

THIS IS THE DRAFT INTERVENTION OF MRS. PILAR GONZÁLEZ DE FRUTOS, CHAIR OF UNESPA, WRITTEN FOR THE CASABLANCA INSURANCE MEETING (LES NOUVELLES FRONTIÈRES DE L'ASSURANCE) WHICH WAS HELD BETWEEN THE 3RD AND 4TH OF APRIL, 2019. TO BE CHECKED AGAINST DELIVERY.

MY INTENTION DURING THE NEXT TEN MINUTES IS TO DEPLOY SOME IDEAS AND ARGUMENTS ABOUT THE INSURERS' CAPACITY TO INSURE WHAT IS THEORETICALLY UNINSURABLE.

THE CLASSICAL THEORY OF INSURANCE TELLS US THAT AN INSURABLE RISK HAS TO HAVE THREE CHARACTERISTICS. FIRST, IT HAS TO BE UNCERTAIN; WE CANNOT INSURE RISKS WITH A PROBABILITY EQUAL TO ONE, BECAUSE, WHEN PROBABILITY EQUALS ONE, PREMIUM EQUALS CLAIM. SECOND, THERE MUST BE AN INSURABLE INTEREST: IF THE RISK TURNS OUT TO BE REAL, SOMEONE HAS TO SUFFER SOME KIND OF LOSS. THIRD AND LAST, BUT NOT LEAST, THE RISK HAS TO BE STATISTICALLY MEASURABLE. NO CALCULATION, NO PREMIUM.

I WILL ADD A FOURTH CONDITION TO THESE THREE THAT, AS I SAID, ARE CONSIDERED THE CLASSICAL APPROACH TO ANY INSURANCE: THE RISK MUST BE, LET ME INVENT THE WORD, *POOLABLE*; IT HAS TO BE ADEQUATE FOR POOLING. THERE HAS TO BE A MINORITY OF INSURED PEOPLE WHO SUFFER CLAIMS, AND A MAJORITY OF THEM WHO DO NOT; AS WELL AS FINANCIAL CAPACITY AMONGST INSURERS TO SUPPORT THE THEORETICAL VALUE OF LOSSES.

IF YOU LOOK THROUGH THE QUESTION OF INSURABILITY, YOU WILL EASILY CONCLUDE, OR AT LEAST THIS IS HOW I SEE IT, THAT, WHEN A RISK IS NEW, THE ONLY FACTOR OF THESE FOUR TO WHICH NOVELTY POSES A PROBLEM IS THE THIRD ONE. A NEW RISK USUALLY IS AS UNCERTAIN AS OLD ONES; IT HAS INSURABLE INTERESTS AS ANY OTHER; AND USUALLY THERE EXISTS CAPACITY IN THE MARKET TO COVER IT. THE PROBLEM IS THAT, BECAUSE IT IS NEW, IT HAS NOT BEEN MEASURED, OR AT LEAST NOT PROPERLY MEASURED. THE MAIN PROBLEM CAN BE SUMMED UP WITH THE CONCEPT OF KNOWLEDGE. INSUFFICIENT KNOWLEDGE.

AT THE SAME TIME, THOUGH, ONE CAN REALIZE THAT EVERY COMMON RISK THAT EXISTS IN OUR PRESENT ENVIRONMENT, EVERY ONE OF THEM, WAS ONCE UPON A TIME A NEW RISK. ALL OF THEM WERE, SOME POINT IN THE PAST, UNINSURABLE. THERE WAS A MOMENT WHEN HUMAN LIFE WAS NOT INSURED, AS IT WASN'T HEALTH, LIABILITIES OR PROPERTIES. INITIALLY, INSURERS COPE WITH THIS PROBLEM BASICALLY THROUGH A TRIAL AND ERROR APPROACH. PROGRESSIVELY, THOUGH, ACTUARIES ENDED UP REALIZING THAT IT WAS A QUESTION OF PRUDENTIAL WORK. THE BEGINNINGS OF ANY NEW FORM OF INSURABILITY MUST BE OVER-PRUDENTIAL, FOLLOWED BY ADJUSTMENTS DUE TO BETTER KNOWLEDGE. AS YOU SURELY KNOW, RECKLESSNESS IS NOT PRECISELY A COMMON ATTITUDE AMONGST INSURERS. AND NEEDLESS TO SAY, NEITHER IT IS AMONG INSURANCE SUPERVISORY AUTHORITIES.

WHAT I AM TRYING TO CONVEY THROUGH THESE WORDS IS THE FOLLOWING KEY MESSAGE: WHEN A RISK SURGES AND SOCIETIES DEVELOP THE AMBITION OF BEING

ABLE TO INSURE IT, IT IS NOT ONLY A QUESTION OF INSURANCE STATE-OF-THE-ART. INSURERS SOMETIMES CANNOT SOLVE THE PROBLEM THEMSELVES ALONE. PUBLIC AUTHORITIES HAVE TO BE MEMBERS OF THE CREW.

