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Guten Tag! Welcome to Berlin!

As we open the 43rd meeting of the International Insurance Society (IIS) and reflect on the topics to be considered, we might find a fascinating correlation to the subjects that were considered at the first or early meetings of the IIS. Some comparisons might be useful, but the more important issue is how the industry has done in coping with these challenges and finding the appropriate solutions.

Regulation, once again, is high on the radar, and the focus will, of course, given the venue and timing, be Solvency II. Patterned after Basel II for the banking industry, the proposal brings to the forefront what I think the critical issue is, and that is, are we going to be a rules- or principles-based industry? Regulation, by its nature in the past, has been rules-based because much of it follows on legislation which has historically been the purvey of lawyers. Solvency II takes us down the path of the industry determining what a risk means in terms of exposure and, therefore, capital requirements. Yes, we have had this analysis before, but now it means the industry can run the business capital – wisely based on these analyses and facts. Back when the IIS started, regulators were trying to understand risk and risk quantifications from a prescriptive capital point of view, and hopefully Solvency II takes us to the next level.

New Topics on Microfinance and Takaful

One of the more fascinating areas included in the programme this year has to do with product development. Two rapidly expanding areas – microfinance and takaful will be featured along with the concepts surrounding financial protection from long-term illnesses. In the case of microinsurance, this represents the industry getting into areas it probably did 100 years ago, but with a different distribution system. The system then would have been local companies doing local distribution, but now, it is national or international companies distributing through trade associations. The fascinating part of these analyses is the extremely high payback ratio on microfinance loans and correspondingly low loss ratios to the insurers.

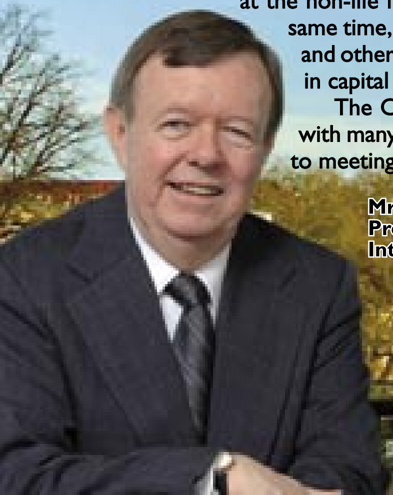
The concepts surrounding takaful are relatively new to some of us, but there have been some questions surrounding whether this is just a marketing disguise for traditional products. I look forward to hearing more about this and following the developments in this area as takaful was an area which was not thought much of when the IIS started 43 years ago.

Life Focus

The issues surrounding critical illnesses and financial security are now given the prominence they deserve. Long-term disruptions to working life can pose an economic strain on families and communities. Planning adequate protection is needed, and this topic, I think, will continue to get more attention in the future. When IIS started, the concepts of short-term and long-term disability were present, but the totality of the concepts and their implications had not been explored.

Of course, no IIS conference would be complete without taking the pulse of the industry and, this year, we do that with sessions on Consolidation and Strategic Initiatives. It is fascinating when you look at the non-life industry and witnessing all the consolidation going on and, at the same time, seeing the massive amount of new money being put into Bermuda and other tax-efficient countries. Is this a contradiction or is this the ultimate in capital efficiency? I look forward to hearing about this.

The Conference is shaping up to be a fascinating review of the issues with many new attendees this year from emerging markets. I look forward to meeting everyone.



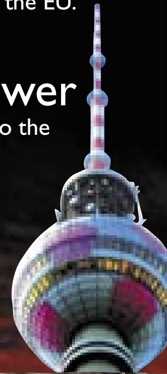
Mr Patrick Kenny
President & CEO
International Insurance Society

River Spree Berlin

Berlin *TRIVIA*

Founded in the 13th century, **Berlin** is the **capital city** and one of the 16 states of the Federal Republic of Germany.

Berlin has **3.4 million people** within its city limits while its metropolitan city which has a population of 4.9 million people from over 180 nations is the 5th largest in the EU.



The tallest building is the **Television Tower** *(right)* at 368 m and is also the second highest in EU.

The longest river in the city is **River Spree** *(see main picture on left)* at 45.1 km.

The **Berlin Wall** separated the two Germanys from 1961 to 1989.

The iconic **Brandenburg Gate** *(see masthead)* consists of 12 columns and it stands 26 m high, 65.5 m wide and 11 m thick.

