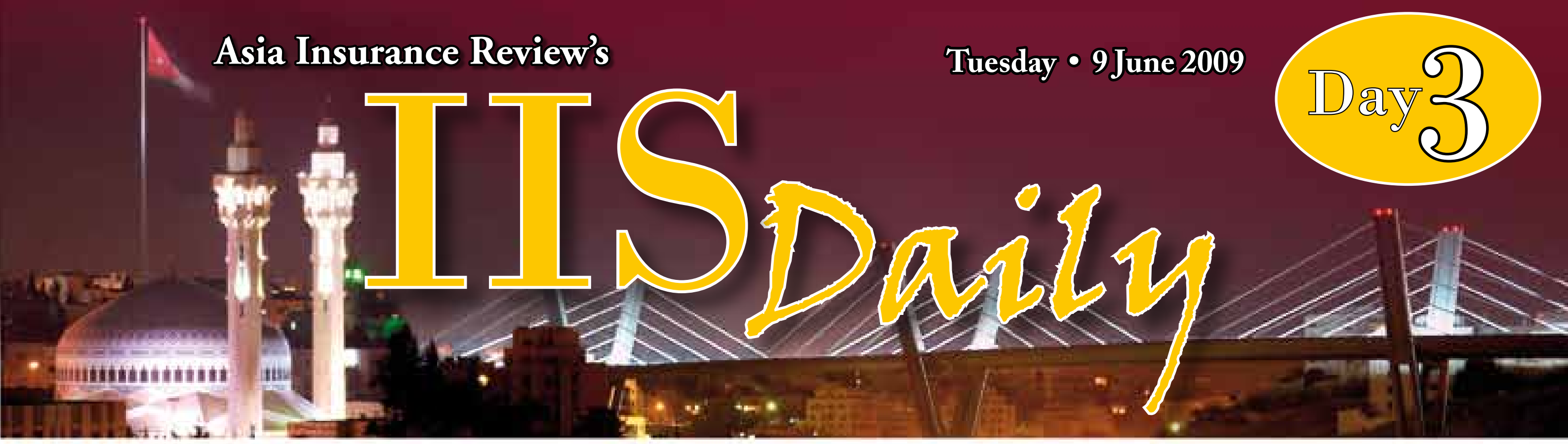

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The 3 'R's: Repair, Reform and Regulations

The 'Great Recession' may end in the third or fourth quarters of 2009 in the US and later in Europe as a result from heightened regulatory involvement, said Mr Geoffrey Bell, Executive Director of the Group of Thirty.

Mr Geoffrey Bell

"There is no doubt that the slowdown is moderating but the strength and recovery is in doubt. The safest course is to assume that the world economy will enter a slow period of growth by any recent historical standard," said Mr Bell, an advisor to governments and banks who has followed the global financial pulse for over 40 years.

Clear regulatory reform

The US, UK and Western Europe will lead the way with new regulations to ensure that a collapse does not happen again, said Mr Bell.

At the root of the causes, he said that "risk management techniques were woefully inadequate in financial institutions and supervisors were extremely lax. Also, incentive schemes in financial institutions encouraged excessive risk taking." The current time poses a good opportunity to repair the financial systems.

With regulatory moulds setting, Mr Bell was very clear that each market will adopt reforms such as:

- Increase in capital levels;
- Lower leverage ratios (and it will not be possible for investment banks and other financial institutions to have leverage ratios of 30 to 40:1);
- Liquidity levels and the management of liquidity are being raised;
- The use of off-balance sheet vehicles will experience much stricter standards;
- Hedge funds will be registered and supervised;
- Better qualified Board of Directors for banks will be required.

Flushing out financial toxins

One effect of the financial crisis is that banks can no longer be regarded as the "masters of the universe" which was once thought. The fall of the financial sector and the carriers within has further heightened the urgency for more regulation and oversight of the banking and insurance industry.

"Supervisors will explicitly try to reduce the pro-cyclical behaviour of financial firms by encouraging dynamic provisioning of capital buffets," he said, adding that this can be seen with recent developments, where supervisors are deciding "what is the best entity to regulate a particular institution, not vice versa as in the case of AIG."

