

IIS Daily

Day 1

Published by:

ASIA
INSURANCE REVIEW

MIDDLE EAST
INSURANCE REVIEW
INCORPORATING GLOBAL TAKAFUL

Sponsors:



Insurance Commission
of Jordan

FAIRFAX ASIA LIMITED

Ratings Sponsor:



Insurance is a part of the solution – Patrick Kenny

After eight years of serving as the IIS President, Mr Pat Kenny is hanging up his boots as the face of the international society. Under his leadership, the IIS has achieved considerable growth in membership from emerging markets, in addition to creating initiatives such as the expansion of IIS membership program, Insurance Hall of Fame Gallery and the Shin Research Program.

Looking at his track record, Mr Kenny views his most rewarding moments as the acceptance by the emerging markets of IIS and its mission and purpose. In tandem, he wants to be best remembered for his role in involving the IIS in the emerging markets and advancing its mission.

Nevertheless, he said he had been hoping to achieve greater results in encouraging companies to participate, even if they do not do business internationally. He pointed out that issues addressed during the annual seminar are universal concerns and are not partitioned according to whether they operate locally or globally. Particularly, this proved to be a difficult sale in areas such as North America, although 44% of the IIS members are from that continent.

While drawing from past lessons, he is steadfast for the future. "The issues affecting the insurance industry today are the same ones that

affected them 50 years ago – how do you distribute profitable products and how do you stay within your levels of expertise," he said.

"Without insurance, what would the world look like?" Mr Kenny questioned, while staying confident that the insurance industry remains one of the largest group of institutional investors in the world, as well as one of its largest employers.

However, the current financial calamities highlight the fact that the insurance industry needs to reach out to its customers more. "I think the industry needs to communicate constantly that it is part of the solution, not part of the problem," he urged.

Notably running through the financial gauntlet, the insurance industry's image has been tarnished. This issue had been recognised early on with numerous studies revealing that consumers lacked confidence in financial institutions and in insurance companies. The IIS, too, has deemed it a pressing issue, therefore dedicating an expert panel discussion on "The Image of the Industry" at this seminar.

"Companies which stick to their levels of expertise will be the successful ones," he said, adding: "Do what you do best and you will succeed."

With strength to battle out the waves, he reminds himself that "the millstones of God grind slow but exceedingly fine."

We wish Mr Kenny every success in his next endeavour!

Ahlan wa sahlam in Amman! (Welcome to Amman!)

Welcome to the 45th International Insurance Society (IIS) meeting here in Amman! For the first time in our 45-year history, we are pleased to be in the Middle East, allowing us to highlight the substantial development of the region and the vast potential of the MENA marketplace.

The goal of our seminar is to provide a forum for industry professionals to discuss current issues – issues that face our industry worldwide, and the opportunity to hear insurance leaders from around the world. Our seminar promises expert global perspectives, lively discussions, unpublished industry research, networking opportunities and an opportunity to experience the vast historical and archeological treasures of Jordan.

The global convergence of the insurance market has made the industry more complex than ever. In addition to the financial crisis and the drastic affect this has had on our industry, we face more challenges than ever before. As we work towards stabilising the tumultuous financial markets, it has never been more relevant for the insurance industry to have a forum for exchange, debate and discussion with our global contemporaries to focus on the unified goal of financial recovery.

The issues we face today clearly have global implications and are relevant to all regions and sectors of the industry. Our programme, aptly titled "Maintaining Sustainability in a Changing World," features

speakers from 16 countries including emerging and mature markets and a delegation representing over 40 countries. Our Executive Panel includes CEOs from Asia, North America and Europe who will provide their candid remarks on global financial recovery and the implications on our industry. The programme will address the top challenges we face today, offering unique perspectives which will provide tremendous insight and relevance to our discussions, ultimately leading to business solutions and new directives which will help maintain sustainability in this challenging marketplace.

I hope that while you are here in Jordan, you will take advantage of all that our seminar and this beautiful country offer. Our programme is packed with prominent speakers, outstanding networking opportunities and the opportunity to learn from your fellow insurance industry professionals, while enjoying some of the highlights of Jordan's rich history and culture. I hope you make the most of your time here and I am pleased to welcome you to Jordan!

Mr Brian Duperreault

Chairman, International Insurance Society
President & CEO, Marsh and McLennan Companies



Credit rating agencies under review

Ms Yvette Essen, Head of Market Analysis with AM Best, makes a spirited defence of rating agencies while looking at some of the issues which the financial crisis has brought to the fore.



