Asia Insurance Review's
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Day 4

CEO PANEL II

ERM – An Honest Buzzword For Survival Yet So Elusive To Most

No matter how many times you have heard it, no matter how articulate you are about enterprise risk management, the chances are you are still doing something ***horrendously*** or ***simplistically*** wrong within your business – a mistake, gap or oversight that can threaten your whole organisation's future or just "wipe out your accumulated profits of a decade in just two hours".

The CEO Panel on Enterprise Risk Management (ERM), that came with a star-studded cast of a CEO each from a general insurer, life and pensions operator, a brokerage and rating agency, chaired by a CEO of reinsurance company, gave two hours of thought-provoking ideas and tips and warnings to an audience who kept coming up with more questions.

10 little indians

Yet the message in 10 little one-liners is basic:

- ✔ ERM is a very big deal;
- ✔ ERM is a fundamental survival issue;
- ✔ ERM is very complex but must quantify the risk;
- ✔ ERM must spread across the whole business and not measured in silos;
- ✔ ERM is a measure of risk tolerance but implemented with good common sense;
- ✔ ERM is a cultural issue led by the CEO with a strong buy-in across the board;
- ✔ ERM is about imagining the unimaginable to protect the business;
- ✔ ERM is about "playing not to lose", to preserve value and create value;
- ✔ ERM is about the quality of data, without which the technology means nothing; and
- ✔ ERM is planning for a continuum and not an event.

Scaring You

And the list goes on, reverberating in the minds of the active delegates who gathered enough pointers to scare them into action with some concrete points screaming at them with red alerts about all the "wrongs" they could have been doing within their organisation.

Get Started

The real challenge is translating the hot list into concrete bite-sized action plans that can work across. The first step is **risk identification**. And even if you find that you are over-exposed to several risks, be happy that you are at least on a first step to survival.

As panelist **Mr Stephen Lilienthal**, Chairman & CEO of CNA Insurance, said as a first step that risk identification will put a stop to you assuming any more more of such risks. And as a second natural step, you will find ways to transfer that risk away as quickly and effectively as possible.

He defined ERM to be about establishing an organisational level of risk tolerance and risk appetite relative to the expected level of risk returns and balance-sheet strength.

Be Creative

Mr Barry Griswell, Chairman & CEO of Principal Financial, while stressing the need and importance of ERM, said it shouldn't lead to risk aversion or kill creativity and innovation.

A proper balance in managing the risks to meet the expectations of policyholders, shareholders, regulators, equity analysts and rating agencies must be achieved, he added.

The Risks Scenario Getting Worse

Mr Gregory Case, President & CEO of AON, in setting the tone for discussion, shared three findings he made in talking to some 1,500 clients around the world in the past 15 months:

- Essentially the aggregate level of risks on a global basis is going up beyond terrorism, pandemic and global warming;
- The complexity required to address the risk, be it in terms of risk prevention or mitigation, is going up; and
- The scrutiny under which the business operates is also going up, with everyone wanting to know exactly what's going on.

Know the Impact of Your Choice

In presenting his round-up to the comments raised, **Mr Mark Puccia**, Managing Director, Standard & Poor's, said that at the end of the day, the heart of ERM is really about getting you to realise "what decisions you are making and how they are going to impact value" and putting it in jargon, and about getting a "proper risk-return relationship in place".

Although the insurance industry is about managing risks, it is still far behind the banking community in risk management due largely to banking regulators having a headstart in regulating risk management for banks much earlier following the huge banking loan scandals of the 80s.

But insurance is catching up as insurance regulators have started looking at them now, too, and many are looking at economic cost of capital which embraces ERM as a fundamental.

Get The Governance Right

Ending with a reality, it was clear that the winners today were always those who energetically implemented a good ERM plan. Insurers should be weary of just having a risk management plan in place without ensuring risk governance and execution.

And lastly, it isn't just about physical property and equipment or underwriting risk management. It is so wide-ranging, stretching from physical, actuarial to strategic, tactical, operational, financial, asset-liability matching, reputation, legal and regulatory, investment and exchange risks, human resource and technology, systems and data base risks. And you have to handle all of the risks and not just pick and choose. Take a breather before you start. But do it now!

What Keeps CEOs Awake At Night?

Mr Mark Puccia

Risk of the unknown. Who would have envisioned the very poor rating environment in the property & casualty sector today, interest rates heading the wrong way, equity markets tanking, variable annuities having any value and the ferocity of today's hurricanes? I am also worried about the irrational competition that exists and the people's response to it.