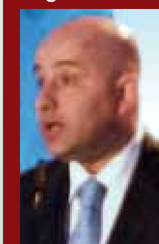
Outlook for supervision

While the world waits for the dust to settle, Mr Bell tagged 2009 as "the year of tighter supervision in all major industrial countries." Efforts are being made with three significant studies as "blueprints of reform". He said: "More transparency" and "less pro-cyclically" is in the order book. The results will be that financial institutions will be subject to much more scrutiny, and the old days of massive leverage in propriety trading levels and elsewhere will come to an end.

A Global Message from Jordan

Dr Bassel Hindawi

Welcoming close to 350 delegates from over 40 countries, HE Dr Bassel Hindawi, Director-General of the Insurance Commission of Jordan, yesterday highlighted sustainability as one of the basic tools of reforming the international financial system. The prospects of sustainable development in overcoming present and future challenges is a significant issue that needs to be reflected on, at a time the world is reassessing its values system. Companies practising sustainable development outperform others by 15% and are well-regarded for their positive impact on society.



HE Mr Amer Al-Hadidi

In his keynote speech, HE Mr Amer Al-Hadidi, Minister of Industry and Trade, said the insurance penetration in the MENA region is still very low at an average of around 1%. However, if the penetration rate in the regional insurance markets reach today the world average of 7.5%, total insurance premiums should be around US$70 billion, compared to US$15 billion today – a clearly indication of the enormous investment prospects in the MENA region.

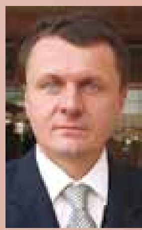
Giving a visionary view of the global markets, Mr Al-Hadidi said that any solution not only had to take into account national interest, but regional and international concerns too. He reminded delegates that the financial and monetary policies adopted should serve the purpose of development and not be an end to itself. It is only through this that the door to the future of sustainable growth be opened with confidence.

Mr Brian Duperreault

Mr Brian Duperreault, Chairman of IIS, in his welcome address with the IIS making its first foray into the Middle East in its 45-year history, affirmed that Jordan was the ideal gateway to the MENA region from both the geographical and regulatory perspective.

Rules, rules and more regulations are a-coming

Despite doubts about the global economic recovery and increase in business opportunities, there was a definite certainty that regulations are a growth sector. And the increase in regulations and supervision became the overwhelming theme for the discussions at yesterday's Executive Panel of world leaders. They agreed that the key move forward because of the severe impact of the financial crisis will be more regulations and definitely more requirements for capital.



Mr Peter Braumüller

These fears were confirmed by Mr Peter Braumüller, Chairman of the International Association of Insurance Supervisors (IAIS). Speaking at the later session on financial issues on the CEO Agenda, he said regulators had identified a list of pressure points to constantly review and were actively engaged in analysing regulatory differentiation and gaps. Stressing that insurance supervisors are not getting more pro-active to avoid getting hit by the remedies being proposed for the banking sector, he said the IAIS has added six technical points for closer scrutiny, including capital requirement, capital resources, valuation of asset management, asset liability and investment management, and ERM.

The Executive Panel also saw closer attention being paid by regulators to those companies deemed systemically important, or those who are "too big to fail".

Munich Re Chairman Nikolaus von Bomhard, expressing hopes that his company was not one of them given their global presence, said he feared that such closer and stricter supervision would impede their operational flexibility and efficiency.

Mr Geoffrey Bell, Executive Director of the Group of Thirty, said that on the plus side, such entities were guaranteed survival, although not the CEO and management staff. However, such institutions could become like public entities and impact on competition and free market dynamics.

Mr Bijan Khosrowshahi, President & CEO of Fairfax International, also expressed his concern that regulations could impede product approval.

The CEO as Chief Risk Officer

On the lessons learnt from the crisis and how both Munich Re and Fairfax had emerged from the crisis relatively unscathed, both heads attributed the success to effective enterprise risk management, agreeing that the chief risk officer of the company had to be the CEO himself – no matter how many risk managers and risk committees there were, it was the CEO who had to pull the front end and back end together in the same direction.