When there is a crisis of whatever sort, the hunt begins almost immediately to find the source of the problem.

The current financial downturn is no different, and with the difficulties surrounding the banks, fingers are being pointed at various parties. Complex products, which investment bankers allegedly just did not understand, were being packaged up by lenders and sold across the globe. Incredibly generous bonus structures also helped fuel risky strategies, and a consumer culture of taking out large mortgages exacerbated the problem.

There have been some difficulties in the insurance industry, but compared to the banks, the insurance sector has held up relatively well. Yet while the insurers look relatively unscathed, there is still a determination to learn lessons and find the root of the problem.

In defence of rating agencies

In recent months, some rating agencies have drawn criticism for issuing ratings that turned out to be ultimately wrong, or for failing to spot developing problems. AM Best has never rated mortgage-backed securities – the structured-finance instruments most closely tied to the financial crisis. Our best-known ratings focus is on the financial strength of insurers. Those ratings are tied to our assessment of an organisation's creditworthiness as an issuer.

There have been various theories as to how credit rating agencies may have abetted the subprime mortgage meltdown. Some commentators have suggested that credit rating agencies have a conflict of interest as they get most of their income by charging fees for providing ratings.

Making improvements

A number of core themes have arisen when it comes to the regulation of credit rating agencies going forward. These include the management of any potential conflicts of interest and the "firewall" between analytical and commercial staff. Analysts may have to be rotated every few years, and there will be enhanced disclosure of methodologies and models.

No business likes increased red tape, but there is an acceptance that more regulation will in the long-run help the credit rating agencies. We all have been under the spotlight as the recession deepens, and there is an acceptance that new supervisory rules could help improve confidence and provide additional reassurance.

Credit rating agencies have themselves made changes and refocused in the wake of the credit crisis. The rating methodologies utilised by AM Best fundamentally will remain the same, but there are certain areas which will become increasingly important.

In particular, there is a growing focus on cash flows and liquidity, as well as risk concentration and correlation. This is because it is necessary to assess an organisation's ability to absorb "tail events" – namely low probability and high severity losses – during adverse financial market conditions.

We also believe that enterprise risk management (ERM) is more important than ever. The management of risks and the resources available to absorb those risks must be considered.

No guarantees

However, it is important to remember that ratings are an opinion and subject to error. They are not intended to be a warranty of a company's financial strength and its ability to meet policyholders' ongoing obligations. Ratings are forward looking. They are opinions about the future and not statements of fact.

If a rating opinion is wrong, it does not mean that the agency that gave the rating is negligent. Credit rating agencies are not auditors but must act in an independent way. They must use their best judgment to deliver rating opinions to the best of their knowledge and ability.

However, observers can – and should – monitor how an agency performs. AM Best, for example, analyses and reports how rated companies experience rating changes over defined time periods.

We also look at how our ratings fare over time and publish the longest-running impairment study in the industry. Our latest report in May showed that insurers with a rating classified as 'Superior' (A++ or A+) had a one-year impairment rate of about 0.06%. An insurer in the 'Vulnerable' (B and below) category had a default rate of 14 times that of a secure-rated insurer.

With the recession continuing, actions need to be taken to prevent a repeat of the credit crisis. In these challenging times, there are few things that will be guaranteed. The fact that there will continue to be an increased scrutiny of credit rating agencies is a definite guarantee.

... there is a growing focus on cash flows and liquidity, as well as risk concentration and correlation. This is because it is necessary to assess an organisation's ability to absorb "tail events" – namely low probability and high severity losses – during adverse financial market conditions.



Jordan's amazing attractions (besides Petra)

Most tourists come to Jordan to see Petra and the Dead Sea. But there are other worthwhile sights that will please history, architecture and nature buffs. Here's a sampling of what you can explore as short trips – less than two-hour drives – from Amman.

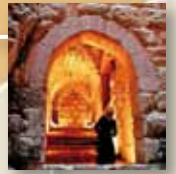
Salt

The former capital of Jordan, the ancient town of Salt reached its golden age during the Ottoman period. Today, Salt boasts splendid yellow sandstone buildings which incorporate a variety of local and European styles. Drive from Amman: approx 30 minutes



Ajloun

Built in AD 1184, the Crusader castle at Ajloun is one of the best-preserved and most complete examples of medieval Arab-Islamic military architecture. Other important Crusader castles can be found further south at Karak and Shobak. Drive from Amman: approx 90 minutes



Madaba & Mount Nebo

Madaba is home to some of the world's famous Byzantine mosaics. Nearby is Mount Nebo, one of the most holy sites in Jordan, and a place to enjoy natural scenery. Drive from Amman: approx 30 minutes



