

Reactions

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REINSURERS WILL BE MORE CAUTIOUS WITH ACQUISITIONS

Reinsurers will show restraint

At this stage in its cycle, when rates in some lines of business are starting to soften, the reinsurance industry has traditionally gone through a period of consolidation, Grahame Chilton, chief executive officer of reinsurance broker Benfield, told International Insurance Society delegates yesterday. He expects to see the same thing to start to occur this time around but he believes companies will be more cautious than they have been in the past.

"It is quite typical that, as rates soften, you will start to see mergers and acquisitions," Chilton told the *IIS Reporter*. "And if the banks have their way you will start to see the same thing again. However, it might be different this time. People are showing a much greater attention to detail. In many recent deals, companies have only bought renewal rights. Also, some companies, such as Montpelier Re and Endurance, have showed that they are prepared to return money to shareholders."

He thinks the reinsurance industry's priorities have changed. Whereas it used to be very focused on growth, it increasingly regards yield as more important. It also now uses a far more technical approach to the way it prices and reserves for business. "Different dynamics are at play and they will influence the process," he says. He believes that this will have an effect on the nature of consolidation that takes place in the industry and the extent to which rates drop in this cycle. "The more analytical approach being used should redefine the nature of the cycle," he says.



Grahame Chilton

Chilton says that Benfield has noted that rates are softening in some lines of business. But he believes evidence that the market will respond in a different way this time can already be seen. He says that where rates on large placements of Japanese property business have softened, for example, reinsurers have either pulled out of the treaty or have taken a smaller line. "This is a very healthy sign," he says. "Where rates have dropped, you can see the market adjusting its support for placements. In previous cycles, the capacity has still been there even when rates have softened."

He believes that rates will soften to a greater extent on the primary side of the business. And this will mean two things. The more disciplined approach the reinsurance industry is taking will lead to insurance margins being

squeezed. But it may also prevent pricing on the primary side softening too much. "It could halt rates softening," says Chilton.

He explains that there is more tension over price on the primary side. Insurers are under more pressure to write business and maintain market share. In comparison, reinsurers are now using far more technical and quantitative analysis to determine what business they write and at what price. "Reinsurance is a more technical market and pricing will hold better," says Chilton.

And he expects this will play a big role in the year-end renewals, potentially making them easier than expected. "Many people think there will be a lot of tension over price at the end of this year but I don't think it will be that severe."

This more focused approach by the reinsurance industry will also restrain, to a certain extent, its appetite for acquisitions. While he acknowledges that some mergers can work, there are many examples where they have not. He says it is crucial that companies thoroughly assess a target company's culture to ensure it is compatible with its own. And they should also conduct very thorough due diligence.

"If you put two suitable and compatible companies together it is possible and even easy to achieve good, healthy growth," he says. But he adds that if they have different cultures it can be difficult to make it work. "Pulling two companies together can cost a lot of money," he says. "But separating them again can cost even more."

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INSURERS' RESOLVE WILL BE TESTED WHEN COMPETITION RETURNS

Poor ROE should serve as wake-up call

The principle of maintaining underwriting discipline is easy to advocate when the market is hard, but the real test of insurers' principles will start when competition returns, says Mogens Skov, president and chief executive of Danish property/casualty mutual Købstædernes Forsikring.

"It was a wake-up call for me on Monday when John Coomber [chief executive of Swiss Re] showed those ROE [return on equity] graphs in his presentation. It was clear that the industry is not doing so well," he says.

Coomber showed graphs that compared the industry's ROE average over the past 10 years with that of the banking industry. The ROE of the property/casualty and life

markets was 8.5% and 13% respectively. The banking industry delivered a 15% ROE average over the same period. "That for me was a real kick on the behind," says Skov.

However, he says competition can become so harsh at times in many markets that profitability through sound underwriting can quickly be forgotten. In Denmark, for example, the market is mature and small, and there are many insurance companies competing, he says.

"There are too many willing insurers in Denmark and too few insureds," he explains. "Denmark is a mature market. How many foreign companies set up in Denmark and then subsequently closed their offices because they were not making money? There is

Allianz, Zurich, and more recently Royal & SunAlliance, for example."

He says that in such competitive circumstances, many players will not practise what they preach. "All the managers say: 'We stick to specific guidelines.' But we know that is not the case in the long run. If the guy next door is offering the same product at a cheaper price, you start losing clients."

The pressure from intermediaries does not help either, says Skov. "When the Danish companies tried to get higher prices for certain risks, the brokers threatened to take the business to foreign companies, which they did. But they quickly came back because the foreign companies charged even higher rates."



Mogens Skov

THE INDUSTRY IS IN A POSITION TO RESTRUCTURE

Reinsurers are holding firm on price

Reinsurers received praise from reinsurance broker Benfield's chief executive, Grahame Chilton, yesterday when he was asked at an International Insurance Society panel discussion about the softening of rates in some lines of business. "The reinsurance market has, for a change, held firm," Chilton said.