No substitute for financial strength

One thing that will certainly come under the regulatory microscope is financial strength. As Mr Bell said: "Supervisors around the world will be insisting on higher capital levels, in case something goes wrong again." This, he added, may even come at the cost of lower profitability.

Mr Prem Watsa, Chairman & CEO of Fairfax Financial Holdings, said: "There is no substitute for being hugely strong financially to take on the unexpected," referring to the 50% unpredictable drop in US car demand the first quarter that could sink weak enterprises. As CEO, his current focus is on being conservative and maintaining financial strength.

Educating regulators themselves

With more regulations coming our way, the attention turned to regulators and the quality of insurance regulation and supervision. Though it was agreed that at the end of the day, national regulators were responsible to their public and their people when things go wrong even at the global level, panellists called on regulators to be better educated about the insurance business.

Dr von Bomhard noted there were some regulatory officials including in developed markets who did not have any specialised background on insurance, saying: "I would like to see the regulator being more empowered to play a more significant role, and to be more strong and outspoken," to some enthusiastic approbation from the 350-odd delegates.

Mr Braumüller, in a separate session, responded that regulators were aware of the need to improve the quality of insurance supervision, meeting at least three times a year to update each other on developments in the field and to share experiences and educate each other. There were also formal courses being conducted for staff from insurance supervisory bodies.

Green shoots of recovery

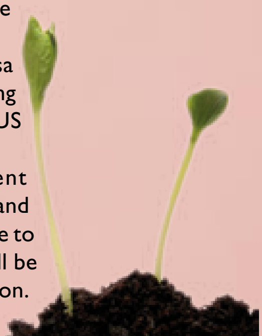
Although the world is in a prolonged recession, there are nascent signs of economic recovery, said Mr Geoffrey Bell who seemed confident that by late 2009, the recovery will kick in though it will be long and slow. The real question is what shape will this process take – a Nike swoosh, an extended "L", which refers to a long and slow recovery and or a "V", a quick recovery similar to the quick decline.

Mr Bell noted that recovery in industrialised countries will be slow because of an increase in savings, slower growth in consumption, high levels of unemployment and tighter monetary conditions.

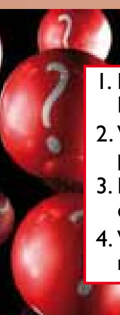
Dr von Bomhard of Munich Re, who confessed that, as a reinsurer, he tended to be more gloomy and conservative, said he did not see recovery taking place until around the second half of 2010.

Though noting green shoots, Mr Watsa wondered if with 80% of the economy being in the hands of the private sector, can the US government lead the recovery?

Mr Khosrowshahi said that different countries will recover at different pace and different times depending on their exposure to exports. Hence, the speed of recovery will be determined by higher domestic consumption.



Executive Panel of World Leaders (L-R):
Mr Brian Duperreault, Mr Geoffrey Bell, Mr Bijan Khosrowshahi, Mr Prem Watsa, Dr Nikolaus von Bomhard

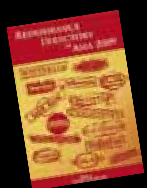


How well do you know MENA?

1. Name the largest insurance market by premium volume in the Middle East and North Africa (MENA).
2. What was the average insurance density and insurance penetration rate for MENA in 2007?
3. In which MENA country was the world's first takaful company established?
4. What is the representation of the Middle East on IIS' list of members?

(for clues, see yesterday's IIS Daily)

Test your knowledge of the MENA region and stand to win attractive prizes! The first five delegates to present the correct answers to any of the IIS newsletter team members will receive a copy of Reinsurance Directory of Asia 2009.



Shakun Min Mei-Hwen Osama Erica

IIS welcomes new CEO

Mr Michael Morrissey officially succeeds Mr Patrick Kenny as President and CEO at this year's IIS seminar, bringing with him close to 40 years of experience of working with and in the insurance industry.

The active IIS member has significant experience in both insurance and investment management, having founded Firemark Investments, advised insurance companies and served on their boards. He was the former President of Manhattan Life Insurance Co and has held investment banking positions with Dean Witter & Co and Kidder Peabody & Co.

