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Insurance, subjectivity and governance

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Insurance, an industry worth 4.6 trillion USD in premium volume in 2016,[1] has major effects on how individuals and collectives are governed in the world. With 80 per cent of premiums sold in OECD countries, it is reasonable to argue that the form of governance it facilitates is premised on the liberal forms of life that insurance has been designed to protect.[2] If, as argued in the 'Introduction', doing a socio-political economy of the globe is indeed possible, the problem of understanding the role of insurance in creating liberal governance in the world, and the possibility of questioning and resisting this process, is certainly an important challenge. This can only be done, as posed by the forum, by integrating the analysis of the political, the economic and the sociocultural, of the everyday and the global, as a single problem space where an integration between IPE and IPS has much to offer. This contribution to the forum focuses on identifying empirical spaces where IPE meets IPS in the problem that results from insurantial practices of governing through risk.

Disciplinary compartmentalisation within international relations (IR) is not particularly suited for addressing this problem. IPE has focused, for example, on critical questions of agency, structures of power, and assessments of benefit through issues such as international trade and finance, production and consumption, and global governance and regulation.[3] IPS has focused on analysing processes of governance, the conditions under which power, order and governance have been thought of, as well as their social effects.[4] Yet, understanding insurantial liberal governance and the ways in which it constitutes subjects demands an integrated approach that allows for an engagement with its rationalities, its logics of operation, and the technological practices through which insurance is produced. This is the promise that a socio-political economy of the globe could offer.

In line with the idea expressed in the 'Introduction' that it is important to reclaim the principle of empirical evidence, this contribution suggests two empirical challenges that allow for a critical engagement of insurance assuming a problem-based approach where IPE and IPS can meet. The first is an engagement with how insurers transform uncertainty into risk and create contracts through which they constitute insurable subjects. The second challenge relates to the effects of insurance as constituting moral economies.

Challenge 1: exploring how insurers transform uncertainty to risk

In everyday life, in my opinion, the core of the IPE/S problem space, customers buy insurance policies unaware that such contracts interpret uncertainty for them in very precise ways. Through their practices, insurers turn their clients (sometimes states) into subjects of risk by framing the conditions under which their behaviour and conduct will be governed. Building on an element mentioned by Moussu in this forum, the ways in which insurance constitutes forms of governance contributes to the structuration of imaginaries of order that can be interpreted, following Jessop and Sum, as productive of specific forms of hegemony.[5]

A core element to understand this process is the way in which insurers approach uncertainty as tradable risks. In a widely used textbook on financial economics, economists Bodie, Merton, and Cleeton, defined risk as 'uncertainty that matters'.[6] Deciding what uncertainty is made to matter relates to issues such as 'whose uncertainty?' (or who are the subjects of and at risk), 'which events?' (the objects of risk), and, 'under which conditions?' (the risk environment). The logic of insurance, explored in some detail elsewhere,[7] influences the answers to all three questions. It determines the subjectivity of the client in terms of levels of risk, it frames the event against which insurance is offered by correlating it within magnitude and likelihood of losses if it were to materialise, and it analyses the context of risk based on their own business interests.

However, explorations into the history, logics and practices of insurance indicate that there is nothing indispensable about how insurers govern and about the forms of governance they instantiate. A particular case, which could constitute a space for fruitful cooperation between IPE and IPS, is to question how insurers make uncertainty matter in the form of risk through their use of stochastic techniques.[8] As explored in the finance and society literature, insurers project through modelling practices their order of the real onto the insurance contract. As in any modelling practice, the modellers' assumptions are projected into the modelled, and it is the modelled (the event of insurance) that is actually insured against.[9] Based on that event, which is expected to represent an insurable interest of a client, insurers assess its likelihood and impact of materialising, within established circumstances, and a given period of time. The event is taken to technically represent a *certain* order against which insurers will then calculate the probabilities of the event actually occurring (e.g. a person outliving the course of a mortgage). In reality, the event of insurance is a complex technological construction, based on multiple assumptions, which brings together matters of politics, economics, society, and culture which are only beginning to be interrogated.[10] These assumptions must be identified and critically discussed as IPE/S problems since they frame the terms of (liberal) governance which influence the behaviour of liberal subjects in the everyday world.

The form of governance insurers create is not simply political, economic, or social. It is neither the logical result of combining ready-made theoretical categories such as interests, processes or social structures. It relates quite directly to the experience of insurers in establishing what is to be considered uncertain and provides a wonderful opportunity for IPE and IPS to explore together, as stated in the 'Introduction', the empirical evidence that such experience provides. Such exploration would require an engagement with what insurers believe to be certain, which in turn determines for them what is to be thought of as uncertain and in need of protection.

