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Feeling the Pulse of Global Insurance CEOs

Mr Patrick Liedtke and Dr Kai-Uwe Schanz share results from The Geneva Association's first global CEO survey of its members who are among the world's largest (re)insurers, on their thoughts on three critical issues: the expected impact of the credit crisis on the insurance industry, the profound changes to solvency regulation and accounting standards, and the most relevant risks facing their organisations and the industry as a whole over the next 12 months.

No Major Impact of Credit Crisis Expected

Surveyed CEOs are sanguine about the credit crisis and its ramifications for the insurance industry. They expect only minor tightening, if at all, of the relevant regulatory frameworks for insurers – not specifically targeted at the sector but rather as a "spill-over" from expected major changes to banking regulation. Further, despite some isolated cases of significant subprime-related write-downs in the insurance industry, none of the CEOs participating in the survey expects a major reputational damage to the insurance sector as a whole.

CEOs also believe that the convergence of insurance and capital markets, e.g. through the securitisation of insurance risks, will continue unabated.

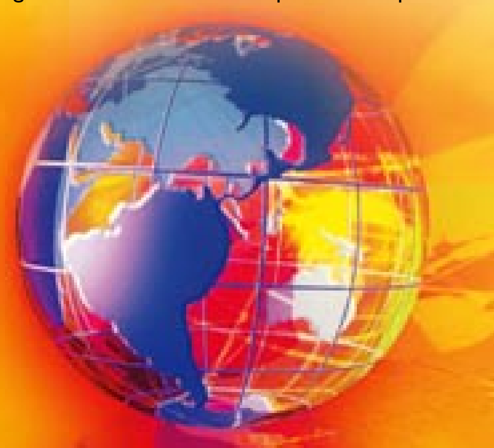
Mixed Views on Solvency and Accounting Developments

Regarding current developments in solvency regulation, especially the forthcoming advent of the Solvency II regime, two thirds of the respondents expressed overall satisfaction. The CEOs are in favour of this risk-based approach and the prominent role assigned to internal models. With respect to developments in financial reporting, especially in the context of International Financial Reporting Standards (IFRS), the CEOs gave a different assessment: Two thirds are either unsatisfied or very unsatisfied with the overall direction of reforms. The current reform proposals put forward by the International Accounting Standards Board (IASB) are based on a mark-to-market approach to valuing insurance liabilities, largely ignoring the absence of functioning and liquid markets for such liabilities. Some CEOs also felt that the dialogue between the IASB and the industry should improve.

Economic Slowdown and Financial Market Volatility Top On the List of Perceived Risks

Finally, the participating industry leaders shared their views regarding key risks facing their respective organisations, as well as the industry as a whole in the 12 months ahead. At the top of the list of concerns is an economic slowdown as a result of the credit crisis, followed by continuing financial market volatility. The third most frequently mentioned risk is insurance regulators overreacting to the credit crisis. In addition, the CEOs are considering an acceleration of inflation as one of the top risks in the coming 12 months.

The Geneva Association is committed to conducting further surveys of this kind in order to enhance the general public's understanding of the priorities, hopes and concerns of the global insurance industry's leaders.



About the authors: Mr Liedtke is Secretary General and Managing Director of The Geneva Association; Dr Schanz is a Special Advisor to The Geneva Association and Principal Partner of Dr Schanz, Alms & Company, Zurich.

World Insurance in 2007 All Figured Out

Total world insurance premium was US$ 4.06 trillion with Asia accounting for US$ 840.6 billion

Life premiums in Asia grew by 9.3%

The top five markets are Japan, South Korea, China, Taiwan and India

In the world's 2 most populous nations China and India, global insurance market share stood at 2.28% and 1.34%, respectively, they raked in a combined total premium of US$ 176.7 billion

Provisional total insurance premium income for Jordan, the venue of the 45th IIS was US$ 407 million an increase of 11.4% from 2006

142 natural disasters occurred in 2007 costing the industry US$ 23.3 billion. A further 193 man-made catastrophes last year cost the industry US$ 4.3 billion.

A total of 21,500 people fell victim to catastrophes last year, out of which 12,500 perished because of storms and flooding

The Charge of the Enlightened Brigade

What are your key priorities and success strategies in the face of growing challenges such as, climate change, a slowing global economy, sub-prime woes, fluctuating currencies and growing regulatory scrutiny?

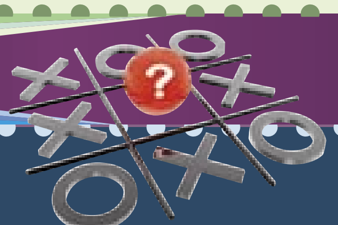
Delivering Value

In the face of growing global challenges, we intend to continue focusing on delivering distinctive value to our global clients through unmatched talent and operational excellence.

