



CONTENT

- ➔ The Global Economic Downturn
- ➔ The Insurance Industry
- ➔ Helping Clients Manage Through the Downturn
- ➔ The Insurance Intermediary
- ➔ Insurance Regulation
- ➔ Enterprise Risk Management Culture
- ➔ Closing Remarks

A Brave (Scared) New World

**UNREST AND
UNCERTAINTY**

POLITICAL RISKS ESCALATE

UNEMPLOYMENT DOLES OUT MORE PAIN

More than half of companies say they will freeze wages this year

Experiencing turbulence

Difficult decisions on how to stay safe

Price to be paid for scandal and crisis

Flu pandemic fears mount

The Global Economic Downturn

Some macroeconomic figures

- 5.7 million jobs lost in the US since recession started
- 3.3 million jobs lost in last 5 months
- Unemployment in OECD to double
- OECD - World's 30 biggest economies to contract by 4.3%
- ILO – 50 million job losses globally
- Some green shoots
- **BUT** real difficulties ahead before any significant improvement

The Global Economic Downturn

Impact on the insurance industry

- No immunity for insurance industry
- Demise / bail-outs of household names
 - Market capitalization decimated
 - Balance sheets severely impaired.
- Difficulties have led to
 - Management changes
 - Strategic redirection
 - Wariness of harmful affiliates

The Insurance Industry

Current state

- Insurance industry performed well (unlike most banks):
 - Policies renewed
 - Claims paid
 - New business pursued
- Distinguish between geography and class, as well as between individual company
- P&C insurers weathered well
- Life & Health insurers suffered

The Insurance Industry

The 'invisible hard market' concept

- Insurance a cyclical industry, but two counter cycles:
 - Insurers need to rebuild balance sheets
 - Insureds under intense cost pressure
- How is pressure playing out?
 - There is capacity.
 - But varies from sector to sector
- Rates
 - Reinsurance hardening.
 - P&C retail market stable
(with exceptions)
- Concept of the 'invisible hard market'



The Insurance Industry

Impact on the industry dynamics

- Contract certainty
- Compliance
- Consolidation
- Regulation

The Insurer Intermediary's Role

Need to focus on the client

- Brokers perform better relatively
- Simple business model
- Client focus – trusted adviser
- Information - Advice - Help
 - Conserve cash and release working capital
 - Manage and finance risk exposures – “risk optimization”
 - Reduce Total Cost of Risk (TCOR)
 - Optimal terms with secure carriers

Helping Clients Manage Through the Downturn

Insurer monitoring

- Clients choose carriers but we closely monitor insurer resilience:
 - Global Partner Advisory Group
 - Global Market Update Centre
 - Market Tracker
- We advise on:
 - Insurer diversification strategies
 - Syndication of placements
 - Sharing ratings agency perspectives

The screenshot shows the Marsh website's Global Market Update Center. The header includes the Marsh logo and navigation links: Home, Services & Solutions, Global Offices, Careers, and About Marsh. Below the header, there are dropdown menus for 'YOUR INDUSTRY', 'RISK ISSUE', and 'MARSH WEB SITES'. The main content area features a blue banner with the text 'GLOBAL MARKET UPDATE CENTER' and 'Real time news and insurance market intelligence'. Below the banner, there is a call to action: 'Access the latest Insurance market security news, sign up for e-mail alerts, learn who to contact for market security related questions, and obtain Marsh thought leadership offerings for challenging times. >>'. There are also navigation arrows and a section titled 'About Marsh' with a brief description of the company's mission. At the bottom, there are two columns: 'News' and 'Features', each containing several links to recent articles and reports.

Helping Clients Manage Through the Downturn

CDS spreads – A previously overlooked alert signal

CDS Spreads Daily 5-Year Rates

Company	Currency	May-09	Oct-08	Sep-08
AIG	USD	1.797,3	1.421,2	625,0
Genworth	USD	1.995,9	767,2	2.978,0
XL	USD	569,9	493,3	741,9
Aegon	EUR	308,8	296,7	427,7
Swiss Re	EUR	338,5	261,7	623,9
AXA	EUR	155,0	120,0	223,6
Scor	EUR	111,1	95,0	146,0
Zurich	EUR	145,0	80,0	230,0
Ace	USD	130,0	77,0	135,4
Travelers	USD	108,6	73,8	111,7
Chubb	USD	66,4	70,3	110,4
Generali	EUR	98,6	70,0	141,9
Allianz	EUR	99,9	69,5	140,2
Source: Bloomberg				

Helping Clients Manage Through the Downturn

Ratings

- Observations on ratings
 - Ratings just one tool at a company's disposal
 - Ratings should be first step in an assessment process, not the only step
 - Agencies are insiders
 - Insurers releasing more information to intermediaries and companies. Clients taking advantage
- Stepped up programme of client contact and engagement
 - Print materials (e.g. Client Advisers, *Trading through the Downturn* documents)
 - Web-TV
 - Internet Postings
 - Client conferences and seminars
 - New products and solutions



