Published by: ASIA INSURANCE REVIEW
Media Partner: MIDDLE EAST INSURANCE REVIEW INCORPORATING GLOBAL TAKAFUL
Sponsor: FAIRFAX ASIA LIMITED

Red Flags to the Raging Bulls in the Road to Recovery

The road to recovery is now more elusive than ever before. Yet it has to be found, and it is not just a set of yellow brick roads but one that leads to sustainability and stability.

The insurance industry is already faced with its own problems of escalating risk exposures, climate change with more natural catastrophes and increasing severity of losses, higher cost of capital, and greater regulatory demands. At least it has been given the certificate that unlike its brethrens in the banking sector, does not pose nor contain systemic risks.

Looking back for the bulls

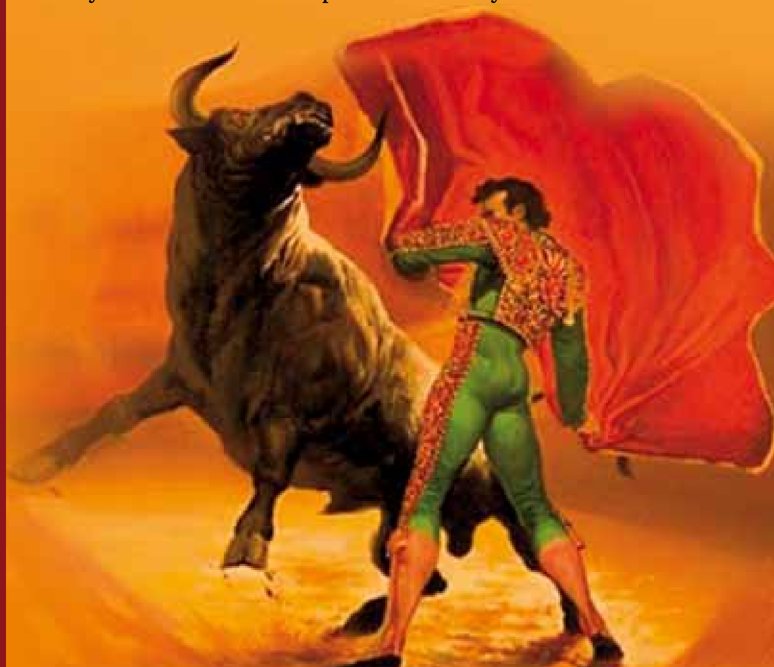
There were screaming headlines of an unstoppable recovery and the mood everywhere was hunky dory from last September. In fact, just 12 months ago in Jordan, at the IIS Annual Seminar, there were grim reminders not to stampede on the green shoots of recovery but to nurture them with tender loving care. Then there was the mantra of the "new normal" and learning to live with rapid change in the post-financial crisis.

Then early this year, Greece's crisis happened and now the "PIGS" are in full sway with the world anxious over a double-dip recession led by Europe. The greater worry today is that governments themselves seem the cause of the problems and they are less powerful than before with less money to be more aggressive with the cures. And to make matters worse, geopolitical tensions are on the rise even in Asia, then heralded as the lead driver of the global recovery with many an MNC head hailing Asia as their fastest-growing market for 2009.

Dancing forward

So, what news for the insurance industry which is still so dependent on investment income? What positives can we draw in Madrid? What can global CEOs gathering here take away as precious moments that will make them the able matador to tackle the raging bull of investor nervousness and dance like flamencos balancing their act in the face of the operational challenges they face? Can delegates rummage through the mass of data to find a Picasso or Dali treasure?

For the IIS, Madrid starts as a success story with some 400 delegates assembled. The global leadership panel, as if by prescience, is set today to tackle the Road to Recovery which now seems set to be less straightforward than just a month ago. For sure it is going to be a long, winding, bumpy arduous road say many of the leaders we spoke to recently.



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Bond Market: Insurers Calling the Shots or in the Firing Line?

Being the largest holders of bonds, the sovereign debt crisis in Europe bears great significance for insurers already providing for losses on government issued debts.

Europe's largest insurers hold more than €95 billion (US$115.9 billion) of sovereign bonds issued in the region said research firm CreditSights. And insurance companies typically buy government bonds in their respective home markets, with Generali for instance holding €46.5 billion of Italian government bonds.

Will the uncertainty in pace of recovery in Europe see a prolonged flight to safety on the part of investors parking their money in US Treasury. Treasury prices have soared in recent weeks with yields on both the 10-year note and 30-year bond falling steeply.

