Cluster 1

Theme: Finance and banking

Theme leads
Leon Wansleben (Max Plank Institute for the Study of Societies, Cologne)
Timo Walter (University of Erfurt)
Panel
Natalia Besedovsky (University of Hamburg)
Arjen van der Heide (University of Edinburgh)

Finance and banking have become the dominant institutional contexts and provide the dominant techniques for managing future economic uncertainties through the mastery of risk. The result has been a political "black boxing" of uncertainty as a critical source for negotiating our futures; and an epistemological black boxing of radical uncertainty as a fundamental condition of capitalist change. To be sure, since the global financial crisis of 2007-08, uncertainty has been increasingly referred to in public debate and regulatory discourse. However, we wonder whether the crisis has really challenged, or rather expanded, the projects of risk-mastering that have come to define modern finance.

To address this question, we intend to focus on three (interrelated) dimensions:

1) How are political and epistemological projects of mastering uncertainty linked in finance and banking? In particular, what entanglements between power and knowledge underpin the expectations-based, future-oriented practices of finance (expressed in notions such as Beckert's "politics of expectations")?
2) In what ways have recent changes in regulation and governance overcome, or strengthened, the control projects of financial markets? The continued emphasis on securing the transparency and equilibrium of markets, as evidenced by central banks' new objective of "restoring orderly conditions" suggests otherwise; as do, for instance, novel regulatory initiatives to institute 'macro-prudential regulations" as buffers and props for inherently unstable financial dynamics.

3) Finally, to what extent are economic methodology and expertise really changing to accommodate radical uncertainty? Do shifting notions of rationality from optimization models to agent-based simulations really do justice to logics of action and socially coordinated decision-making that we observe in finance and the economy? Can the mathematicity of modern economics really accommodate, or does it prevent, a fuller engagement with uncertainty and its epistemological implications?

These themes raise further questions that we intend to engage. First, will the ongoing process of financialization continue to expand risk mastery projects into ever more economic and societal spheres? What role do public institutions play in reinforcing or slowing this trend? Is it possible, and if so how, to challenge the ‘definitional power’ of financial markets over economic futures? What might be sources for alternative imaginaries, business models or modes of governance that do not (constitutively) depend on the mastery of risk and the exclusion of uncertainty?

Presentation titles:

Arjen van der Hejde, University of Edinburgh
Dealing with the Uncertainty of Long-Term Financial Promises

Natalia Besedovsky, University of Hamburg
Economic calculation and the uncertain meanings of 'risk'

Leon Wansleben, Max Plank Institute for the Study of Societies, Cologne
Central banking and the politics of expectations

Timo Walter, University of Erfurt
Formalizing uncertainty? Expectations as precarious bridges between present and future

Theme: Insurance, Disaster Governance and Liability

The technologies of the (re)insurance industry have long been central to the development of methods to assess uncertainty, yielding quantifiable – and thus priceable – risk. Amidst the proliferating uncertainties of globalized modernity, climate change, and the growing cost of disasters, the impulse to parameterize uncertainty across more geographic and hazard domains has grown as insurers and multilateral institutions seek to narrow the “global insurance protection gap” – the difference between total economic losses and insured losses.

The last decade has also seen the growing deployment of other insurance-like tools such as catastrophe bonds, their extension to new domains such as pandemics and infrastructure, and the application of insurance principles at new scales such as multi-sovereign pools. These tools are distributed to and through a growing array of institutions such as humanitarian agencies, while the actuarial logic of managing contingent liabilities has begun to penetrate into the decisions of treasuries in the Global South.

This theme aims to bring scholars and practitioners together to probe:

- In what ways do insurance tools generate their own new sets of uncertainties? Does the proliferation of insurance products and projects yield a misleading sense of security?
- How do insurance programs grapple with the uncertainties of operations? How have these compelled programs to adopt/employ a new set of tactics and promises besides ‘security’ – including risk reduction?
- How can the assumptions, parameters, and uncertainties embedded in complex contract design be made understandable to the various publics whose interests and futures are joined in the risk pool?
- How is insurance being reimagined to address the needs of the most vulnerable, and can these needs remain paramount amidst an arms race to financially engineer risk transfer products?
- In what domains are insurance tools now used to govern decision-making and budgeting for disasters, and what are the potential side effects? Who wins, who loses?

