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Jean-Pierre Hellebuyck, AXA Investment Managers VP, shares his views on the current turbulence in the capital markets

October 15, 2008

How did the subprime crisis morph into a global financial crisis?

As is often the case with major accidents, several factors were at play: the long period of strong, global, and inflation-free economic growth between 2003 and 2007 made economic actors overlook the notion of risk.

The fact of forgetting that some types of credit could be dangerous was aggravated by the abundance of funds available for investment. It was easy to borrow money to invest or to lend a little bit more. As a result, debt reached exaggerated proportions. Because of the global nature of financial activity, this debt was spread around the world; at the end of the day, nobody knew where the end risk was located. Rigid or ill-adapted regulations did the rest, forcing many to sell their assets at rock-bottom prices, which of course only accentuated the downward spiral of the markets.

The combination of these factors, plus a loss of trust between players in the financial markets, set off a vicious circle.

Is the insurance industry at risk?

The current crisis is hitting the financial sector across the board, but banks are taking the brunt of it. The insurance industry is generally faring well in the current period of turbulence, due to its high solvency ratios and ability to absorb other shocks. What has happened recently to some of our competitors is not related to their traditional insurance lines, which remain profitable businesses. The problem is the quality of some assets and at-risk banking businesses.

What is your take on the measures recently adopted by public policymakers?

The statement made at the G7 meeting in Washington, that fiscal and monetary officials would not tolerate the failure of any financial institution of systemic importance, was the right response to the risk of a chain of bankruptcies within the lending system. In addition, the new-found unity of the

European countries they immediately implemented measures similar to the UK rescue plan for its financial industry at the meeting of Eurozone heads of state in Paris on October 12 offers the political and budgetary dimension to the systemic response initiated by the central banks. By guaranteeing lending institution loans, by making it possible to recapitalize the banking system, by raising the guarantee on bank deposits and, finally, by relaxing accounting rules, the countries of the Eurozone and Great Britain proved that they were up to the challenge at hand. Finally, we should expect further cuts in key interest rates on the part of central banks as well as spending initiatives to stimulate the economy, since at the global level economic policy is clearly pointing in the direction of supporting economic activity.

How do we get out of this crisis?

It appears that public policymakers are using the right recipe to re-establish investor confidence and get the financial system back on track. The private sector is also expected to play an important role in the vital effort to recapitalize the most vulnerable institutions. We will no doubt witness other restructuring and regrouping initiatives. It will take time to reduce the global debt level in general and the debt of US households in particular, and this will weigh adversely on growth. On the other hand, if the trend toward lower oil and commodity prices turns out to be lasting, this will help to reduce inflation, which in turn will enhance purchasing power. And that is a critical factor in softening the blow of the current financial crisis and credit crunch.

Is there an impact for our clients?

Unlike some financial services companies that are in trouble today, AXA opted to focus the bulk of its business on traditional insurance lines our core business and stick to the knitting.

Our half-year earnings, which were released last August, attest to the strength of our organization its core business as well as its financial structure. This strength, which is fundamental to our ability to offer effective protection for our clients, is a source of confidence for everyone.

These factors enable AXA to look ahead with confidence. Aware of the current climate of uncertainty in the capital markets worldwide, our employees remain totally mobilized to answer the questions of our clients.

J.P. Hellebuyck