Will investors look at corporate bonds to diversify from their euro zone debt exposure? Insurers, particularly in the US, had added significant corporate debt onto their portfolios in early 2009 when prices bottomed. At the end of the first quarter this year, US insurer MetLife had US$2.5 billion in unrealised gains from such bonds compared with a US$15.4 billion unrealised loss the previous year. Prudential, the second-largest US life insurer, had US$3.1 billion of unrealised gains from corporate debt as of 31 March, compared with US$7.9 billion of unrealised losses a year earlier.

Will the corporate debt rally be sustainable in the face of the European debt crisis? The value of the fixed-income portfolios of insurers will be telling when they close their books on a jittery second quarter for the global credit market.

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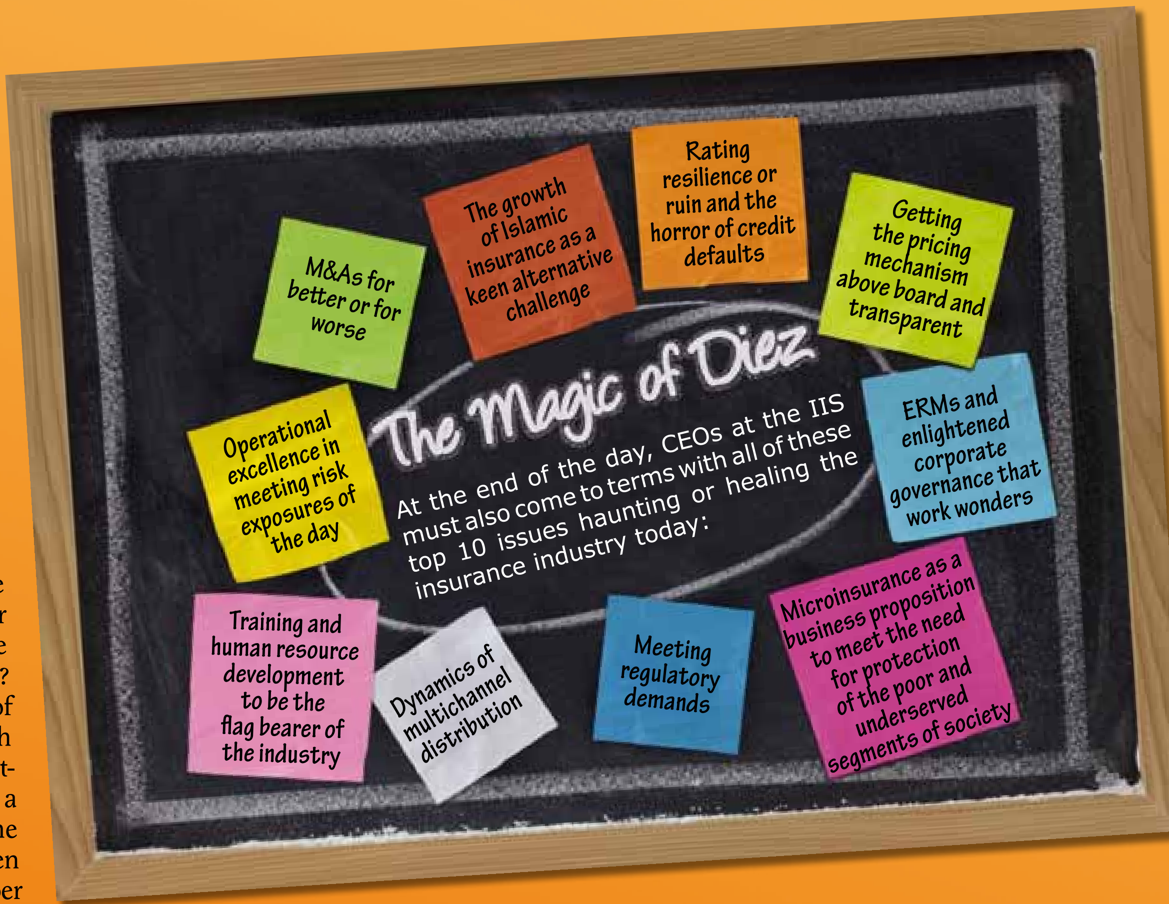
Getting the price right

The general consensus is that in the fight for survival, one must not lose sight of the customer and his needs and wants and to build the trust of the consumer, be he individual or corporate.

A key component of this trust is price consistency and this is precisely the area that the industry has let itself down as the yo-yoing of the rate of cover for a risk only undermines the public's faith in the business. How many CEOs can say with conviction, knowledge and exactitude how a particular risk is priced? Or what is the burning cost of a particular risk? And risk is the core function of the insurance industry which has been building on its analytics and models. But it is still a magical science to most in the industry how a risk is rated even if they can rattle off "0.10cts per mill" fluently.