With the increasing complexity and magnitude of risks, Aon understands that every asset, decision and talent is a form of capital that must be managed. Our success will be determined in a large part by how well we provide the best value to our clients so they can achieve sustainable growth, continuity and profitability. To get this done, we have integrated our worldwide risk and insurance brokerage operations into a single global business that better align our resources and talent around our clients and follow on the success of our other core businesses.

This enhances the ability of our colleagues around the world to bring their deep knowledge of local needs, innovation and expertise to one global, client-focused business. It also ensures that innovative solutions are delivered globally so that nothing stands in our way of bringing the very best of Aon to our clients, not only in Asia, but around the world.

Mr Greg Case
President and CEO, Aon Corporation



Confronting Industry Risks

Insurance, like many financial services sectors, is at the mercy of cyclical movements. In the past, the insurance industry had fallen victim to the ravages of the insurance cycle and lost vast sums of money.

Our key challenge going forward, for both Lloyd's and the industry as a whole, as the cycle softens will be to maintain underwriting discipline. This will mean underwriting for profit rather than market share, and at the right price and terms and conditions.

All the signs show that we are heading for a soft cycle. Remarkably few catastrophes impacted the market in the last two years and insurers are reporting a softening of rates, terms and conditions across almost every line of business. However, this may change with just one major catastrophic event; this is the unpredictability of the business we are in.

Our business is dealing with risks so we are well aware that the risk landscape is changing. As an industry, we must drive forward the debate on emerging risks such as climate change, terrorism and liability issues.

Lord Peter Levene
Chairman, Lloyds

Cycle Management

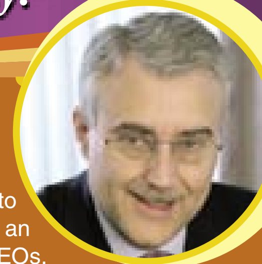
Underwriting discipline is a must in what promises to be a challenging year but while Swiss Re may for the time being, decline some transactions, we will continue to invest in the many drivers of growth that exist despite the soft cycle.

These include the strengthening of key facultative capabilities and intensive development to meet client needs in cycle-resistant sectors such as medical insurance, variable annuities and new tools such as weather derivatives and index-based covers to mitigate the impact of weather-based natural catastrophes on world agriculture.

In fact, Swiss Re will increase its investment in the fundamentals required to secure the future: namely, in the emerging markets of Asia, Latin America, the Middle East and Central/Eastern Europe; and in the recruitment and training of top-notch graduates as well as in providing the kind of job rotation and professional development opportunities for our best young professionals that only a global firm such as Swiss Re can offer.

Balancing this is a concerted campaign to improve organisational efficiency while enabling and empowering our leadership to become more focused and proactive in their marketing and management approach. Examples include the strengthening of enterprise risk management programmes and the recently announced Swiss Re/Guy Carpenter co-operation in electronic data exchange that will deliver to clients additional speed in accounting and settlement, while maintaining the strictest confidentiality.

Mr Jacques Aigrain
CEO, Swiss Re



Strategic Mindsets Needed for Different Markets

In what risks becoming a two-speed global economy, insurance CEOs need to have different strategic mindsets for different markets. That's why Taiwan is such an interesting place from which to view the challenges confronting global insurance CEOs.

Taiwan has one of the highest insurance penetration rates in the world. But Taiwan itself is geographically close to where insurance markets are still growing.

Not surprisingly, the key strategy for many global insurers today is to develop their businesses in Asia reflecting both the longer term trends of greater wealth creation in the region and the shorter term impact of the economic slowdown in the West. Contagion among financial institutions has exported the economic problems besetting the US to other parts of the West. And while Asian countries are not entirely immune to the economic troubles experienced by their trading partners, they are not at the moment feeling the full effects.

So, generally speaking, Asian insurance markets have much greater potential for growth – even in the current climate of global economic uncertainty.

As Asian economies grow, insurance penetration is increasing in the life and non-life sectors, stimulated by the introduction of new products and means of distribution. The developing takaful market in Muslim countries like Malaysia is a good example.

But as CEOs look back into the mature insurance markets of the West, they see different priorities ranging from cutting costs to improving and broadening distribution channels to compete more effectively.

In Asia there are markets that are growing, albeit more slowly than in recent years, while in the West, markets may yet go into the reverse. For most CEOs meeting here in Taiwan, identifying key challenges isn't difficult: it just depends in which direction they're looking as to how to respond.