Mr Gregory C Case

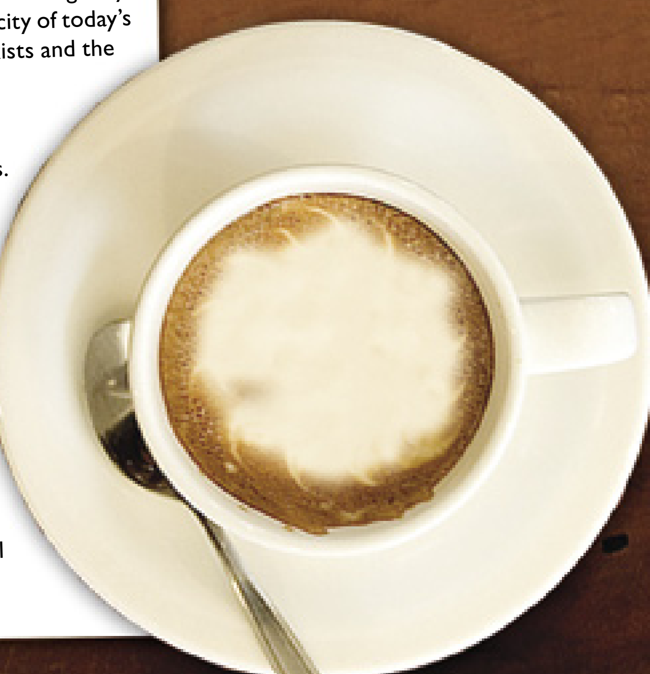
I am concerned about TRIA. We had strongly advocated for backstops. This is not an insurance issue, it is a client's issue. Without any backstop, we will all slow down and we worry for our clients. This issue has a fuse on it and it is significant.

Mr Stephen W Lilienthal

Can I get good smart people and good data? And that these people will interpret the data correctly and execute the right actions before something happens.

Mr J Barry Griswell

Regulations. We need to get products approved by 51 jurisdictions in the US, and we truly need a convergence of our regulatory environment. The current regulatory system also means that, on the international front, there is no US regulator on Federal level to represent us.

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A Challenge to Regulators No Less

Insurance companies aren't the only ones facing challenges from regulations. Ironically with the sweeping changes within the industry, regulators were, themselves, challenged, and some were, indeed, under siege to stretch their resources to meet the needs of the day.

The CEO Panel on The Regulatory Challenge held out hopes of clear solutions being "divined" with the presence of no less an aura as the Chairman of the IAIS.

But the Panel had to tackle tough issues for which there were no clear answers or solutions. All they could offer was a sympathetic hearing of the problems with Panelist **Dr Bassel Hindawi**, General Director, Insurance Commissioner of Jordan, urging regulators to give industry an advance and fair hearing, and engaging them in dialogue and consultation before implementing changes and new policies.

(L-R): Dr Bassel Hindawi, General Director, Insurance Commission, Jordan
Mr Alessandro A Iuppa, Superintendent, Maine Bureau of Insurance, USA
Mr Franklin W Nutter, President, Reinsurance Association of America, USA
Mr Walter Bell, Commissioner, Alabama Department of Insurance, USA

The Premise of Regulation

Mr Franklin Nutter, President of the Reinsurance Association of America, the only non-regulator on the panel, was all for regulations, saying that the current regulatory system had served the US buyers well, although he did open the gate, suggesting the adoption of new initiatives along the line of Solvency II and the EU reinsurance derivatives as long as the goal was to achieve solvency regulation and healthy competition.

As Dr Hindawi, whose Jordan had embraced RBC rules, said regulations must be aimed at maintaining an open, transparent and competitive environment, while maintaining consumer protection.

Cost of Regulation

As to who should bear the cost of regulation, firstly, there were no real estimates on the actual cost.

Secondly, there was a unanimous stress that a system without regulations would be that much more costly. It was, therefore, a necessary evil for the greater good.

US Influence in the IAIS

Mr Alessandro A Iuppa, Superintendent of Maine Bureau of Insurance, responding to earlier criticisms that the 50-state independent insurance commissions without a federal representation had minimised US influence on the world stage, said that the NAIC was one of the original founding bodies of the IAIS which was modeled along the former.

Also, the US has been holding the chair of the IAIS for the past two years. The IAIS has become so important as a standards-setting body for insurance supervision and regulation that the US has called for a permanent funding mechanism to be established.