Helping Clients Manage Through the Downturn

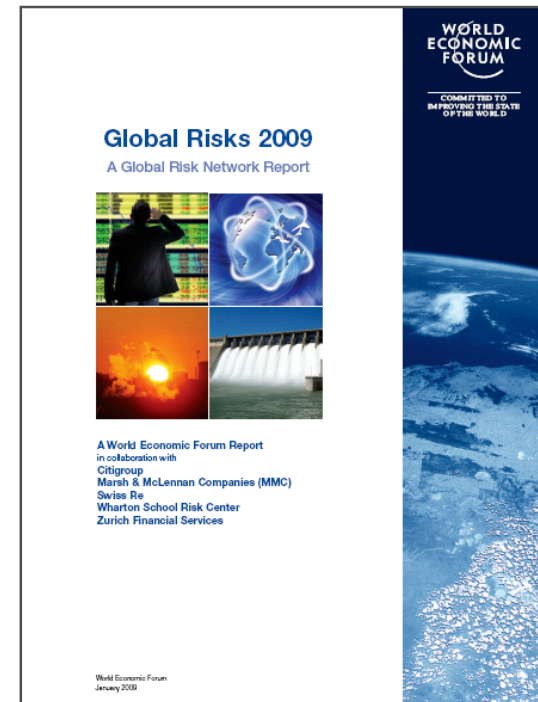
Other needs

- Clients in turn are looking to us to:
- Effectively differentiate
- Clearly articulate
- Tailor solutions
- Manage a renewal process that has integrity and offers choice

Helping Clients Manage Through the Downturn

New and emerging risks

- Risks which the current crisis has either
 - (a) raised the profile of i.e. D&O
 - (b) put on the radar screen i.e:
 - Supply chain
 - Reputational and regulatory risk
 - Business continuity
 - Trade Credit / Surety
- “New” risks joined by others not directly related to downturn, but serious nevertheless
 - Pandemics
 - Climate change
 - Internet security
 - Nanotechnology



The Insurance Intermediary

Emerging countries

- Downturn is a global phenomenon.
- No country immune and that includes emerging countries
- Insurance market increasingly globalized.
- Trends in North America and Europe will expect to show in emerging countries:
 - Distinction between P&C and Life
 - Trend toward hardening market
 - Caution on part of insurers and focus on non-discretionary spend on part of insureds

The Insurance Intermediary

Emerging countries

- Other trends likely to be more pronounced in emerging countries:
 - Premium collections
 - Lack of confidence = increased pressure for full, up-to-date information
 - Need for differentiation all the greater
 - A flight to quality
- Accentuated need for to a trusted business adviser to steer clients through current difficulties
- Greater use of the larger and more resourced intermediary

Insurance Regulation

Need for a new system

- Robust regulatory system with right balance is necessary
- Regulation that:
 - Protects the consumer and rewards the provider
 - Encourages innovation without stifling entrepreneurialism
 - Ensures a level playing field
 - Is sufficiently flexible
 - “Fit for purpose”
- Previous system not fit for purpose.
 - Contamination
 - Complexity
 - Complacency

Insurance Regulation

Need for a new system

- Need for
 - Greater insight into interconnectivity of financial industry
 - Clearer transparency around products and services
 - More robust stress testing
- Specifically, regulators must establish proper guidelines / requirements around such considerations as solvency ratios and corporate structures
- **MMC** has entered the debate with its own proposals
 - Particular to US, but wider implications
- US insurance industry regulated by 50 state commissioners
 - This is not efficient, but it has been sufficient
 - Question is: is it sufficient for future?

Insurance Regulation

Need for a new system

- **A Systemic Risk Regulator**
 - Position makes sense but...
 - Lack of harmonisation : a 51st regulator
 - Needs “cease-and-desist” authority over institutions in its purview
- Best route may be to modernise and streamline current system
- Another issue: State regulatory system especially complex in such critical areas as tax law, licensing and producer compensation
 - Marsh spends \$20million a year to process \$60million of surplus lines taxes for clients
- Removing inconsistencies, contradictions, inefficiencies with tax, producer licences and disclosures to insurance purchasers should be high priority

Insurance Regulation

Need for a new system

- Found wanting in recent years:
 - Auditors
 - Ratings agencies

- “Mark to market “

We may not have the specific answer but do know factors to be considered in shaping the decision: transparency, consistency, fairness and avoidance of law of unintended consequences

- “Self-regulated regulation”
 - Much that we as an industry can do
 - Raising of professional standards through training, qualifications and better recruitment
 - Industry as a whole should commit to increased professionalism

Enterprise Risk Management Culture

An imperative

- **Enterprise Risk Management (ERM)** culture in all companies and institutions
 - ERM-firm-wide risk management an imperative for firms that want to survive and thrive
- We need:
 - Unconditional transparency regarding exposures, loss experience, future plans (new products and / or services, acquisitions, geographic expansion, etc.)
 - Plans to address any known shortcomings / liabilities
 - Demonstrate commitment of senior management to risk control best practices
 - Firm-wide corporate governance



Closing Remarks

Need to engage

- All participants in sector need to engage:
 - Work with law makers and regulators
 - The subject needs our expertise

- We don't have the option.
 - Overhaul of banking and FI sector is inevitable
 - Will drag insurance industry into it
 - We must engage to fight our corner



Closing Remarks

Conclusions

- Insurance sector has reason for pride
- Areas of concern are being addressed, both from a regulatory and operational standpoint
- The intermediary has a privileged role in helping clients
- Work together to ensure we deliver the very best for the ultimate user – the consumers

A person's hands are shown holding a silver handheld GPS device. The device's screen displays the text "NVA RISK". The background is a vast, mountainous landscape with rolling hills and valleys, some with patches of red and orange vegetation. The sky is a deep blue, suggesting dusk or dawn. The overall scene conveys a sense of outdoor exploration and navigation.

NVA RISK

The world's #1 risk specialistSM

The world's #1 risk