

The State of the Industry

This year the International Insurance Society Inc (IIS) will host its annual meeting in Taipei from 13-16 July. Once again, the programme will include senior executives representing all sectors of the industry and regions of the world. In this first of a three-part curtain raiser to the conference, **Mr Patrick W Kenny**, President and CEO of IIS, presents a sneak peek on what is new on the agenda for this year's gathering, while assuring faithful attendees of the regular staple of incisive dialogue and discussion of the major issues, obstacles and concerns presently facing the industry.

While the IIS meeting draws attendance from around the globe and all sectors of the industry, the issues are remarkably consistent and relevant to both regional and multinational organisations. These issues, such as growth, regulation and distribution, are germane to both regionals and multinationals, albeit with varied dynamics, idiosyncrasies, and solutions. So while a regional operation may face the challenge of cultivating homegrown talent, they can hear about solutions instituted by multinational operators entering competitive foreign markets. Therefore, while regional companies may not have a "global focus", they are ultimately competing with multinationals and can benefit from exposure to the resolutions adopted by multinational operations.

Executive Panel of World Leaders

In addition to the aforementioned topics which will be discussed in Taipei, a highlight of the meeting is the Executive Panel of World Leaders wherein the discussion is based on the "agenda" of each speaker. We invite these insurance leaders, representing varied regions, to provide a "state of the industry" address from their perspective. Predictably, there is no exclusive focus on the insurance industry, there is also a concentration on the larger picture, issues effecting various business sectors and economies worldwide - issues such as elections, trade agreements, political strife, environmental concerns, production and pricing of natural resources and, of course, the stockmarket.

Elections, Subprime Woes and Hot Issues Affecting the Industry

While countries like the US, Taiwan, Malaysia and others are in the midst of government elections even as the subprime crisis dominates the media, these and similar issues permeate discussions in financial industry boardrooms across the globe as their impact radiates through worldwide economies. Case in point: While many countries have averted the US subprime crisis directly through different lending practices in the mortgage industry or a general wariness of such credits, other economies are impacted through the acquisition of mortgage-backed securities. These securities are the phenomenon of the subprime lenders' effort to increase their capacity by bundling blocks of mortgages to be sold as mortgage-backed securities.

Many of these securities are sold in tranches or layers with lower levels offering higher yields and less collateral coverage, and higher tranches providing more collateral coverage

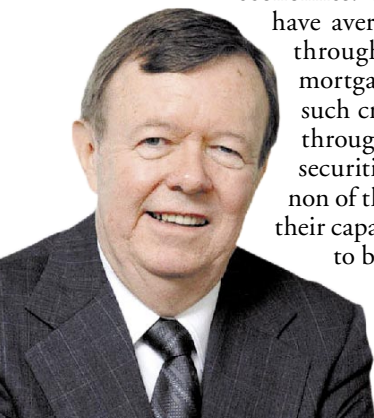
with a lower yield. It is here where mono-line insurers enter the picture with financial guarantees or "wraps" to increase the financial attractiveness of these securities. And it is this activity that is receiving the attention of the markets for two reasons. The first relates to the losses in the mortgage market through foreclosures which are causing economic loss to lenders and consequently to the lower levels of the "wrapped" securities. These are real economic losses and likely will not be recovered.

The second area, and the issue getting the most media attention, involves the "mark to market" accounting for mortgage-backed securities. The difficulty in actually determining a market is exceeded only by the difficulty of explaining to the general public and the financial community that these losses are accounting losses, rather than "economic" losses. Many a CEO and CFO will spend hours in meetings with investors and rating agencies trying to frame this issue. The difficulty is heightened by the significant illiquidity issues in the bond and credit markets which, in addition to contributing to the issue, are also giving central bankers a lot of heartburn.

Undoubtedly, these issues are under speculation by insurance leaders and are likely to encroach upon the discussions at the IIS meeting in Taipei.

Good Year for Non-life

Notwithstanding the subprime debacle and some hesitation in global equity markets, 2007 was a good year for the industry. Due to fewer natural disasters the non-life industry had a particularly profitable year. And while rates were declining in some property and liability lines, the combined ratio was favourable. Likewise, in spite of financial markets causing concern in both the unit-linked or variable products as well as difficulty in the guarantee product area, the life market fared well. And although faced with declining premiums due to ceding companies increasing their retentions, the reinsurance market resulted in a flat year. While these are gross oversimplifications, they present a reasonable assessment of the industry today. However, since the insurance industry is entwined in the financial markets and economic infrastructure of all global markets, we are largely impacted by any and all economic and political events. So while the Executive Panel at the Taipei meeting will feature representation from emerging and mature markets whose businesses, in all cases, extend beyond their borders, as well as our Chairman who represents the largest broker worldwide, we can expect to hear very interesting perspectives. In particular, the current environment and the major challenges that lie ahead for the insurance industry, and the larger impact on global financial markets as well. **A**



Mr Patrick W Kenny