Going for Principles Rather Than Fixed Rules

On the regulatory standards, it was generally agreed that harmonisation would not be possible given the different backgrounds and the development stages of the market and the regulators.

The principles, rather than the actual rules, should be spelt out, while giving leeway for individual needs and sophistication of each market.

As an example, **Mr Walter Bell**, Commissioner of Alabama, referred to the special arrangement for life annuities and long-term care business in the US to which some 27 states have subscribed to as a single entry point giving insurers from these states a headstart into the other markets.

CONVERSATIONS WITH A CEO

Mr Pierre Ozendo

Member of the Executive Board
Chief Executive Officer, Americas Division, Swiss Re

At the sidelines of the 42nd IIS, we caught up with Mr Pierre Ozendo who shares Swiss Re's vision and plans as the world's leading reinsurer.

How does it feel for Swiss Re to finally be the Number 1 reinsurer in the world, after being second for several years?

Mr Ozendo: To us, being number one in size was never the primary objective. Our focus has always been to be number one in quality and profit, and that has not changed.

Now that you're the leader in the reinsurance world, what leadership role will Swiss Re play to shape the industry in future?

We plan to continue to live up to the expectations of our customers. They have high expectations of us and meeting these expectations in volatile times will be done by guiding expertise, innovation and securitisation.

There has been a lot of concern in the cat market, and Swiss Re, with our leadership in securitisation, will help the industry in this area. Our priority is to see what the industry needs and provide long-term value.

What is the progress with the integration with GE Insurance Solutions?

The integration is going well with the team fully integrated. We have three new senior members of the board, all new additions from the ex-GE insurance solutions.

There is still much to be done, and we are excited about the excellent distribution, people and business portfolio that has been added to the Swiss Re family which strengthens our position for the future.

The key impact from the acquisition is a bigger balance sheet for Swiss Re, a broader base of customers, and enhanced underwriting skill sets to add to our significant skills that will make us as a winning company, in a people business.

We would have US$300 million of savings from this exercise and we are currently evaluating synergies that are necessary to meet our obligation to our shareholders. This will take place between now and 2007.

Having spent the last eight years heading Swiss Re's Asia Division in Hong Kong, what are some of the key lessons you learnt that can be applied to your new role in USA?

What I learnt in Asia is the need for constant change. You can't sit still as you have to anticipate the changes.

We have to learn to be nimble, faster and forward-looking, and show a leading role in ideas and innovative solutions.

The US is the largest market in the world – demanding, sophisticated and attuned to the capital market. Asia needs to develop its capital markets, and the US and Canada can be role models for breaking new ground.

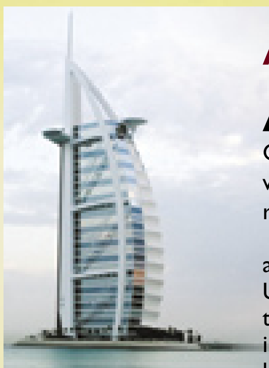
There has been a lot of talk about regulation the last few days, what is your take on the issue?

Asia is convoluted with different regulatory environments, while in the US, it is more stable. Swiss Re supports the harmonisation of regulatory practices. Large solid companies governed by strong regulatory environments should be recognised by other regulatory environments. We believe that financial strength should be recognised as a precursor and applied to all environments.

Major regulatory jurisdictions should adopt harmonisation as fast as possible as it accelerates the flow of capital and makes industry more competitive.

Swiss Re firmly supports the solvency regime and the European model. Other regulators should evaluate the good aspects of the European model and adapt and adopt what is suitable for themselves.

A lot of us can learn from our colleagues in the industry, and regulators are no different. The sooner they harmonise, the faster the industry progresses.



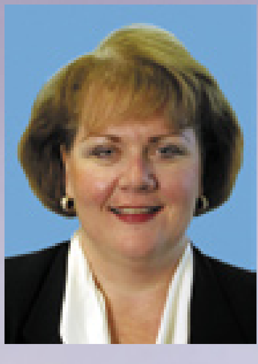
A Plug for the MENA Region

Although current attention was focused on the Israeli bombing of the sites in Beirut which some say has set Lebanon back several years, Dr Bassel Hindawi, Commissioner of Jordan, raised the profile of the Middle East and North Africa region within the IIS community with the reminder that the region presents a tremendous range of economic diversity and different business opportunities.

