies included “terrorism” clauses in their insurance policies or contracts. Is there any kind of learning like that from the recent global financial crisis? Any new clauses to be included after the current storm?

MARIO GRECO: I wouldn’t think new clauses, but I think there are at least three different features of the insurance business that might change over time.

First of all, the credit exposure was never really considered 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 before, so I think there will be much more attention paid to defaults and credit exposure.

The second thing that I guess everybody learned through the crisis is that, whenever you guarantee 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 that were given were normally acceptable ones, but not acceptable in details of distribution. So I think everybody will be much more careful about this.

And probably the final thing concerns the general liability space, the Directors & Officers (D&O) coverage, which again was seldom used in the past, but became immediately important during the crisis, because a number of board members, a number of directors and officers, were caught with issues about responsibilities. Again, I think these types of products and services will be offered in the future with a more cautious approach than was the case in past years.
What Is the Outlook for 2010?

**AHMAD RAHNEMA**: Lots of analysts are saying that, little by little, we are getting out of the crisis, and 2010 will probably be the year that we start seeing the end of the tunnel. What is your thought on this 2010 expectation?

**MARIO GRECO**: Well, let me put it this way. We wish that the tunnel could be short, but in fact, we think this is a pretty long tunnel, and so it will take time before we really get to see some clear light at the end of it. We are seeing some signs of improvement in the economy though.

No doubt Asia is doing much better than a year, a year and a half ago. Even the U.S. is moving slowly in the right direction. Still, even though we think the U.S. is getting better, there will be nothing similar to the growth of Asia for many, many years in the future. The real relevant growth area that we see is Asia.

We are still very concerned about Europe. We think that the adjustment process in Europe will still take many more months. Definitely what we see is that Europe is the laggard at this point in time, and we are concerned about the growth of Europe in the next years. Some European economies have to do some structural reshaping, and this will take some years. Some of them were really hit badly by the crisis, and again, this will take some years. Even before the crisis, Europe was definitely not the strongest growth area in the world.

**AHMAD RAHNEMA**: How about Spain? Do you consider Spain one of those that is probably taking more time to get out of this crisis?

**MARIO GRECO**: Well, no doubt we are concerned that Spain needs significant restructuring of its economic system, and the exposure to construction, to real estate, was very relevant.

However, we also see Spain as one of the most international economies of Europe. It’s a pretty dynamic economy. Also, the capacity that was seen in the past by Spanish management and Spanish companies to innovate and produce new services around the world is reassuring.

Changing Behavior & Calls for Regulation

**AHMAD RAHNEMA**: Do you see any real change in the behavior of investors and clients?

**MARIO GRECO**: I would say that today the greediness and the appetite for quick and big income streams is gone. Nobody thinks that just by investing in insurance products or financial services products that they can become rich in a short time. I think the overall theme is that customers are trying to secure their wealth, and they are very well aware of the fact that whatever they lose today will take years and years to be rebuilt.
AHMAD RAHNEMA: Is this different between individual customers and corporate customers?

MARIO GRECO: Yes, it is. Corporate customers are very much in the game of saving money and reducing costs, and maybe even under-insuring. Insurance, in a sense, is a luxury good that you buy if you can afford it. So when times are tough, you reduce the cost of insurance and go under-insured, and you regain some revenues through this.

Individuals are more long-term oriented, and they prefer to continue insuring themselves. Typically they tend to over-insure in periods like this, because they are scared of all the bad news they hear daily.

AHMAD RAHNEMA: There are many governments and rising voices, especially in the States, saying that the financial industry must be regulated in a more strict way. What is your view? Do we need more regulation?

MARIO GRECO: This is a very difficult question. Definitely, I think we need different regulation. I'm not sure we need more because, in fact, in many, many examples, we have too much regulation. But the crisis and the development of the crisis showed that there were areas, unfortunately, which were forgotten by regulation, and on the contrary, there were areas that were hyper-regulated.

I think it’s inevitable that when governments save so many private companies and so many financial institutions, then they naturally come back and ask for more control to avoid this being repeated. But I think we also have to be very careful that by doing this, we don’t destroy what is a free economy state, which was definitely beneficial up to a certain point.

Mega Trends That Will Shape Our Future

AHMAD RAHNEMA: The aging population, low birth rates and also the problem that we have a huge rate of unemployment in most of the European countries: Many think that the public or social welfare system is not going to be able to handle the requirements and needs of the people in the future. Do you think that this important trend will continue over the next 10 to 20 years?

MARIO GRECO: We see two trends as being relevant. One is the trend toward longer life. This will definitely continue, we expect, because of the progress of medicine, because of the better quality of life that we are experiencing all over the world, the improvement of food. We will live longer, but not necessarily better. This is where we need to find good solutions to allow everybody to have an even better quality of life. When I say “better” I don't mean from a medical standpoint, but from a standpoint of the needs and the resources that everybody needs during life. Insurance can help with this. Although this is a market that is growing and developing, as it never existed before, we expect this market around longevity to be relevant in the next years.

The other phenomenon that we hope will not last for that long is the fiscal crisis issue of many governments, definitely in Europe, but not only in Europe, even in the U.S. and some Asian states.
AHMAD RAHNEMA: In Spain, the government has officially recommended that people take out some form of private pension plan as a complement to the public plan. Would you recommend that?

MARIO GRECO: I think insurance has to help in this direction, providing good solutions, fairly transparent products (which was not always the case all around the world with insurance) and also services, which can really be competitive to match the needs of customers over time. Yes, I think saving for future needs is pretty wise. Also, if you link it to what I said before about longevity, the fact that we are all living longer, we would need more money saved to just accomplish all we want to do in the many years we will live after we stop working.

* Note: The above text was lightly edited for grammar, flow and accuracy. Please check against actual delivery on video.