

Emerging Risks

Eric Chaney

In December 2013, AXA launched an online questionnaire asking its 200 internal experts to list the top emerging risks over the next 5 to 10 years.

Hélène Chauveau, Head of Emerging Risks, spoke to Eric Chaney, Head of AXA IM Research, and AXA Group Chief Economist, for his reaction to the results.

Economic & Financial risks

Hélène CHAUVEAU

Hello, Eric. Thank you for answering our questions. According to our study, financial and economic risks are seen as one of the main risks for society at large. What is your reaction to that?

Eric CHANEY

I think it is perfectly understandable because we have gone through extraordinary times with the great recession, which in the end was not a great depression. Central banks around the world have implemented unprecedented policies and we have no idea what the long-term consequences of these policies will be. What we know is that the big central banks, starting with the Fed, have purchased enormous amounts of government debts and provided almost unlimited amounts of liquidity to the banking systems.

Among the long-term consequences, if the exit strategies of the central banks are not correctly designed, we have three risks. One is the central bank buying in the end all the government debt. This is called monetisation, something well known in the 19th century, which might result in a jump of inflation from very low inflation to very high inflation, which would destroy a lot of wealth.

The second risk is the central banks injecting liquidity to raise inflation, which is considered too low right now. This is linked to structural factors that we just do not know about. This liquidity only goes into the financial markets, leading to financial bubbles, real estate and also bond and credit market, possibly emerging markets, which we saw last year, and also equity markets. When there are bubbles, everybody knows that it is not sustainable, but everybody puts their money in it and at some point, the bubble crashes and there are terrible consequences for economies, for savers and for companies as well.

The third risk is more linked with the situation in Europe. The European Central Bank has provided a lot of liquidity to the banking system because banks are funding the economy, but a lot of banks in Europe are not really in great shape. Maybe this policy is keeping alive banks which are just not supplying credit to small and medium-sized companies, to the good companies that need funding. In that case, the risk is to have a sort of Japanese scenario, with very low interest rates, very low inflation, but also very low economic growth, which would be a big challenge in terms of social settings.

Hélène CHAUVEAU

Indeed. What can AXA's role be regarding these new trends?

Eric CHANEY

Well, if you think risk, we are insurers and I think it is our job and our duty to provide insurance against these risks to people who trust us. I am talking about investors, people who are saving their money into life investments, and also companies that trust us to manage part of their assets or their pension funds.

Insuring our clients against the risk of a jump in inflation is something that we know. We know how to do that. It is a bit more difficult to convince people right now that they should think about protection against inflation, but that is part of our job. Preventing people suffering from market gyrations is a bit more difficult, but this is also something that we can do and we have the means to do that.

Now, regarding the risk in Europe, it is a bit more difficult and I think our first duty would be to survive in these conditions and again, to provide insurance against the risk of very low economic growth, which, of course, implies making some choices, and we can help people to make these choices.

Hélène CHAUVÉAU

Thank you very much, Eric.

Eric CHANEY

You are welcome.