The MENA region has been going through profound changes and moving towards an open trading system. The premium income of the region was expected to hit some US$40 billion within the next five years with an estimated annual growth of 15% for traditional and 20% for takaful business over the next five years. With the dramatic investments in infrastructural developments, project finance in 2006 is expected to hit a high of US$70 billion and continue to escalate further, he added.

On the insurance front, Jordan has taken the leadership role in mooting the idea of forming a forum for insurance regulators to enhance co-operation and move towards harmonisation among different regulatory systems.

According to latest estimates, the Lebanese economy has suffered losses of at least US$500 billion in the current Israeli-Hezbollah military conflict.



ACORD: Changing Times Call for Changing Methods

Insurance is a global business with an urgent need for standards, says **Ms Denise Garth**, Vice President, Membership & Standards, ACORD. Here, she talks about how both mature and emerging markets will benefit from making the change to a standard business framework.

"Times and business are changing ... and changing rapidly. But if you are prepared, this can be good."

Global Insurance Community

Nowhere is change more apparent than in the Asia-Pacific region. We find long-established industry markets like Japan and Australia juxtaposed with rapidly emerging ones such as China and India. Legacy systems are working alongside new technologies. New products and distribution networks are entering the markets. And domestic insurers now face increased international competition from global organisations.

Whether by choice or nature, the fact is, we are all part of a global insurance community.

Agile Enough To Change

As Gartner pointed out, "although many of the APAC insurers have been isolated from global IT trends in the past, this is quickly changing." Our business systems need to be better integrated, both internally and externally. They need to rapidly adapt to changing trading partners, regulations, business processes and products. They, and we, need to be agile enough to change.

To do this, we need a common business framework consisting of a "vocabulary", processes, and services – standards.

Mature Markets

For more established markets, standards can extend the life of legacy/heritage systems. According to Celent, Japan, one of the more mature markets, must "strategically adopt new technologies to extend their mature IT infrastructure to effectively support product innovation, multi-channel distribution, diverse sales networks, and third-party product suppliers."

Tokio Marine & Nichido Fire Insurance, a leading non-life insurer in Japan, has seen and understood this. They joined ACORD and are involved with the development and use of ACORD standards. In fact, Tsukasa Makino, Tokio's Manager, IT Planning Division, was a speaker at the 2006 ACORD LOMA Forum in Las Vegas and discussed the global insurance marketplace and their use of technology and standards.

Emerging Markets

Emerging markets like China and India are projected to experience the largest market growth over the next few years. Here, the need for innovative business and technological implementation with standards is imperative as foreign competition looks to make further inroads in their marketplace and tap this enormous potential. By making standards a cornerstone of enterprise architectures, companies will be poised for growth, adaptability, and improved data communication.

Need For Standards

Seeing all this, and having taken part in many events throughout Asia over the past few years, I've seen first hand the need for standards. In creating the ACORD Standards Strategy, released in early 2006, we reemphasised that insurance is global and standards must be as well.

The ACORD Standards Strategy lays out the blueprints for our ACORD Standards Framework. It takes into account our long-established standards for forms and electronic data exchanges for life and non-life products. And it lays plans for incorporating all of those elements plus standardised business capability, process models (BPMs), business process services and data terms.

While electronic messaging continues, web services and Service Oriented Architecture (SOA) are becoming the keys to the future. Moving to that environment requires standardisation to increase flexibility, agility and adaptability. The most effective way is by establishing and implementing standards for BPM while not impinging on proprietary business logic. And that's just what ACORD and our members are doing.

ACORD will then be able to provide members with a single set of BPMs and service definitions, a single business dictionary, and a single data model for life and non-life. There will also be shared business messages where appropriate. These standards vastly increase member agility and competitiveness.

ACORD standards are more essential than ever in light of rapid globalisation and increased market competition. Carriers need to be agile enough to change with the times and their systems must be capable of adapting to the changing landscape – both for business and technology.

Whether it is to compete or collaborate, your ability to communicate data is essential to survival. Standards and standardised business processes within your enterprise architecture will form that solid foundation you need.

As the industry has evolved, so have ACORD standards. The ACORD Standards Strategy lays out the path to the shared global future of standards.

DISCUSSION GROUPS

Getting into the Details

While the big issues were discussed on stage, the discussion groups were where delegates rolled up their sleeves to discuss the nitty gritty details. We caught up with two delegates on their thoughts on the discussion groups.

