

## London Welcomes International Insurance Society's 40th Annual Meeting

By: Charles E. Boyle

The International Insurance Society's 40<sup>th</sup> annual conference opened in London with a reception on July 11 and concluded on July 14 with a final gathering at Swiss Re's imposing new headquarters. The building, at 30 St. Mary Axe, a stone's throw from Lloyd's on Lime Street, has been dubbed "The Gherkin" [pickle] by local residents due to its highly unusual oval shape sheathed in some 6000 panels of glass.

The three-day meeting featured presentations and panel discussions from industry leaders. Patrick Kenny, I.I.S. president and CEO, and Douglas Leatherdale, I.I.S. Board Chairman, welcomed delegates at Monday's opening ceremony. After remarks from Lloyd's Chairman, Lord Peter Levene, Alderman Robert Finch, Lord Mayor of London, gave the keynote speech and welcomed the I.I.S. to his city.

The Society has been bringing world insurance leaders together for 40 years, and offers a unique perspective on the current state of the industry, its problems, challenges and possible solutions. 40 years may not sound like much, but the changes that have overtaken the industry, and London, have been immense. Gone are the suits and bowler hats. In their place are baggy sweatpants and sneakers for both sexes. Young and not so young women wear the pants at a level that would have easily gotten them arrested for indecent exposure 40 years ago. True the insurance people still wear suits, at least indoors.

This year's conference focused on "Benchmarks of Success," i.e. how do companies know how they're doing; how do they measure their success; how do they spot problems; and eventually what should they be doing to correct them. Contrary to last year's gathering in New York, where such issues as terrorism and the steep fall in equity markets topped the industry's list of concerns, this year was more upbeat. An electronic survey, conducted by Gregory A. Maciag, the genial head of ACORD, found the current number one concern to be how to take advantage of new markets and exploit new opportunities. The respondents were also occupied with "keeping and building organizational talent," and of course how to maintain competitive pricing in the face of a softening market.

The turn of the cycle was a leitmotif that ran through most of the conference. "Three years of good results is not enough to overcome 20 years of underwriting losses," Levene said. He noted that the U.S. insurance industry had lost around \$400 billion over that period, and could not continue to do so. More than one speaker echoed that theme during the conference, stressing that the ultimate "benchmark" is profitability.

The opening panel discussion, moderated by Leatherdale, featured XL's president and CEO Brian O'Hara, Swiss Re's CEO John Coomber and Tomijiro Morita, Chairman of Dai-ichi Mutual Life, one of Japan's most successful life insurers. O'Hara focused on the need to create and maintain a strong and disciplined corporate culture, calling it the "critical success factor of a company that cannot be emulated by your competitors." Discipline is uppermost, he continued, and "it begins at the top." It also extends down to pricing risks. "When market rates are below an accepted rate of return – it may be unpleasant, it may affect the share price – but you have to cut back," O'Hara said.

Coomber pointed out that "underwriting performance is the key to success." He also compared the insurance industry's performance with the banking sector, noting that while bankers had moved some \$2.5 trillion worth of risk into the capital markets, insurers had placed only around \$2.5 billion there, mainly in alternative risk transfers. Global capital markets total, around \$6.5 trillion, and Coomber's clear suggestion was that the industry hasn't taken advantage of this in managing its risks.

But the four participants in a press conference held on Tuesday – Gordon Stewart, head of the Insurance Information Institute, Lord Levene, Dominic D'Alessandro, President and CEO of Manulife and Tony Medniuk, Group CEO of the U.K.'s Global Aerospace Underwriting Managers and Chairman of the International Underwriting Association (IUA) - thought the suggestion impractical. Simply put, they concurred that banks aren't willing to accept the risk levels insurers do, and therefore transferring risk to the capital markets won't happen on any large scale.

The Monday afternoon session answered the rhetorical question "Who's running this industry anyway?" with a whole-hearted endorsement of the current management system. Neither the regulators, nor the rating agencies claimed more than an oversight role in its governance. Following the conference's "benchmark" theme, however, most of the speakers agreed that both regulators and rating agencies play a necessary, even vital, role in enforcing guidelines, standards and discipline.

AEGON's CEO Don Shepard, one of a growing number of American's who now head big European companies, noted the particular difficulties in the U.S. "With 50 different states it's very cumbersome. It takes 18 month to begin marketing a new product." He's in favor of an optional federal charter for insurers, which he said would save millions in costs and would ameliorate the "redundancy of having to submit to regulators oversight 50 times."

Other panel discussions included an examination of how to manage mergers and acquisitions, how to measure and evaluate risks, both in managing corporate capital and in underwriting, and how to protect and invest that capital. Benfield's CEO Grahame Chilton noted that when the cycle becomes soft you begin to see what he termed "reruns," as in "refocusing, restricting and returning to basics," as companies become more cautious. He also noted the dangers inherent in acquisitions. He cited several examples of deals that eventually cost the acquiring company a lot of money.

Robert Stein, Chairman of Global Financial Services at Ernst & Young, stressed the importance of keeping track of capital deployment, and measuring what a company's return on that capital actually is. "You have to know what creates value and what destroys value," he said. This in turn allows a company "to be proactive and not just react [to market conditions]." The goal, Stein said, "is to know where best to invest your capital so you can set prices [at a proper level], yet remain competitive and profitable."

Many panels discussed the impact of the new Financial Services Authority Regulations in the U.K. and the Sarbanes-Oxley law in the U.S. The non-Americans being generally of the opinion that the type of compliance demanded by SOX is onerous, costly and will not ultimately be as effective in monitoring companies activities and balance sheets as the "principles-based" rules of the type the FSA has established. They did concur, however, that increased oversight will most likely benefit well run companies, and will probably spur further consolidation. The caveat, as Chilton pointed out, is that better run companies are more successful because they keep away from areas that are high risk. NOT acquiring businesses that are in trouble is a prime example.

It will be interesting to see what the CEO's think of the results of the new regulations and the softening of the market at next year's I.I.S. meeting, which is scheduled to be held in Hong Kong, July 10-11, 2005.