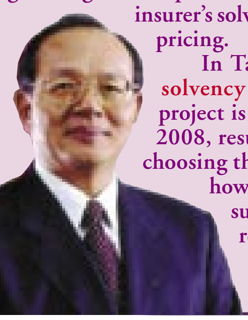
In 2006, the nominal **GDP** of Berlin shows a **growth rate** of **1.5%** and totalled **€80.3 billion.**

The Berlin Zoo is home to **Knut** – the baby **polar bear** who has won the hearts of Berliners and everyone around the world! Don't leave Berlin without visiting him.

HEAR FROM THE MOVERS ON WHAT WILL SHAKE THE INDUSTRY

Insurers and businesses need to concentrate on emerging risks, such as political (eg terrorism), societal (eg pandemics and megacities), environmental (eg climate change and natural catastrophe) and technological (eg nanotechnology) risks. Businesses and insurers usually see themselves as neither part of the problem nor part of the solution, but as these new risks emerge, business leaders and governments must play active roles in minimising risks. As an insurer, we are in a position to alert business leaders and governments to face up to the potential risks so that solutions can be developed through mutual efforts.

The other management challenge for the insurers has been regulation, especially in respect of risk management. The Solvency II project launched by the EU Commission, which focuses on the strengthening of the supervisory framework of insurers, will lead to a more complete assessment of an insurer's solvency situation, create greater transparency, and reinforce risk-adequate pricing.



In Taiwan, the regulatory requirement has also focused on the insurers' solvency and financial transparency. The three-phase rate liberalisation project is currently at the second phase, and will enter the last phase in April 2008, resulting in full liberalisation of the market. Consumers will benefit by choosing the most adequate insurer with the most affordable price. The market, however, will be more competitive, so weaker players may not survive. The supervisory challenge will thus focus on capital adequacy and insurance reserves to prevent jeopardising insurance businesses.

Shih Tsan-Ming
Chairman, Fubon Insurance Company Ltd

The insurance industry is going through a period of change. Today may be more dynamic than in the past. There are currently many far-reaching global trends that will strongly shape the future outlook of our industry.

Climate change: There is scientific evidence of a link between global warming and extreme weather events. Furthermore, we see increasing concentrations of value in hazard-prone areas. Therefore, weather-related losses are expected to rise dramatically over time. Climate change provides opportunities for the (re)insurance industry to respond by using holistic risk-management approaches, asset-management solutions and new (re)insurance products. Thus, the (re)insurance industry can generate value from climate change and turn increased risk into value.

Demographic change: This is a big challenge for social security systems in the industrialised world, but also for emerging market societies (eg demographic trends in China may imply a rapid ageing of society before the average prosperity level has reached the standards of industrialised countries). In any case, the insurance industry will benefit from the increasing need for private protection.

Increasing transparency requirements: The industry will face a rising level of requests from stakeholders (eg supervisors) for more transparency. On the other hand, we see the opportunity emerging that supervisory standards will become more uniform ("lead supervisor concept"), thus improving capital efficiency in the industry and benefiting large global players like Munich Re.

Shift to Asia: Asia will continuously increase its global role, not only in terms of population, GDP, political power and capital market volumes, but also in primary and reinsurance markets.

Within the insurance industry, we see two major developments:

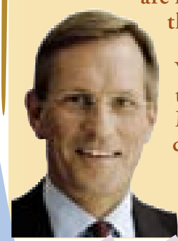
1) A further convergence between insurance and capital markets
2) A blurring of the borders between reinsurance and primary insurance

Dr Ludger Arnoldussen
Member of the Board of Management Munich Re

Various developments will shape the industry of tomorrow. I see five which are of particular importance for customers, investors and employees alike:

- Offer the full range of financial products through **multiple distribution channels**;
- Replace products with **(innovative) solutions;**
- Build on mega trends by closely managing the portfolio of markets, segments and business opportunities;
- **Manage risks**, including capital market solutions like securitisation;
- Implement a superior operating model to capture the opportunities of **digitalisation** and to realise economies of scale.

We, at Allianz, strongly believe that offering integrated financial services – from insurance to asset management and banking – is key to driving growth, especially in mature markets. One example: only one-tenth of our 23 million clients in Germany are also customers of our insurance and banking/ asset management units. But integration goes beyond cross-selling. Today, customers are looking for innovative solutions addressing their specific needs and being offered via the channel of their choice.