"Mike's extensive experience in corporate financial management specialising in the insurance industry, combined with his global perspective, makes him uniquely poised to lead our organisation during these extraordinary times," said Mr Brian Duperreault, IIS Chairman. "Under Pat's leadership, the IIS has seen significant growth in terms of global reach and relevance, and I know that Mike's background and dedication to IIS will serve us well as we move forward".

Q: What is your vision for the IIS?

- To enhance the Society's leadership position in the global insurance industry by facilitating international knowledge transfer through our unique membership of senior executives and leading academics; and
- To strengthen the link between the insurance and risk management research done by our academic members and the practical application of those ideas by our business members.

What are your top priorities for the IIS in the next three years?

- To keep enhancing the value proposition for members by providing more useful information, insights and opportunities to exchange ideas with industry thought leaders;
- To expand membership in developed markets, and especially in developing markets, where the "value add" of belonging can be even greater; and
- To work closely with industry leaders to make sure our programmes are focused on the issues of greatest importance to them.

What do you bring to the IIS?

A strong network of global insurance industry relationships from my 38 years in and around the business, personal experience in senior management both in the life and non-life sectors of the industry, deep knowledge of the capital markets which affect the industry more than ever before, and more than 15 years of membership and participation in the Society, with an understanding of its values and mission.

What will you do differently from previous IIS Presidents?

I won't be doing much differently, because the Society's mission is unchanged and Pat has done a terrific job.

I will bring a different set of experiences to the job than previous Society presidents, so I expect I will be focused a bit more on the financial side of the industry: capital adequacy, capital management; investment portfolio issues, capital markets and so on.

How do you plan to increase IIS membership, especially among regions where there is low awareness of the IIS or relatively few members, such as the Middle East?

Our existing and our potential members are very busy, so the commitment of money to the IIS is less important than whether they feel it worthwhile to commit their time.

To appeal to regions like the Middle East where we do not yet have deep penetration, we have to make our programmes and our networking opportunities so compelling to their professional lives that they will feel they must take part.

Three words to describe your leadership style?

- **Inquisitive**: I want to continuously research the issues that are important for the industry, and thus for our members.
- **Direct**: I favour face-to-face, personal relationship with industry leaders to best understand and address their concerns.
- **Collaborative**: I believe the best decisions can be made after getting input from the leaders in the organisation.

What is your take on the global financial crisis and what advice would give to insurance companies on their investment strategies?

Whether in the hedge fund world or the insurance world, a lot of the recent carnage is due to organisations reaching for higher returns without properly assessing risk.

For insurance companies now, investment management has to be focused on risk management and capital preservation. There is, unfortunately, a great deal of evidence that many insurers grossly underestimated the riskiness of their financial assets. Credit analysis needs to be made much more vigorous.

Aflac, Mapfre among world's most reputable insurers

With the image of the industry coming under inspection at the CEO Panel this morning, it is worthwhile to take a look at the only two insurance companies who have made it to the world's 200 most reputable companies.

According to the Reputation Institute, US-based Aflac and Spanish giant Mapfre made it to the 2009 Global Reputation Pulse survey, ranking 168 and 171 respectively. Yet the presence of just two insurers on the list shows just how much more room for improvement there is for the industry.

The survey, which covered 25 global industries, also found that insurance had a global pulse score of 58.81, falling within the 'weak/ vulnerable' category – indicating that the industry has much room for improvement. Consumer products came out tops with a score of 75.75, in the category of strong/ robust.

"In today's economic climate, it is important that companies behave with a strong reputation of honesty, integrity and reliability," Aflac Chairman and CEO Dan Amos said. "We are proud and pleased that the Reputation Institute's independent public survey results declare Aflac the most reputable insurance company, not only in the United States, but in the world."

Mr Dan Amos

Aflac is also among the top 50 most reputable companies in the US out of the 153 companies measured and ranks in the top third of the 600 companies measured around the world.

Mr José Manuel Martínez

Mr José Manuel Martínez, Mapfre's Chairman said: "Reputation is above all the external recognition of the well-done internally. Our position in the ranking published by an organisation as the Reputation Institute is of great satisfaction and pride, both for our clients and for all the people that work in MAPFRE in more than 40 countries where the Group is present".