Mr Ian Dilks
Global Insurance Leader, PricewaterhouseCoopers

Stability and Sustainability

After another record profit last year, Munich Re had a satisfactory start to 2008. This reflects the benefits of our integrated business model of primary insurance and reinsurance which helps Munich Re stay on the path of sustainable growth. In addition to cost synergies, Munich Re is saving significant capital costs by balancing risks across the two business segments.

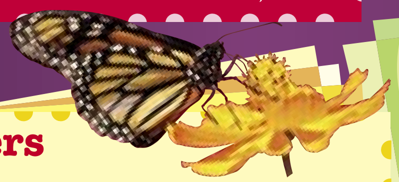
To ensure stability for our clients, and ourselves, we continue to adhere to risk-adequate pricing. At the same time, cycle management is applied with great discipline. We are also constantly refining our risk modeling, corporate underwriting and integrated risk management. That provides a foundation for the high-quality and solid cover which we deliver to our clients on a lasting basis.

Climate change – and the consequences – remain a strategic issue for Munich Re and directly affect our business. On one side, these changes open up new segments with major growth opportunities, for which we are developing innovative insurance products. On the other, the growing number of severe natural catastrophes is causing greater loss burdens.

Another example of Munich Re's commitment to sustainability is our goal to make our entire business operations carbon neutral by 2012.

As we look to the future, Munich Re will continue to turn risk into value. Our clear underwriting focus, well-defined risk appetite, capital structure and prudent reserving create a solid platform for growth with our clients, shareholders and employees for years to come.

Dr Ludger Arnoldussen
Member of the Board of Management, Munich Re



Life Matters

The HSBC brand and reputation for prudent financial management are invaluable assets in this uncertain world. Our financial strength – built on strong roots in Asia, coupled with a global reach and corporate values single us out as being the right partner for our customers on their journey through life.

Our 1000 Day Insurance strategy centres on bancassurance. By understanding customers needs – both immediate and over the long term – we can work with them to build long-term financial plans and deliver tailored solutions.

As an example,our global Future of Retirement programme surveyed 40,000 people in 25 countries. The findings told us that customers are realistic about the challenges they face in later life and are increasingly, looking to take control over their financial destiny. Using this insight, HSBC Insurance has expanded our footprint in key Asian markets and created relevant products and services, with a particular focus on life, pension and investment products, that enable HSBC Insurance to help meet our customer needs as they live today and plan for tomorrow.

Another key strength of HSBC is our ability to share winning ideas across the Group. For instance – to complement the Group's stance on sustainability, colleagues in Brazil have developed and launched a range of 'green' insurance products which have proved popular with an increasingly environmentally aware local customer base. Their lead is being picked up and replicated in Asia by HSBC Insurance businesses across the region.

Mr Clive Bannister
Group Managing Director, Insurance HSBC Holdings

Preparing for an IFRS on Insurance Contracts

The International Accounting Standard Board (IASB) aims to change the accounting for insurance contracts. In May 2007, the IASB published a discussion paper. Allianz's views can be summarised as follows:

Allianz agrees with the IASB proposals to measure the insurance liability as three building blocks, in terms of:

• using current estimates of expected future cash flows • discounting at current market rates • applying margins for bearing risk and uncertainty.

However, we are concerned that the proposals are too theoretical and ignore the fact that the settlement of the obligation is with the policyholder. In particular, the measurement attribute proposed by the IASB is based on a hypothetical market transfer value rather than being reflective of the expected outcome of the contract. In our view, entity-specific cash flows should be used where no market data is available.

Furthermore, we are concerned that:-

- the proposals could lead to day-one gains and do not reflect the insurer's business model as a service provider of risk coverage,
- the proposals prevent an economic valuation by forcing legal constraints on the measurement of future contractual cash flows,
- the proposals would lower transparency and comparability of insurer's financial statements by requiring fictitious market assumptions and, hence, would be incompatible with internal management and user needs.

These concerns were generally shared in the 160 comment letters received by the IASB on its proposals for insurance contracts by the end of last year. In 2008, the IASB is discussing a number of important parallel projects such as fair value measurement and revenue recognition, which probably will have an influence on the insurance contracts project.

Allianz fully supports the development of a comprehensive IFRS for insurance contracts. We believe that the current diversity of insurance accounting worldwide and the current perception of insurer's financial statements by analysts create a disadvantage for the insurance industry in capital markets.

Dr Helmut Perlet
CFO of the Board of Management, Allianz SE

An Afternoon Spent Admiring the Jewels of Taiwan

Kicking off the 44th IIS Annual Seminar, delegates bustled through the National Palace Museum and were given a taste of Taiwan's rich history through priceless artifacts and eras lost in time. At the welcoming reception, friends and fresh faces mingled while being wined and dined in the historical capital.

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