We also see a strong worldwide trend toward insurance-cum-assistance solutions. We have to take advantage of these opportunities. For example, the number of Chinese tourists travelling abroad is rising rapidly. Allianz China Life and our subsidiary Mondial Assistance launched a joint overseas travel package that combines insurance coverage with assistance services.

In my view, the future belongs to companies that see these trends and adapt rapidly to changing customer demands.

Michael Diekmann, CEO of Allianz SE

The risk landscape has been changing quite dramatically in recent years and some key developments stand out: Event-driven risks are increasing in size, the interdependency of risks is growing, and stakeholder expectations remain high. At the same time, numerous regulatory, legislative and accounting initiatives on insurance and financial services have emerged. These trends demand continuous and close attention. In a world where risks are increasing in financial size and complexity, Swiss Re's strong balance sheet, risk-taking capacity and innovative solutions continue to be critical success factors.

A modern regulatory framework is also a key condition for ensuring that reinsurers provide capital efficiently. For this reason, regulators, rating agencies and accounting standards need to use the same economic and risk-based view of a reinsurer's financial strength. Harmonisation and mutual recognition of regulatory bodies are essential factors in making the market more efficient. We have seen encouraging progress in this area with the Solvency II project in Europe. The upcoming EU Directive will enhance the risk culture of the industry, and lead to a more rational and transparent marketplace.

Reinsurance will continue to expand into wider forms of capital market solutions. Swiss Re is at the forefront of this long-term transformation process. We are proud to have driven the development of the insurance-linked bond market and related instruments for both property and life exposures. Going forward, the industry, regulators and rating agencies need to work together to unlock the full potential of capital market solutions.

Jacques Aigrain
Swiss Re CEO

In the post-Katrina debate, the convergence of insurance markets with the broader capital markets, as well as the evolution of risk management practices and assessment of these practices, have quite rightly taken centrestage. This reality, coupled with the driving force of unencumbered and unrelenting capital markets, should strengthen and advance discipline around the measurement, monitoring, management and sourcing of capital to our industry.

Since the 2005 hurricane season, the industry has faced substantially increased capital requirements. This is only partly driven by increased frequency and severity of expected losses. The more dramatic impact has come from increased rating agency capital requirements per unit of exposure. These increased capital requirements place ever-greater strain on an outdated business model.

Fundamental capital issues will drive our industry to revolutionise and redefine itself in the coming years. It should be the desire of all insurance and reinsurance companies to compete on a level playing field as defined by capital requirements. This does not exist at this time. Regulators and rating agencies have created divergent capital standards across the globe and, in my opinion, insurance and reinsurance companies have only just begun to seek innovation in capital structures which will address these fundamental issues. If this logical restructuring does not take place, there is a real, immediate and accelerating threat that will drive our traditional products away from us and into the more innovative and more efficient capital markets.

John Charman
CEO and President of AXIS Capital

Three key trends will shape and define the industry in the coming years – capital, consumers and channels.

With more capital entering the insurance business and because of the nature of the risks in the industry, the key would be how companies determine and manage effective capital allocation.

The way the life insurance business is carried out will also go through fundamental changes as the industry shifts from protecting people from premature death to helping them with wealth management and retirement, as consumers around the world live longer and have higher life expectancies. Insurers that sell only protection products will find themselves very lonely in this business!

As consumers become savvier, there will be a proliferation of direct channels and for customers to embrace the Internet. If you look at the digital world today – the phenomenal explosion of online communities such as YouTube and MySpace – it is a reflection of how the digital era has become such an integral part of everyday life, and how people are creating virtual communities to buy, sell and interact.

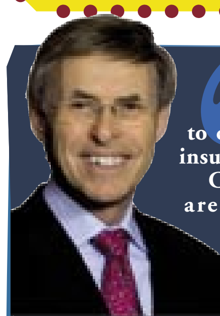
Clive Bannister
Group Managing Director, Insurance, HSBC Insurance

The insurance industry has constantly shown its ability to renew itself through institutional evolution and innovation in market concepts and practices to cope with the dynamic social, commercial and industrial challenges over the years. It has proven its mettle in providing the global community at large with the quality of services expected in risk financing and offering security and protection.

But times are changing with the capital markets getting in the act of risk financing and posing a direct competition to the insurers and reinsurers. There is, therefore, a need for the industry to find the right mechanism to meet this challenge and convert the trend into real opportunities for growth and development. The impact of global warming and the rise of catastrophe losses, with the attendant hardening of reinsurance rates and the increased risk exposures, mean the industry has to work harder at managing the risks.