Jordan

Jerash

A close second to Petra on the list of favourite destinations in Jordan, this ancient city is one of the best preserved Roman provincial towns in the world. Straddling an ancient key trade route, its architecture, religion and languages reflected the coexistence of the Graeco-Roman world of the Mediterranean basin and the traditions of the Arab Orient. Visitors can wander through extensive and well-preserved ruins of colonnaded streets, arches, temples and baths, observing up close the intricacy and sophistication of carvings and decorations. Drive from Amman: approx 40 minutes



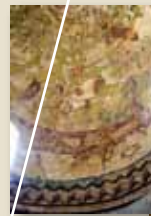
Azraq

This unique wetland oasis boasts several natural and ancient man-made pools, a seasonally flooded marshland, and a large mudflat. It attracts a wide variety of migratory birds which stop there each year on routes between Asia and Africa. The best time to visit Azraq is late autumn, winter or spring. The black basalt fort at Azraq, used since the late Roman era, was once the headquarters of Lawrence of Arabia. Drive from Amman: approx 90 minutes



Qusair Amra

This belongs to another group of castles, dating from the Umayyad period, which were built during the 7th and 8th centuries as retreats from city life. Qusair Amra is one of the best preserved monuments and is also a UNESCO World Heritage Site. Its interior walls and ceilings are covered with lively frescoes, and two of the rooms are paved with colourful mosaics. Other Umayyad castles, Qasr al-Mushatta, Qasr al-Kharrana, Qasr at-Tuba and Qasr al-Hallabat, have been restored and boast medieval Arab architecture. Drive from Amman: approx 90 minutes



Jordan: Facts & Figures

Jordan's population of **6.3 million**

is made up of **98% Arabs**, **1% Circassian** & **1% Armenian**.

Its **literacy rate** is one of the highest in the world at **males (95.1%)** and **females (84.7%)**.

Jordan's **highest point** is **Jabal Umm ad Dami**, at **1,854 m (6,083 ft)** above sea level.

The **lowest** is **the Dead Sea**, at **-420 m (-1,378 ft)**.

Its **insurance sector** grew **14%** to **US\$470 million** last year.

Jordan has **28** insurance companies, of which **3** are **takaful** providers.

How well do you know IIS?

1. Where was the last IIS held?
2. What year was the IIS founded?
3. Who is the new President & CEO of the IIS?
4. How many members does the IIS have?

Test your knowledge of the IIS and stand to win attractive prizes! The first five delegates to present the correct answers to any of the IIS newsletter team members (below) will receive a copy of the book *Health Insurance in Asia*.



Shakun Min Mei-Hwen Osama Erica

Revisiting IIS Issues & Themes

As we gear up for the 45th IIS Annual Seminar in Jordan, join us as we walk down memory lane in this pictorial tour of the past seven IIS seminars held in Taipei, Berlin, Chicago, Hong Kong, London, New York, and Singapore.

2008

Taipei, Taiwan

The growth of emerging opportunities and markets, along with regulations, human capital, innovation, products and distribution, dominated discussions.



Berlin, Germany

Underwriting discipline, emerging markets, Solvency II and winning strategies were the key topics debated and discussed at length by leading players at this event.

2007



2006

Chicago, USA

Held in the Windy City, the seminar focused on implementing enterprise risk management diligently and correctly across entire businesses. Other issues raised were related to catastrophes and regulatory concerns.



2005

Hong Kong

CEOs were reminded of the industry's importance in life, the economy and society and the essential need to boost the industry's image among key stakeholders.



2004

London, UK

Financial profitability took centre stage with a softer market environment, while most CEOs ranked pricing as a top priority and discussed ways to stay on the high road to success.



2003

New York, USA

Corporate governance was a key theme with CEOs being reminded that rebuilding trust and credibility and restoring profitability are inextricably tied together.



2002

Singapore

Benchmarking, best practices and branding were the buzzwords as management gurus shared tips with CEOs on how to stay ahead and compete effectively in an increasingly competitive environment.



Sponsors



Insurance Commission of Jordan

www.irc.gov.jo

FAIRFAX ASIA LIMITED

www.fairfax.ca



www.ambest.com

www.asiainsuranceview.com • www.meinsuranceview.com

Editor-in-Chief: Sivam Subramaniam • Journalists: Shakunthala Ashoka Raj, Min Yong, Wong Mei-Hwen, Osama Noor • Design & Layout: Charles Chau