

REFORM, RESILIENCE AND RECOVERY: EUROPE'S WAY FORWARD

INTERVIEW BY
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What is your overall view of the EU's approach to a) the European Green Deal and b) the post-Covid recovery funds?

'The answer to your question and the secret of the EU's approach is in reforms. Because the only way of coming out of this pandemic crisis is through reforms. So far, we have dealt with emergency interventions, and effectively. But now we are getting to the stage where we must move on from emergency to recovery. And therefore, reform is the keyword. If the EU, through the various Next Generation EU, the Green Deal, the energy-, the green- and the digital-transitions, and the other policy measures, manages to go through a real and bold reform process, then there will be success that will bring about a promising and bright future.'

You said that reform is the keyword. The other keyword we've been hearing in recent months is resilience. How important is that?

'Sustainability and resilience are fundamental dimensions that characterize the transition from the 'old world' before the pandemic, to the 'new normals' Through the crisis we have learnt that sustainability has many aspects. There are 17 sustainable development goals (SDG) of the U.N., 169 targets and a list of no less than 232 indicators to track progress. Then we have the Environment Social and Governance (ESG) criteria. Therefore, sustainability is a complex set of different interconnected aspects that have to be considered to make development a holistic and inclusive process. But on top of that with the crisis we have added the notion of resilience. Resilience to unexpected shocks is an additional element of performance because we do not only have systemic and global risks, but we also have tail risks that we cannot ignore.'

The notion of tail risk has changed significantly. We used to think of it as an extreme departure from

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normality (i.e. the ‘average’) that is very rare, comes gradually and can be prepared for. Something like a slow train that we see approaching from the distance. Think for instance of the prospects for climate change in 2050 or the next century. But tail risks we have seen can happen and do happen! With an increasing frequency. They occur often abruptly and unexpectedly like black or green swans. And when they happen, they can have a devastating impact. How do we deal with this kind of ‘tail risks’? We must prepare to deal with such shocks. We did not prepare for the pandemic one, and we have seen the consequence. Getting ready for the next shocks, whether they come from epidemics, natural catastrophes, climate change, wars conflicts or geopolitical

disorder, is imperative. The new risk scenarios we are facing behave not only like slow-moving trains, but often like high-speed ones that run over and disrupt lives and livelihoods of people communities and whole nations. In the case of the pandemic the whole world.’

Let's talk about those post-Covid recovery funds. What's your advice on them and your expectations from them?

‘In funding the recovery, and the transitions that the recovery implies – the digital and the green transition, the resiliency transition –, we need to highlight several factors that in the past we have by-and-large neglected. First, the need to have a long-term vision and thinking capacity, and

second, the focus on sustainable finance. We need to shift the emphasis of decision-making towards the long-term. This is particularly true for the world of finance. Banks, insurance and capital markets must shift away from the short term, from the obsession with mark-to-market and quarterly profitability, and steer towards the longer term. This is required when investing in infrastructure, the recapitalization of small firms, the financing of innovation, high tech and disaster risk reduction. An important challenge we are struggling with now in funding the ‘real economy’, is that of making the financial system work in terms of an ‘ecosystem’. We need a ‘financing ecosystem’, where we have big banks, investment banks, but also small banks and small insurers;

where we have private capital and listed companies, liquid and illiquid investment, mid-caps that wish to expand, etc. It is a complex and integrated world, where we need to look at not only specific tools and vehicles, but at the funding requirements as a whole. We need a 'funding escalator' capable of accompanying firms in all stages of their life cycle, for which they need specific and tailor-made financing instruments: starting from start-ups, then scale-ups, the expansion phase, the restructuring phase, up to restructuring and insolvencies. In an effective funding escalator, all the various components must be present, and join efforts. In the Silicon Valley for instance, you certainly have a lot of venture capitalists, but you also have the big banks, the credit unions and the global financial institutions. In sum, the whole strength of the US financial market. We need the whole ecosystem of financial intermediaries, well developed and capable of working effectively together.'

In terms of sustainability, you've already talked a bit about what the finance sector is looking at, but what will be the effect on the insurance sector and the banks?