Technology has changed the way the industry is delivering the products to the consumers. The chain of insurance agents and brokers on both sides of the insurance contract is diminishing. Consumers now prefer to approach the insurers directly online and buy the products of their choice, without much need for go-betweens. The implications of this online dialogue must be assessed critically to prepare for the future where the industry remains relevant no matter what happens.

HE Dr Bassel Hindawi
Director General of the Insurance Commission of Jordan



Under Solvency II, larger insurers will develop their own models to calculate capital requirements, smaller insurers will use the standard model.

Current solvency calculations are premium-driven and thus favour proportional treaties. In the new models, non-proportional treaties will be adequately reflected and replace proportional treaties. The amount of premium ceded to reinsurers will reduce. This, however, will not lead to a decline in profits for the industry because margins for non-proportional business are substantially higher.

In the standard model, smaller insurers will be required to increase their capital or to buy more reinsurance. Demand for reinsurance will increase.

Increasing Use of Capital Markets

Reinsurers cannot diversify sufficiently to efficiently keep peak exposures on their balance sheets. Retrocession capacity will increasingly be provided by the capital markets.

Capital markets, though, are only willing to provide capacity for events that are easy to monitor and quick to assess. Insurance does not quite fulfill this precondition in that payouts are slow. It will be the role of reinsurers to bridge this gap. Capital markets will not replace reinsurers.

Reduced Cyclicity

Quotation processes are increasingly driven by actuarial methods and catastrophe models. Underwriters will be bound to adhere to the results of those quotations and the influence of somewhat arbitrary assumptions on pricing will reduce. This will keep prices more stable.

Additionally, reductions of redundant capital will remove excess capacity and the pressure to write business.

Natural Catastrophes

While we believe that there will be an increase in the severity and frequency of natural catastrophes, we do not believe this will create a problem for the industry. On the contrary, demand for reinsurance will increase. The challenge for the industry will be to price this adequately.

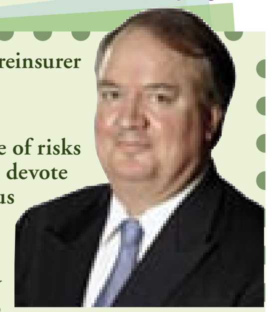
Who are the Actors?

We do not foresee major shifts other than the usual noise, ie some mergers and acquisitions and here largely in Bermuda. The industry is in good form with little pressure to change.

Wilhelm Zeller
Chief Executive Officer, Hannover Re, Germany

The world economy is becoming increasingly integrated. More global financial conglomerates are being formed and boundaries between different financial sectors are being blurred. Therefore, cross-operations between banking, insurance and other financial sectors are unavoidable. This is a serious challenge that China Life is actively preparing for even as we expect the regulatory landscape to change. Although we have not yet evolved into a financial conglomerate, we have a clearly defined strategy that will see us concentrate on our core businesses. In our opinion, market forces will drive the redefinition of the industry. It is not up to any company to decide.

Yang Chao, Chairman
China Life Insurance Company Ltd, China



There are five critical success factors to be a successful global reinsurer in today's world.

A Clear Risk Vision

A reinsurer must have an in-depth vision of the changing universe of risks in all fields: Natural, man-made, technological, financial. It must devote significant resources to the analysis of risk and focus intensively on the "D-Factor" – Diversification.

Sound Underwriting Recipe

Have a clear and well-defined underwriting policy that dictates what to write, where to write, when to stop writing, up to what limits, up to what price, what never to write.

Optimal Capital Allocation

A reinsurer has to be a fully capital-driven company in order to achieve an optimal allocation of capital: To which branch of business, which client, which markets, do we allocate capital to maximise return for a given level of solvency?

A Highly Efficient Platform

The efficiency of the operational platform including organisational structure, IT system and human resource policy plays a key role in the competitive position of a reinsurer to minimise cost, increase performance as well as reduce its operational risks.

Enterprise Risk Management

ERM is key in order to avoid transforming the shareholders into reinsurers of last resort. A reinsurer faces a whole series of risks: First, the intrinsic risks that any corporation has to face; second, the large risks that constitute the raw material of the industry. It has to clearly delineate the level of control from the level of operations. It has to hedge risks and put in place a solid retrocession policy. The Chief Risk Officer of a reinsurer is responsible for monitoring the company's overall risk radar.