He told the gathering of delegates that there has been a mild softening of rates, but reinsurers seem to understand the necessity of returning capital to their shareholders. "If anything, the reinsurance market should help hold up the market. It is important for clients to have a stable

reinsurance market rather than these perpetual price swings," he added.

The panel comprised Chilton, David Prosser, group chief executive of Legal & General, and Chris Giles, president and chief executive of Chubb Europe, who also chaired the meeting.

"The industry is in a position to restructure," Giles from Chubb commented. The theme of the talk was about expansion and consolidation strategies.

Many believe that, with so many well-capitalised companies around, the reinsurance industry will see an increasing amount of

consolidation as rates soften. Many companies have already expanded into new markets geographically.

Both Prosser and Chilton agreed that local knowledge is the most valuable asset a reinsurer needs when expanding into new territories, whether they do this by setting up new operations or through acquisitions.

Prosser emphasised the value of market knowledge by illustrating that markets in different territories can vary widely. "We have operations in France, Holland, the US and Egypt," said Prosser. "Egypt is a predominantly bancassurance market. The

US is a specialist broker, one-product market. In France, we work with a tight sales force, whereas in Holland we work through brokers, who are not always independent, but 100%-owned by our competitors. So it is difficult to just replicate a model. You have got to be pretty sure about moving into another territory."

He told delegates that his experience has taught him to choose a flat learning curve by carefully studying a market for two to three years before spending any money in it. "It is easy to go for a steep J-curve and not come out on the other side at all," he warned.

Striking the right balance on capital

Hitesh Patel, Partner, KPMG LLP (UK), Head of KPMG's UK Insurance Markets

Falling stock markets, low interest rates and a series of new risks and losses have all taken their toll on insurance company balance sheets, leeching value out of assets as liabilities have increased. Some of the world's major insurers have seen their ratings slashed while the pool of capital available to meet future contingencies steadily drains. In the battle to stem the tide of red ink and rebuild confidence, capital evaluation and risk management have reached the top of the management agenda.

Increasing pressure to get it right
Regulators around the world are increasingly focusing on capital.

In Asia Pacific, regulators are under intense pressure to establish a new capital framework for their insurance industries, to properly reflect the increased volatility of asset risk and diversity in liability risk.

Hong Kong is in the process of establishing a dynamic solvency testing requirement to assess the capital adequacy under different scenarios. Japan has started reviewing their existing capital adequacy requirements.

In Australia, a risk based capital framework has applied to life insurance for a number of years. Even so, this is under review with focus on credit risk provisions and considering IFRS and Basel II ramifications.

In North America, declines in interest rates and equity market levels have exposed the growing risks associated with guarantees of policy benefits. Supervisors are responding by requiring Monte Carlo modeling of portfolios as the

basis for establishing provisions and risk-related capital assessments.

In Europe, Solvency II - the European Commission's fundamental review of the industry's regulatory capital regime - aims to establish a solvency system better matched to the true risks of insurers. The UK's Financial Services Authority is running ahead of many European countries and has already introduced new capital assessment practices and regulation. Many UK companies are finding it a struggle to produce their own calculations of how much capital is required. Failure to satisfy regulators that risks are being properly addressed could mean the imposition of additional capital requirements.

The industry also needs to respond to changing disclosure requirements under the new International Financial Reporting Standards. This will mean that, for the first time, all organizations will have to disclose their capital requirements. It will be vitally important to have a clear strategy on disclosure, which explains their position to all stakeholders.

Balancing the demands

Getting capital resources right involves a tricky balancing act. Today's insurance operators want to run a lean operation, which provides value for their shareholders. But they also have to maintain high enough levels of capital to provide security to policyholders, satisfy rating agencies and meet the increasingly tough regulatory requirements.

In the past, the tendency

was to allocate the minimum capital necessary to satisfy the regulator. The increased regulatory pressure is spurring organizations to develop new best practices. In the last three to five years, there has been a move towards dynamic financial modeling. Looking at patterns in the business and identifying areas that contribute to value provides a more solid and sophisticated basis for decision making on capital allocation.

Financial modeling provides flexibility

However, despite the fact that most financial institutions now run models for most risk categories, many continue to wrestle with this new way of managing business. Trying to produce a capital adequacy model, which accurately delineates a business raises a number of problems, for example, where operational risk is concerned.

It is recognized that no model can ever reflect precise reality, but some organizations are producing increasingly complex models in an attempt to do just that. This is good, in the sense that it builds up a sophisticated picture of the business and gives insurers a way to attain varied capital adequacy figures by deploying different models. However, over-engineering can be counterproductive: it is vital that the models themselves and the results they produce are easily understood by boards and stakeholders and provide a clear rationale on capital which regulators can grasp.

It is also vital that the models that are developed are used in the business and are well embedded in the way

management looks at risk, sets risk appetite etc. Data is also critical - the model output can only be as good as the data driving the model. ■

The fundamental questions

Insurers are now taking a much more sophisticated approach to determining how much capital they need to run an efficient business. But no matter how complex the model, the starting point is to answer some key questions:

- Have we defined our risk appetite? Do we review the implications of our risk strategy for capital regularly?
- Do we have the right information on all our risks? Is it collected systematically and geared to assessing our exposure and capital requirements?
- Do our senior management and board understand the assumptions on which our models are based?
- Will stakeholders and regulators understand the models and the results they produce?