THE REASON WHY IS EASY TO EXPLAIN. IF I AM SAYING THAT ANY INTELLIGENT AND SOLVENT-FOCUSED INSURER WILL APPROACH NEW RISKS USING A PRUDENTIAL POINT OF VIEW, THE LOGICAL CONSEQUENCE FROM IT IS THAT INSURING NEW RISKS WILL BE A RELATIVELY EXPENSIVE COVER. THIS TRANSFERS A PROBLEM TO THE CUSTOMER AND, HENCE, PLANTS THE SEED OF UNDERINSURANCE. HOWEVER, UNDERINSURANCE IS A PROBLEM FROM A MACROECONOMIC POINT OF VIEW, BECAUSE PREVENTS INVESTMENT GROWTH. AS WINSTON CHURCHILL SAID ONCE, IT IS THANK TO INSURANCE THAT MODERN SKYSCRAPERS EXISTS, BECAUSE NOBODY WOULD ASSUME THE RISK OF BUILDING ONE OF THEM KNOWING THAT A SIMPLE FIRE CAN FINISH IT OFF TO THE ASHES. THE UNINSURED ECONOMIC ACTOR HAS TO THINK ABOUT RISKS BY HIMSELF, AND THIS IS SOMETHING THAT AUTOMATICALLY CURTAILS HIS RISK APPETITE.

THIS IS A BIG PROBLEM BECAUSE UNDERINSURANCE BECOMES THEN A PROCESS THAT TENDS TO INCREASE INEQUALITY. IT TURNS INTO A PHENOMENON THAT DEEPENS THE DIFFERENCES BETWEEN RICH AND POOR ECONOMIC SYSTEMS. LET ME GIVE YOU AN EXAMPLE. LAST YEAR, WE CONDUCTED IN THE ASSOCIATION THAT I CHAIR, THE SPANISH PRIVATE INSURERS' ASSOCIATION, A SURVEY ON CYBER RISKS. WE WERE ABLE TO GATHER RESPONSES FROM AN INTERESTING SAMPLE OF MARKETS WITH DIFFERENT SIZES. ONE OF THE QUESTIONS POSED INVITED THE RESPONDENT TO CHOOSE ONE

SENTENCE THAT BETTER DEFINED THE SITUATION OF CYBER RISK INSURANCE IN THEIR COUNTRY. THE SO TO SPEAK “PESSIMISTIC” ANSWER, COMBINING A LOW AWARENESS FROM CLIENTS AND A LACK OF CAPACITY WITHIN THE INSURANCE MARKET, WAS CHOSEN BY 21% OF RESPONDENTS; ONE OUT OF FIVE, THEN. SUPERFICIALLY, THEN, ONE COULD CONCLUDE THAT A FIFTH OF INSURANCE MARKET DOES NOT HAVE ENOUGH CAPACITY TO COVER CYBER RISKS, AND ACTS OVER A MARKET WHERE THOSE EXPOSED TO THEM ARE NOT KEEN ON INSURING THEMSELVES. HOWEVER, THIS CONCLUSION IS TOO SUPERFICIAL. ACTUALLY, THAT 21% OF ANSWERS REPRESENTED ONLY 5.8% OF PREMIUMS.

FIGURES, THEN, STRONGLY SUGGEST THAT SITUATIONS OF UNDERCOVER, EITHER BECAUSE INSURANCE HAS NO INTEREST OR CAPACITY OR BECAUSE THERE’S NO AWARENESS ABOUT THE ACTUAL NATURE AND SCALE OF THE RISK, TEND TO CONCENTRATE IN SMALL MARKETS. STATUS QUO, CONSEQUENTLY, CREATES A HIATUS AGAINST THE LESS DEVELOPED INSURANCE SCHEMES, WHICH ACT OVER LESS DEVELOPED BUSINESS SCHEMES, THUS MULTIPLYING INEQUALITY AND CURBING COMPETENCE.

NEW RISKS HAVE DIFFERENT SCALES: WORLD, REGIONAL, AND LOCAL SCALE. IN EACH STEP THEY HAVE TO BE ANALYZED AND TREATED. HOWEVER, THIS TREATMENT HAS ALWAYS TO STEM FROM THE CLOSE COLLABORATION BETWEEN PRIVATE INSURERS AND PUBLIC ACTORS. THE RESULT OF ACTING IN ANOTHER WAY WOULD BE AN

ECONOMIC SYSTEM POORLY AND UNEQUALLY PROTECTED, AND GLOBAL, REGIONAL AND LOCAL GROWTH WOULD BE WHO WILL BEAR THE BRUNT OF THE PROCESS.