Bienvenido a Madrid!

It is my pleasure to welcome delegates and guests to the 46th International Insurance Society Annual Seminar, as we return to beautiful Madrid for the first time since 1994. The Spanish organising committee, led by Unespa, has made an extraordinary effort to stage and promote a seminar that will be both informative and enjoyable, and we are deeply grateful to them.

The theme of this year's seminar is "The Aftermath of the Financial Crisis", and though the nadir of the crisis may be behind us, insurance organisations around the world are coping with continued economic turmoil. High levels of unemployment, sluggish corporate performance, political instability and other challenges vex insurers in all sectors of our industry. While these issues demand the attention of insurance professionals on a day-to-day basis, it is valuable to pause and take part in this IIS seminar, to share ideas and facilitate international understanding through our network of members. This, indeed, is the primary mission of the IIS.

This year's seminar features a rich blend of hot current topics and areas of perennial concern. Monitoring developments in insurance regulation is a vital activity for our members, and reflecting this keen interest we will present two panel discussions on different aspects of the subject this year. We will also offer a panel of experts on the impact of climate change on the insurance industry, in terms of both challenges and opportunities. A special address will be given on the problems and potential solutions presented by recent universal healthcare legislation.

These presentations will be complemented by prominent leaders and opinion makers speaking about how the global insurance industry can best address the needs of stakeholders and our society at large. The industry can be proud of how it navigated the financial crisis, and here in Madrid, its policymakers will exchange ideas on how to better help individuals and organisations manage risks and assets.

The unique harmony of the IIS seminar delegation – developed and developing countries, life and non-life insurers, academics, regulators, associations and advisors from over 50 countries – promises stimulating discussions, and much food for thought when we close our proceedings on Wednesday. Thank you for coming and for sharing your insights with us.

Mr Michael J Morrissey
President and CEO,
International Insurance Society Inc

The crisis helped them flourish

The lucky ones

While industries from banks to airlines and tourism reeled as they took a hit from the recent financial debacle, certain sectors reaped some boon from the crisis. Discount retailers, IT sectors and auto and home repairs among others found blessings in the turmoil. Even former Wall Street insiders earned bucks turning the district into a tourist spot.

Cleaning the mess

When Wall Street got into a mess during the recent financial crisis, opportunities opened up for some IT sectors to help in the cleanup. IT businesses in such areas as e-discovery, enterprise risk management, archiving and secure file transfers became recipients of the turmoil's boon. Digital research, for one, played an important role in governments' quest to find out what went wrong and who was responsible for financial companies' collapse, reviving interest in softwares like e-discovery, say IT analysts.

From Wall Street insiders to tourist guides

Call it downgrading but tough times call for tough adjustments. And adjust was what some Wall Street insiders did to survive the crumbling of the wall at the last financial crisis. After losing their jobs, they found themselves still working in the financial district but no longer as bankers or traders but as "financial crisis tour guides".

They took advantage of being insiders who traded much-blamed financial instruments and made bucks explaining to tourists the shadow banking system and showing them the battlefields of the crisis – with stops outside the AIG headquarters and the New York Federal Reserve.

Surely they made much less than what they used to earn as traders or bankers, but still they turned the tables to their advantage.

Looking for bargains

People want value for their money when times are tough, and they turn to places that offer more for less. This explains why bad times are good times for discount retailers like Wal-Mart.

With cost-conscious people ditching higher-quality for value-for-money goods, these retailers used economies of scale to offer inexpensive products and take advantage of the recession. Wal-Mart, for instance, reported a 5% gain in US same-store sales in February 2009 as cash-strapped Americans grabbed bargains at its stores. In the third quarter of 2008, its earnings rose 9.8% and sales jumped 7.5%.

Similarly, supermarkets gained from the crisis as consumers cut down on eating out and looked to save money by eating at home more, favouring grocery shops.

Going for repairs

Likewise many consumers put in more money to maintaining their homes and cars than making major purchases. Sales of auto repair shops in the US, for example, grew 2.4% over the last 12 months from May 2009, according to Sageworks. Revenue for electricians, plumbing and heating contractors also rose as part of this trend.

Flashback on Past IIS Events

2009 Jordan

Taiwan 2008

2007 Berlin

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Published by: Asia Insurance Review www.asiainsurancereview.com

Media Partner: Middle East Insurance Review incorporating Global Takaful www.meinsurancereview.com

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