- Do attempts to extend insurance tools into new governance realms allow the avoidance of political debate about responsibility and social priorities, or provide much needed transparency about where responsibility lies?
- What possibilities exist for insurance-like arrangements that are more adaptive, contextdependent, and responsive? Or does such a reorientation undermine the ontological framework of insurance?
- At what scales of risk pooling are such adaptive arrangements feasible? Does insurance's relation to scale and probabilistic calculation constrain its ability to be adaptive/responsive?

<u>Theme lead</u>

Leigh Johnson
Department of Geography, University of Oregon

"Sovereign disaster insurance in Africa and its discontents"

Multilateral institutions increasingly champion insurance-like mechanisms for disaster relief as timely and objective ways to create reliable safety nets and insulate state disaster relief payments from patrimonial capture. This paper chronicles an ambitious attempt to finance drought safety nets by insuring a pool of African sovereign states: the African Risk Capacity Ltd. (ARC), a mutual insurer first designed by the World Food Programme, co-owned by African states, and reinsured by global reinsurance capital. ARC proposes a model of pan-African solidarity, promising "African solutions for African challenges" and huge cost savings to countries via geographical diversification of the pool. Yet nearly all of ARC's members have withdrawn from the pool since 2015, drawing the existence of the organization into question. How might we understand ARC's decline, and what are the implications for similar sovereign insurance programs? Part of the answer, I suggest, lies in the sophisticated technical modelling efforts to commensurate numbers of drought vulnerable populations across the continent's vastly different climate and production systems. The objective payout triggers generated by these models were considered necessary to assuage donor concerns about rent-seeking and patronage and to secure competitive reinsurance cover in global markets. Yet they were accompanied by substantial basis risk, in which modelled numbers of drought-affected populations sometimes diverged widely from countries' own estimates. I consider how modelling techniques have been understood and criticized by some member states, arguing that these critiques reflect not only technical, but also political disputes over postcolonial sovereigns' powers to declare and manage disaster.

Panel

Daniel Clarke
Centre for Disaster Protection

Over the last fifteen years or so there has been extensive work trying to get the world's poorest insured against extreme natural hazards. Much of this work continues to be a waste of time and effort, repeating the same mistakes in different contexts. But some seems to be well worth the effort. As research and practice on budgetary and financial instruments for managing disaster risk evolves it is becoming clearer that insurance and insurance-like mechanisms can offer much more than just paying claims in times of need – they can support wider and deeper transparency of decision-making, enable more meaningful participation of people in decisions about how disaster risks are manged, contribute to better risk understanding across all parts of society, help governments provide more clarity on risk ownership, and make preparedness someone's job. I will talk about the new concept of 'development insurance' as proposed in a recent paper by myself and Stefan Dercon, as a way to discuss how imperfect budgetary and financial instruments can strengthen imperfect risk governance at the country, community and individual level.

Rebecca Elliott
Department of Sociology, London School of Economics

"Emotional encounters with insurance tools: new uncertainties and conflicted calculations"

In the context of natural hazards, insurance provides tools meant to rationalise our relationship to a volatile world. Risk models, maps, and risk-reflexive premiums relay information and "price signals" in order to allow decision-makers to act more prudently in the face of foreseeable threats. There is an—often implicit—emotional valence to this promise: with such information comes greater confidence, a sense of security, a sensation of being able to exert control over the future. Drawing on my own qualitative data from a study of U.S. flood insurance, I will examine this emotional valence of insurance tools, sharing evidence of a quite different affective experience, characterised instead by anxiety, uncertainty, conflictedness, and ambivalence. The talk will bridge socio-cultural risk research to the sociology of calculation, as well as begin to outline some broader implications for examining how, and with what effects, insurance mediates the lived experience of climate change through its management of perils like flood and wildfire.