WHAT CAN PUBLIC ACTORS DO IN THIS FIELD? WELL, THE FIRST IDEA THAT TURNS OUT IS A VERY STRAIGHT ONE. IF ONE OF THE PROBLEMS OF NEW RISK COVERING IS THAT, DUE TO THE LACK OF INFORMATION, INSURERS NEED TO APPLY EXTRA LAYERS OF PRUDENCE, AND THIS MEANS HIGHER FINAL COSTS, ONE OBVIOUS STRATEGY WOULD BE TO SUBSIDIZE THESE COSTS. SOMETHING THAT CAN BE DONE EITHER DIRECTLY, THROUGH A SUBSIDY STRICTLY SPEAKING; OR INDIRECTLY, FOR EXAMPLE THROUGH DIFFERENT TAX RELIEFS. THERE ARE SEVERAL EXAMPLES THAT DEMONSTRATE THAT THIS KIND OF POLITICS HAVE THE RESULT OF IMPROVING SIGNIFICANTLY THE LEVEL OF INSURANCE UNDERWRITING, ESPECIALLY IN THE LONG TERM. IN SPAIN, FOR INSTANCE, WE HAVE THE EXAMPLE OF AGRARIAN INSURANCE. IN THE NINETEEN SEVENTIES, AGRARIAN INSURANCE WAS POORLY DEVELOPED IN MY COUNTRY. SO PUBLIC AND PRIVATE PARTNERS DECIDE TO DRUM UP A SUBSIDIZED SCHEME THAT STILL EXISTS. WE HAVE NO TIME TO DESCRIBE THIS PROCESS AT LARGE, BUT THE FINAL RESULT IS THAT, NOWADAYS, THE SPANISH MARKET HAS ENOUGH PRIVATE CAPACITY FOR RISK TAKING, AND MOST EUROPEAN MARKETS SHOW AN UNVARNISHED ENVY OVER OUR THOROUGH LEVEL OF INSURABILITY. SUBSIDIZING EMERGING FINANCIAL PROTECTION MARKETS, THEN, TEND TO HAVE A MULTIPLYING EFFECT THAT GOES FAR BEYOND INITIAL TASK LEVELS.

SUBSIDIZING, THOUGH, IS ONLY THE PEAK OF THE ICEBERG ABOVE WATER. THERE ARE PLENTY OF ELEMENTS THAT CAN BE DISCUSSED BY PUBLIC AND PRIVATE PARTNERS REGARDING NEW RISKS. THERE IS, FOR EXAMPLE, THE QUESTION OF HOW DO WE BUILD UP, THE FASTER THE MERRIER, A SOLID, HIGH-QUALITY KNOWLEDGE BASE ABOUT THESE NEW RISKS, THEIR PROBABILITY, AND THEIR ACTUAL FINANCIAL IMPACT. WE NEED THE PUBLIC PARTNER TO BE ENGAGED IN THIS PROCESS BECAUSE, IN THE CASE OF EMERGING REALITIES, COLLABORATION BETWEEN INSURERS IS CRUCIAL, WHICH MEANS THAT WE WILL BE MORE EFFECTIVE, AND WE WILL BE FASTER DOING OUR JOB, IF WE ARE PERMITTED TO WORK TOGETHER AND SHARE THE INFORMATION WE GENERATE. SHARED, INDUSTRY-WIDE, KNOWLEDGE BASES SHOULD BE IMPROVED.

THERE IS ALSO AN IMPORTANT CONCERN RELATED TO SOLVENCY. REGULATION OF INSURERS' OWN FUNDS AND FINANCIAL GUARANTEES HAS ALWAYS BEEN RIGOROUS, BUT EUROPE HAS MADE AN IMPORTANT LEAP FORWARD WITH SOLVENCY II, A DYNAMIC SYSTEM FOR CAPITAL REQUIREMENTS CALCULATION. THIS KIND OF REGULATIONS USUALLY DERIVE EXTRA OWN FUNDS REQUIREMENTS TO THE INSURER THAT IS BEGINNING TO INTRODUCE ITSELF IN NEW ACTIVITIES, DUE TO THE OBVIOUS FACT THAT IT LACKS THE RICH INFORMATION THAT OTHER "VETERAN" ONES ALREADY HAVE. HOWEVER, THINGS SHOULD RUN DIFFERENTLY FOR SCHEMES WERE *EVERYBODY* IS NEW, BECAUSE THE RISK COVERED IS OF A NEW NATURE UNKNOWN IN THE PAST. IT WOULD BE RATIONAL TO RUN THINGS SMOOTHLY IN THESE CASES.

SOME MINUTES AGO, I WAS SAYING THAT IN THE PAST INSURERS HAVE HAD TO COPE WITH THE CHALLENGE OF INSURING NEW RISKS, AND THAT THEY COMMONLY FACED IT THROUGH A TRIAL AND ERROR STRATEGY. THIS, THOUGH, IS NOT EFFICIENT. PUBLIC-PRIVATE PARTNERSHIP IS ACTUALLY THE BEST WAY TO AVOID THIS APPROACH, AND TO CONSEQUENTLY BUILD FROM SCRATCH SOUND, EFFICIENT, CAPABLE, RESPONDENT, SCHEMES. ONE RESULT THAT WILL BE IN EVERYBODY'S BENEFIT: CUSTOMERS WILL FEEL PROTECTED AGAINST RISKS THAT ARE DISTRESSING IN SOME SORT; INSURERS WILL BE ABLE TO DEVELOP THEIR FUNCTION IN A BALANCED WAY; AND PUBLIC AUTHORITIES WILL CHECK HOW THIS ENVIRONMENT IMPROVES COMMON AND GLOBAL GROWTH, AND WEALTH.

THANK YOU VERY MUCH FOR YOUR PATIENCE.