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**Impact of and on the financial and economic crisis:  
The viewpoint of social security**

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Ladies and gentlemen, dear colleagues and friends,

First of all I would like to thank the European Commission for inviting the International Social Security Association (ISSA) to participate in this important conference on the contribution of social protection to recovery. I am very pleased and honoured to share with you the experiences and viewpoints of ISSA’s worldwide membership of social security organizations on this important and timely topic.

As it has been stressed throughout this conference, social security systems have been negatively affected by the current financial and economic crisis. Financial portfolios have been undermined by slumping markets and negative investment performance. Increasing unemployment has reduced contribution revenues while expenditure on benefits has increased. Yet many governments have seized on social security systems as a vital policy tool to counteract the crisis. The challenges presented by the crisis have drawn attention to the strengths of these systems, thus energizing arguments in favour of the more vigorous promotion of social security worldwide.

In the longer term, the current global crisis may lead to a reassessment of the roles and scope of many national social security systems. In the shorter term, however, a challenge facing many social security systems is one of maintaining financial equilibrium.

The impact of the crisis on social security financing has been analysed by a number of international organizations, including the ILO and OECD. The ISSA has also addressed this important dimension of the crisis and has carried out a survey amongst its membership of the impacts of the crisis on social security funds, which has confirmed that many funds have experienced a negative investment performance. This has been especially so in industrialized countries. For some the losses experienced represent as much as five years of investment income, or around 25 per cent of the fund’s net asset value. The situation has improved during the first semester of 2009 with positive returns, but due to the losses that occurred in 2008 there is still a long way to rebalancing asset value to pre-crisis levels.

In addition for many social security systems, increased unemployment has reduced contribution inflows while new claims for benefits have surged. A major risk for social security is therefore one of incurring operational deficits, which will limit the level and adequacy of benefits in years to come. In an evolving context, with demographic ageing leading to increased demands for higher social security spending, this is deeply problematic. It is unavoidable that the design of social security systems on this background needs to be reviewed.

Although the financial crisis has weakened the financial position of many social security programmes, it has also underscored the critical role social security systems play, both as an income replacement mechanism and as a potential policy tool to help respond to economic downturn. In seeking to alleviate the impacts of growing unemployment, reduced levels of remittance income, and rising poverty rates, countries have recognized and exploited the important delivery capacities of social security institutions. Specifically, these include their capacity for outreach to households, through local offices, as well as their ability to channel financial resources quickly to different populations groups, whether to the most vulnerable or the unemployed.

A wide range of social security policy responses have been implemented during the current crisis. A number of excellent examples have been presented at this conference. Importantly a number of countries have reacted with major improvements in social security coverage and benefit levels, e.g. in China, Brazil, South Africa, India and Russia. These and other interesting country cases were presented at the ISSA's *Seminar on Social Security in Times of Crisis: Impact, Challenges and Responses* organised earlier this year in collaboration with the ILO's Social Security Department.

Looking back over recent months, several important lessons can be drawn about the roles of social security systems as agents of crisis management:

- social security systems have shown to be an important component of the crisis “exit strategy”, offering policy measures that can both revitalize the economy, by stimulating aggregate demand, and better guarantee social cohesion, not least by providing adequate protection to the most vulnerable.
- social security policy responses should ideally be paired with active labour market policies that neither distort incentives nor create long-term dependency on social security benefits.
- financial losses have weakened the financial capacity of public social security and private pension systems to confront future challenges. This has potentially exposed governments to new financial risks, not least in guaranteeing a basic social safety net. In turn, there is a need to revisit the regulation and governance of private pension systems, particularly with regard to acceptable investment strategies.
- public social security programme and private pension scheme design should not leave households excessively exposed to financial market risks. State responsibilities in the provision of adequate social security cannot be delegated to the private sector.
- social security policy responses should be built on a long-term perspective that ensures the financial sustainability of social security programmes.
- social security organizations must operate with a holistic outlook towards risk management.
- countries with strong fiscal positions have, unsurprisingly, been better able to provide financial stimulus including tax-financed social assistance initiatives. Ultimately, to mitigate risk, protect the vulnerable, and to ensure, at the very least, basic social security for all, the role of the state is indispensable.

The crisis, and the nature of policy responses to it, has highlighted the key role of social security institutions in realizing national social policy objectives and macroeconomic goals. Social security institutions often occupy a special niche within governments. Their proximity to the general public makes them an ideal vehicle for providing not only benefits but also services and information. Their databases can help policy-makers in the formulation of policy, informing them of what is possible. And social security institutions are the implementers of policy – they can help to determine whether the policy that is actually implemented works as intended or needs to be adjusted. The diffusion of knowledge, and of lessons learnt, about such policy initiatives is very useful, as this conference clearly demonstrates.

To this end, the ISSA constitutes a unique forum where social security institutions and policy-makers can discuss, with the aim of cultivating the necessary political will to further promote, the vital societal role played by social security. The ISSA has established a crisis monitor on its website at [www.issa.int](http://www.issa.int) with detailed information including national responses, interviews, news and analysis related to the impact of the crisis and on responses by social security systems. I invite you to visit our crisis web feature and in particular to take a copy or download our latest *Social Policy Highlight 10* which focuses on this topic.

Thank you for your kind attention.