Susan Erickson
Faculty of Health Sciences, Simon Fraser University

"The Pandemic Emergency Facility (PEF): An Insurance-based Approach to Pandemic Response"

My presentation explores how insurance is being reimagined to address pandemic response needs. The World Bank's Pandemic Emergency Facility (PEF) is a financial device, part insurance, part bond, part cash grant designed to frontload money for quick future disbursement if a qualifying pandemic occurs in any of the 77 International Development Association (IDA) countries, deemed the world's poorest by the World Bank. The PEF is a sign and symbol of the big change in humanitarian finance, as governments draw down and capital markets rise up to take over obligations for human health. According to the World Bank, the PEF is expected to deliver faster, timely, and more cost-effective pandemic response; more private sector money involvement; improved transparency and accountability; health systems strengthening, and a new market. The PEF works as a container to hold donor contributions, an outbreak bond, and swaps that total $US 450 million. There is also a 'cash window' of a € 50 million donation from Germany which can be dispersed on request, operating like old-style bilateral grants. For the insurance part of the PEF, World Bank donors pay insurance premiums with donated money from Germany and Japan to reinsurance companies on behalf of the 77 IDA countries covered by the PEF. The reinsurance companies, SwissRe and MunichRe, pocket those premiums, estimated at $US100 million. In the future, the World Bank expects that countries facing pandemic threats will find a way to pay their own premiums. The presentation is based on ethnographic research that 'studied up' in Sierra Leone, Washington, DC, and Baden Baden, Germany.

Niels Viggo Haueter
Swiss Re Group

"Service and price in reinsurance - does the market always win?"

Traditional reinsurance is a negotiated business and cannot rely purely on expected losses to find actuarially fair prices. It needs to add safety loadings for unexpected losses or uncertainties, especially low frequency events with high impact. In addition, traditional business includes a varying range of services that are charged for. This may result in differing price tags for the same underlying financial service. Price transparency in the early days of reinsurance was less of an issue as mostly proportional business implied that reinsurer and client shared losses and gains while annual renewal negotiations allowed to adapt pricing to reflect clients' loss history. Newer products such as excess of loss contracts obscured this transparency. This also implied a shift towards contractual rather than participative or cooperative relationships between reinsurers and their clients. Since the early 1990s, derivatives have to some degree overcome this difficulty in that pricing becomes more transparent, which also allows them to be traded. In such a market, however, the cooperative and service aspect of reinsurance diminishes in favour of price. Yet, such products still require participants to familiarise themselves with the underlying risks. The main reason why catbonds initially failed to be successful was that trading them at Exchanges did not attract informed buyers. Over the Counter trading among a specialised community proved more successful. Still, understanding risk may not be sufficiently serviced by scenario modelling alone. Developments in reinsurance are moving towards more individually tailored solutions and service delivery. On the client side, research into so-called optimal reinsurance is increasing also in developing nations, allowing buyers to be more informed. Such tendencies indicate a rising importance of service-based reinsurance, albeit not a replacement of derivatives which complement the overall offering of reinsurance.

Theme: Experimental, nodal, adaptive governance

This theme brings together an interdisciplinary group of scholars from Europe and North America to discuss uncertainty in diverse substantive areas and from a variety of analytical perspectives. Some contributions will look at how different forms of innovation, and financial innovation in particular, represent key regulatory challenges that have to be fully recognized and that might be addressed by engaging with 'flexible regulation'. Other contributions will keep focusing on the experience so far with the regulation of financial markets, but shift the analytical perspective to 'adaptable governance'. Still others will examine how contractual arrangements between collaborative firms are being reshaped through 'experimentalist' practices of constant learning in order to facilitate innovative production goods and methods. Altogether, thanks to these and other contributions, this theme aims at stimulating discussion on crucial challenges associated with uncertainty and how different governance regimes are dealing with them.

Theme lead

Bernardo Rangoni
European University Institute, Florence
Title: 'Experimentalist governance: from architectures to outcomes.'

Panel

Martin Lodge
London School of Economics
Title: 'Transboundary crises, financial regulation and regulatory innovation.'

Andromachi Georgosouli
Queen Mary University of London
Title: 'Adaptable financial regulation: some critical reflections on policy implications.'

Pablo Marcello Baquero
European University Institute
Title: ‘Contracting under uncertainty: comparative evidence on experimentalist practices of production.’