Challenge 2: the moral economies of insurance

Through their practices, insurers not only frame the behaviour of their clients by determining the limits of what is to be considered (un)acceptable behaviour, and by establishing the temporal and financial limits of protection of their products. Their operations also have global structural consequences beyond the everyday. For example, in order to retain cover against piracy in specialist maritime insurance policies, policyholders are obliged to abide by international security industry standards established by organisations (e.g. IMO), observe the ship's flag and international legal regulations, accept the protection provided by organisations such as NATO and the EU in their counter-piracy operations, and follow market association decisions such as the Lloyd's Market Association.[11] Given that close to 90 per cent of all world trade moves through sea, decisions of a market player such as Lloyd's to include a region or country in their war list, an instrument used to highlight regions that represent heightened geopolitical risks, can have significant influence in costs, delay traffic for ship operators, and affect the economy of countries and regions. Another example relates to the links that have been identified between states and insurers in their capacity to wage war. As detailed at length elsewhere, it is even possible to talk about a form of insurantial sovereignty where the capacity of a state to project power in war or social welfare relates directly to the ways in which it frames uncertainty, and manages it, in terms of risks (Lobo-Guerrero 2012). The marriage of insurance and statecraft, and the use of war as an instrument for risk management are but two cases where the domestic/international, private/public, political/economic/social divides do not operate and where the thematic and methodological cooperation between IPE and IPS can promise fruitful outcomes in making sense of the form of governance that results from governing through risk.

In particular terms, such IPE/IPS collaboration comes into exploring what Daston described as moral economies.[12] This idea involves an engagement with rational calculations as well as non-rational elements, the scientific and non-scientific traditions involved in granting something the category of fact or evidence, and requires taking into consideration the ways in which those who make decisions are trained on how and what to learn, the forms in which individuals are expected to socialise based on un-written norms and structures, and the non-economic aspects of value such as status, authority, and legitimacy. The concept widens the understanding of the economy beyond money, markets, labour, production and distribution of material resources, and assumes it as 'an organised system that displays certain regularities, regularities that are explicable but not always predictable in their details'.[13]

Coming back to the example of insurance covering maritime piracy, the result of the insurantial structuring of client behaviour results in a moral economy where scientific, emotional, and political elements intervene. Insurers commission security consultancies to provide expert geopolitical advisory services. These consultancies develop and/or employ analytical models that operate on very precise assumptions on what is considered to be 'the real'. Such assumptions are elevated to the category of fact, sometimes backed by evidence, sometimes relying on the reputation and recognition of the modelling agent. Models are then used to formulate scenarios on which insurers will discuss in order to formulate their decisions. Along the process, a complex set of intervening individuals will have been schooled and apprenticed in very particular ways, will be socialised through the specific traditions and rituals of social, cultural and commercial networks that intervene in recognising their authority and legitimising their decisions. They will also be affected by the cultural, political, social, economic, environmental contexts in which they practice their profession. They will be influenced by their own ambitions, personal relations, even the weather of the day. Insurers, in turn, will be pressed to produce economic results while upholding their most precious value, trust, without which their business would not be able to operate. Under market conditions, insurers will be competing through innovation, the possibility of offering advantageous terms to their clients, and their capacity to articulate strategies of financial capitalisation to ensure a capital base on which to grow. This will demand continuous reach towards sources of talent and ideas, the formulation of stimuli for staff through highly competitive salary schemes and personnel rotation, high amounts of adrenaline involved in competition, and the possible blurring of identity markers such as nationality, race, gender, age, when assembling a staff base, new products and when bidding for clients. Politically, insurers will abide by the rule of law on which they rely for the enforcement of contracts. They will, however, seek to operate beyond state sovereign structures either to expand their markets globally, or to influence the status quo in regions and sectors that pose particular problems. Their practices require particular forms of expertise different from those of commercial and state diplomacy for which IR is yet to engage with.

Making sense of the complexity of such phenomena requires moving beyond IPE and IPS as suggested in this forum. While understanding the politics of uncertainty that underlie insurance policies and engaging with the moral economies that result from insurance practices, it is possible to understand insurantial liberal governance as a carefully produced and precariously balanced system that transcends rational domains. Doing so begins to reveal the almost mysterious processes through which insurance is produced and prepares the ground for academic and public challenges to the assumptions on which stochastic models operate. Given the global reach of such models, it is only natural to explore them when doing a socio-political economy of the globe.

Notes

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7. Luis Lobo-Guerrero, *Insuring Life: Value, Security and Risk* (London: Routledge, 2016), pp. 5–10.
8. For further discussion on risk and uncertainty prone to bridge IPE and IPS scholars, see also: Oliver Kessler, 'Beyond the Rationalist Bias?: On the Ideational Construction of Risk', in Andreas Gofas and Colin Hay (eds), *The Role of Ideas in Political Analysis: A Portrait of Contemporary Debates* (London: Routledge, 2010), pp. 118–43; Sylvain Maechler, Etienne Furrer, Emma Lunghi, Marc Monthoux, Céline Yousefzai, and Jean-Christophe Graz, 'Substituting Risk for Uncertainty. Where Are the Limits and How to Face Them?' *Les Cahiers de l'IEP*, 73, 2019.
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12. Lorraine Daston, 'The Moral Economy of Science', *Osiris*, 10, 1995, pp. 2–24.
13. Daston, 'The Moral Economy of Science', p. 4.

Author biography

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