Mr Stuart J Brahs
Senior Advisor,
Principal International Inc

We had a good discussion, but unfortunately the issue is one where there could be no immediate conclusion. The topic was on regulation, and it was mainly US-focused. Commissioner Walter Bell came into our session, and the discussion certainly took off, but this issue, being such a difficult and long-standing one, we can only agree to disagree.

Mr Namik Gulsün
Director, Aon Re Worldwide

Our topic was on regulation, and coming from Turkey, I am not so familiar with the regulations from this part of the world. So I have a lot to learn, and it is good for me to understand how regulations work in other countries. My view of regulation is that it must be simple and it must work for the policyholders.

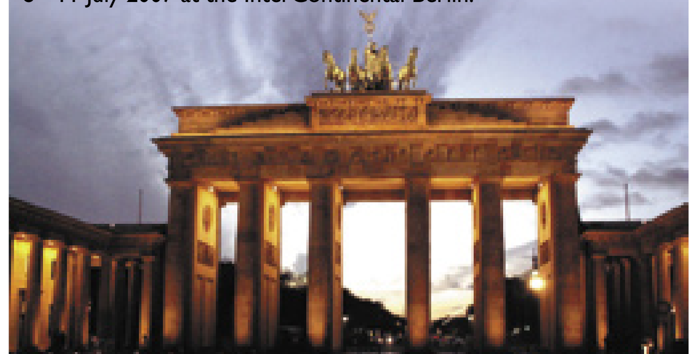
IIS 2007

Hello Berlin!

From the home of Bulls and Blues, Chicago, the IIS moves to the cosmopolitan capital of Germany, Berlin. Speaking to the *IIS Daily*, Mr Pat Kenny, President of the IIS, said that he believes the combination of excitement of this year's gathering and the recent World Cup mania in Germany will make Berlin an excellent venue for next year's gathering.

"The organising committee is already working on the programme and one of the new topics we are planning to introduce in Berlin will be takaful," he said, adding that, similar to previous years, the IIS will also address issues of concern to CEOs and decision makers.

So mark your diaries as the IIS moves to the heart of Europe. 8 - 11 July 2007 at the InterContinental Berlin.



Checklist Before You Go Home

If you still can't decide if the past two days have been worth your while, aside from all the talk about cartwheels and the World Cup, here are some yardsticks set by Chairman Karl Wittmann, to help you decide.

Have you:
- ✔ Learnt something new?
- ✔ Had interesting discussions with your working group?
- ✔ Attended interesting sessions and
- ✔ Met interesting people?

If you have, we look forward to seeing you in Berlin!

Global Insurance Indicators in 2005

Total insurance premium is **US$3.4 trillion** which is **7.7%** of worldwide economic value creation.

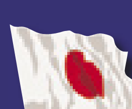
Out of these, **58%** came from **life** and **42%** from **non-life**

Life premiums increased by **3.9%** in real terms compared with 2004.

Non-life, however, grew by only **0.6%**

Insurance penetration, measured as a percentage of GDP, was **7.52%** in 2005

The top three countries in terms of premium are



Japan: $476 billion

The US: $1.1 trillion

The UK: $300 billion

Source: Sigma

2006 Honors Ceremony & Dinner

It was a night of honour as two new Laurettes were inducted into the Hall of Fame, joining the prestigious group of 116 past recipients.

Mr Orio Giarini, from the Geneva Association in Switzerland, and who has spent over 30 years in the insurance industry, was recognised for his highly original and visionary approach to risk and insurance.

Mr Siegfried Sellitch from Wiener Staedtische Insurance in Vienna was recognised for his pioneering efforts in insurance education in Austria, and for his instrumental role in developing the insurance industry in Eastern Europe.

The evening ended with a dazzling percussion score by the Hubbard Street Dancers that celebrates the rhythm and blend of dance.

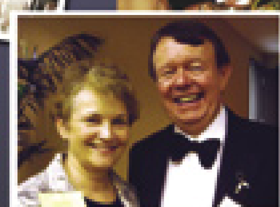






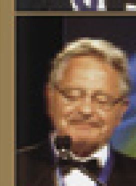





Award Winners

Mr Siegfried Sellitsch, *Wiener Staedtische, Austria - The Insurance Hall of Fame Award*



Mr Orio Giarini, *Geneva Association, Switzerland - The Insurance Hall of Fame Award*

Mr Ernie Csiszar, *President & CEO, Property Casualty Insurers Association of America, USA - Commissioner General Award*

Mr Brian Duperreault, *Non Executive Chairman, Ace Limited, Bermuda - Kenneth Black, Jr. Distinguished Service Award*

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