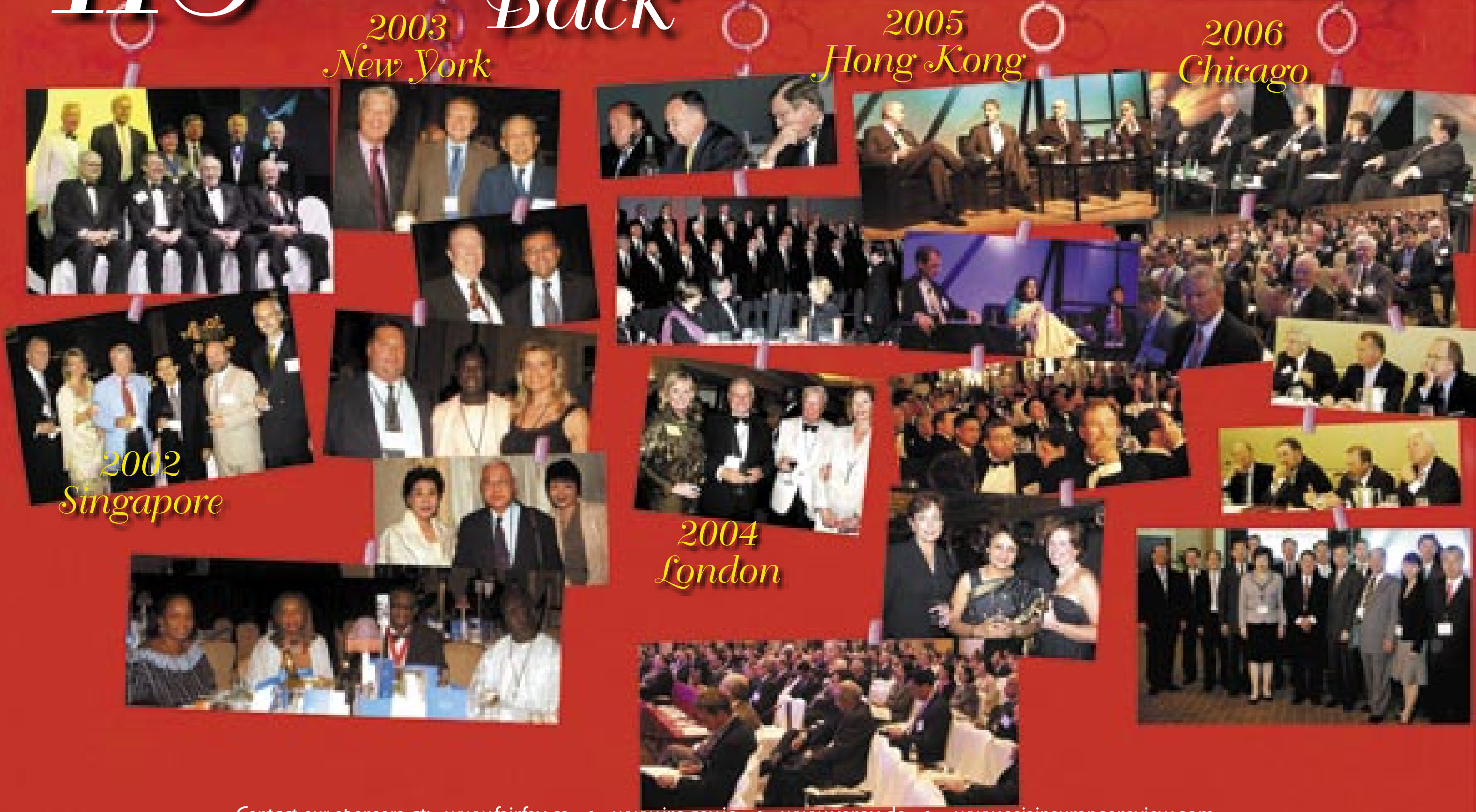
Denis Kessler
Chairman and CEO, Scor Group

AN AFTERNOON AT

The Reichstag

IIS delegates brought the summer sun to Berlin, just in time as the 43rd annual seminar kicked off with its traditional tour of the host city. Delegates were treated to a city tour of East and West Berlin which culminated in a breathtaking panoramic view of the German capital from the Cupola at the Reichstag Building.

IIS Looking Back



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