Reputation Institute's Global Reputation Pulse is an annual online survey of the general public measuring the corporate reputations of more than 600 of the world's largest companies in 32 countries.

Quick Takes

With regulatory reform being the hot topic, insurance executives tell us what they'd like to see from the regulators.

"There is substantial effort being put into insurance regulation across the Arab world, resulting in more order and much needed professionalism coming into our industry. This is indeed a welcome change. A constant review of insurance rules and regulations is crucial, in order to keep pace with the rapid changes and progress taking place in other parts of the world, particularly in the light of recent collapses of some large and respected financial institutions."

Mr Yassir Albaharna, CEO of Arig

"This crisis has taught us that there are obvious gaps in cross-border regulation. Moreover, group holding companies often escape regulation altogether. Hedge funds are not regulated at all. Thus, there is a need for balanced cross-border regulation which is effective, but does not stifle economic activity or change the competitive balance. In this context, it is important to have a co-ordinated approach towards regulation between the banking, insurance and other financial services sectors."

Mr Hans-Peter Gerhardt, CEO, Paris Re Asia Pacific

"Due to the financial turmoil, the regulators are showing the tendency toward easing of the capital reserve requirements, which should be avoided since it would lead to weaker protection against another financial crisis in long-term. Moreover, mid- to long-term capital quality should be evaluated. For example, an assessment of embedded value should be required for an insurance company manufacturing long-term products to provide the mid- to long- term prospect of profitability."

Mr Colin (Dong-Gu) Shin, General Manager of Corporate Planning Team, Samsung Fire & Marine Insurance

"In the MENA region, these issues should be addressed:

- A new regime for regulating insurance intermediaries and handling client money;
- Standards for capital adequacy;
- Staff training and competence;
- Development of systems & controls and internal audit functions;
- Corporate governance and lack of accountability of management;
- A unified supervision and risk assessment programme to satisfy statutory objectives; and
- Social responsibility."

Mr Wael Khatib, CEO, MENA, Lockton International

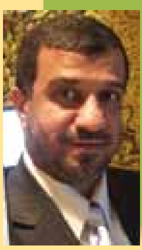
"A key reason why Friends Provident and other large UK-based life companies are maintaining their financial strength despite the crisis is the robust regulatory regime introduced in 2003 by the UK's regulator. International regulators can learn from this experience, focusing on intelligent regulation, graduated to reflect the levels of risk."

Mr Trevor Matthews, CEO of Friends Provident

We also interviewed first-time IIS Seminar attendees from the region on how they have benefitted so far, and how applicable it is to their market.

"This is a great opportunity to look into different market experiences especially at such a critical time. It is a good chance for us in the MENA markets to learn how to become more proactive rather than merely reactive in facing our challenges."

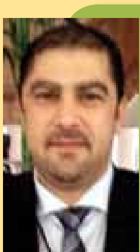
Mr Abdul Muttalib Mustafa Mohd, CEO, Oman Insurance Co



"We see a great international mix here at the IIS seminar and I am quite confident that the seminar will help us better analyse our market conditions and gain a clearer vision of the future.

"MENA is an integral part of the international insurance market and whatever happens in the world affects us here. We are glad to have the opportunity to exchange opinions and points of views."

Mr Abdulaziz M Al Mansour, Chairman & MD of Al Safat Takaful, Kuwait



"Sustaining growth and sustainability is what we all seek in such a changing and challenging world. We look forward to having some answers to today's problems faced by all regulators, players and different financial institutions.

"Applying the right standards in MENA and elsewhere is the answer to our main problems, so the platform for correction is the same basically."

Mr Eiad Zahraa, General Manager, Syrian Insurance Supervisory Commission

QUOTE of the day — Has the financial crisis changed the way we rate companies?

Brought to you by AM Best

While the rating methodologies used by AM Best will fundamentally remain the same, with the credit crisis and recession continuing, there are certain things that our analysts will be looking at even more closely.

These include price monitoring, growth, financial leverage plus liquidity, cash flow and financial flexibility. Finally, enterprise risk management (ERM) also will play an important role in the future. The entire practice of ERM continues to evolve.

Ms Yvette Essen, Head of Market Analysis

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