'The insurance sector and banks must be fully involved in green finance. Struggling through the crisis, we have seen that business models can, and should be adjusted, even reconceptualized. We coped with lockdowns and social distancing by relying on smart and distance

working. We saw how banks and insurance companies throughout the crisis did not, and could not, stop or slow down. Financial intermediaries continued to provide their services to customers. We have also discovered what great opportunities digitalization offers to enable e-commerce, smart working, communication, webinars. A new environment that will not go away after the crisis. So definitely there were, and there will be more, adjustments in the business models of banks and insurance companies. Which implies more risks – obviously – but also more opportunities for doing things differently, possibly better. The fact is that as we get out of this pandemic, we will not get back to the old habits. We will have to live in a new world. We need to get adjusted and accustomed to this new world to survive. But we can also build a better world, better ways of doing business, exploiting all the opportunities that are emerging.'

Of course, dealing with risk is the job of the insurance sector. I had a lovely quote saying that the actuary is the risk manager of your country. Looking ahead, do you expect other big shocks like Covid19?

'We must accept, and prepare for, the fact that unexpected and unprecedented shocks occur, more frequently and more disruptively than in the past. But we must learn to learn the lessons. We did not learn in the last decades the lesson of SARS, MERS and other epidemics

preceding this one. Or better those countries that did learn the lesson were much more successful in dealing with Covid 19. The first relevant lesson concerns the importance of science, and decision-making relying on science, data, analytics and experienced professionals. On this, the role of actuaries comes to the fore as becoming of increasing importance. Actuaries use science to support decision making, to identify, monitor, manage and price risk. We have seen risk management placed at the heart of the crisis, but also being fundamental for getting out of the crisis. And actuaries hold the key to the science of decision-making under uncertainty.'

You say that in the recent past, we have not learnt so many lessons. What lessons would you like society, but also in particular the three sectors, banking, insurance and finance to learn and perhaps if we were to find a silver lining, what would that be?

'Definitely, we need to invest more in science, research, training and education. Not only we must make use of the traditional technical tools – the models, the forecasting, the algorithms that are in the standard toolbox of actuaries and other professionals, but also we must improve extend and adapt those tools. The job of risk managers, actuaries in particular, has become much more complex and challenging, but also much more important and exciting. There are new dimensions,



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new responsibilities and a new awareness of the strategic importance of risk management and actuarial work. That is a challenge not only for actuaries, but for insurers banks policy-makers and the public opinion at large. Having to deal with the new risk scenarios implies reaching out to new skills, engaging in new partnerships, acquiring new competencies. It implies becoming more strategic and more innovative in the approach to problems. It implies also that this strategic role of actuarial work is more recognized and respected by policymakers, CEOs and all stakeholders. Hard work, but also exciting work!

And do you see a role for the Actuarial Association of Europe in helping to foster this? I'm thinking perhaps in terms of ongoing training or perhaps creating this new identity of actuaries of the future.

'The Association has a unique role because the tasks we mentioned above cannot be done by individual actuaries or firms alone. A business association can invest in research, in skills acquisition and development and in human capital. I believe the essence of this new phase and new mission for actuaries is partnerships. They must engage

more in partnerships through the association both upstream (with researchers, analysts, statisticians, data and ICT providers), and downstream (with end-users, retailers, the whole world of public opinion). So, they must become more visible vocal and authoritative. Their voice must be heard more.

There are three areas where the Association has a fundamental role to play:

- Invest in the education of the public. It's important that people appreciate the work that actuaries are doing and that they want to become involved.
- Highlight the social role of actuaries, their contribution to inclusiveness and social cohesion. Inclusiveness should be a primary policy concern for the Association.
- And finally, Europe. The Association must promote European integration. In facing the new risks, a national perspective is not enough. We have discovered through the pandemic the importance of the European perspective in a field like health, which was not considered before a European domain. Without linking health to the European economy and society (one health), we would not be effective in managing the recovery.

Besides, allow me to show a little bit of European pride. In the fields of the net zero transition, sustainable finance, the circular economy and the like, Europe is a frontrunner and a global leader. Actually, Europe is taking the lead and more responsibility in the global exchequer to promote cooperation and dialogue on sustainable development and resiliency. I think the upcoming appointments related to the COP 26 and the G20 under the Italian presidency, are great opportunities for giving more visibility and recognition to the European green leadership.'

Finally are you optimistic, what are your hopes for the future?

'Well, we are coming out of a difficult period. Quite a few of the old certainties of the past have been undermined. We are faced with structural (not simply parametric) uncertainty. But we struggled through, showing adaptability, innovation and solidarity. The recovery underway is vigorous, and the new world that is emerging out of the pandemic looks quite promising. Greener, more digital and more resilient. Giving more value to being together, meeting and participating in person, sharing and caring. It is up to us now - as Churchill put it - "not to let a good crisis go to waste"'