KPMG is the global network of professional services firms who provide audit, tax and advisory services. KPMG LLP operates from 22 offices across the UK with 9,000 partners and staff. KPMG recorded a UK fee income of £1,008 million in the year ended September 2003. KPMG LLP, a UK limited liability partnership, is the UK member firm of KPMG International, a Swiss cooperative.

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REGULATORY LANDSCAPE IS GETTING INCREASINGLY COMPLEX

Insurers must have say in regulations

The insurance industry needs to get its act together and coordinate its efforts in lobbying regulators to ensure its voice is heard, says Daniel Schanté, director general of the Comité Européen des Assurances (CEA), the insurance trade body that all of Europe's insurance associations belong to.

"These issues have a real impact on insurers' businesses," he says. "They affect the main value drivers of insurers such as their cost of capital, their product strategy, their premium income and their return on investment. The stakes are very high."

He says the complexity of regulation in Europe has reached an unprecedented level



Daniel Schanté

in terms of the number of different regulatory bodies and institutions that influence the way insurers in the region are regulated. It is the job of the CEA to monitor all developments and attempt to influence and bring clarification to regulatory initiatives.

Schanté says staying on top of things when so many different

initiatives are being discussed by so many different organisations is a tough job. But he believes it is in the industry's interests to be proactive in ensuring it is at the forefront of any new developments especially as an increasing number of insurers operate in many different parts of the world.

"There are more and more multinational insurers operating and many of them have interests in Europe. They would like to see a convergence of regulation globally. But to achieve that, the industry must be proactive, monitor every evaluation of regulation and influence developments where possible."

He adds that this is also a particularly difficult time for

the industry to stay on top of regulation in the European Union. There are a number of important directives being discussed at the moment such as Solvency II, international accounting standards and a new reinsurance directive.

"We have to harness our efforts to influence regulators more," he says. "The lobbying landscape is very complex at the moment but we have no choice – this is something we must organise. We must make our voice heard."

And he believes the best way many companies can do that is by improving their relations with their trade associations. "They should keep in touch and help us more. That would reinforce our efforts."

CONSOLIDATION WILL CONTINUE BETWEEN INSURERS

Opportunistic acquisitions are the best

Consolidation in the insurance industry will continue as multinational insurers continue to realign their operations by selling off subsidiaries in countries where they do not have a sizable market share, says Victor Apps, vice-president and general manager of Manulife Financial's Asian operations. He believes there are enough small insurers or unwanted units of larger companies around to continue to drive consolidation for several years.

"I believe the consolidation we are seeing will continue," he says. "There are far more insurers around than the world needs. Insurers require a substantial infrastructure to

operate efficiently – there is no such thing as a good, small insurance company. It is all about economies of scale."

He believes that most acquisitions will be small, targeted deals where a big organisation will buy specific units or books of business that are unwanted by other firms. "If they are not significant to the parent, many smaller units will be sold off," he says. But he adds that larger acquisitions should not be ruled out, as his own company Manulife proved when it completed its merger with John Hancock in April this year.

He says that an acquisition strategy should be opportunistic rather than strategic and pre-planned. A



Victor Apps

company needs to be able to take advantage of good opportunities when they arise and if they are at the right price, he says. "Companies often experience problems when they plan to enter a particular market and then look for an acquisition there – that can be dangerous," says Apps.

The deal between Manulife

and John Hancock is a good example of this, says Apps. "Manulife's approach to acquisitions has always been very disciplined," says Apps. "It has looked at a number of opportunities in the past and backed off. But the cultures fitted very well in this case. It has added a lot of scope to the company."

Apps says that the two companies' Asian operations fitted together very well. "We were bigger in Asia but they had some good operations in the region," he says.

The International Insurance Society's annual meeting is being held in Hong Kong next year. Apps is chairman of the board of governors for that seminar.

Will Your Transactions And/Or Conduct Stand Up To FSA Scrutiny?

By Douglas Howie

The Financial Services Authority ("FSA") regulates the activities of most financial services companies in the UK, including insurers, and also has to approve persons as fit and proper to hold senior management positions in the companies it regulates. It has extensive disciplinary powers over those it regulates, including the withdrawal of the authorisation a company may need to stay in business or the approval an individual may need to stay in their job or the imposition of substantial fines.

The FSA has devoted substantial resources to enforcement. If enforcement proceedings are taken against individuals, those concerned often will feel unable to contest the proceedings effectively because they do not have the resources to finance a defence through to the conclusion of the FSA's investigations. If an adverse decision is reached full details of the conduct complained of, and of the FSA's conclusions, are published on the FSA's website and therefore available for any prospective employer or others such as journalists, friends and colleagues to see.

As general principles an approved person must act with integrity; with due skill, care and diligence; observe proper standards of market conduct; and deal with the FSA and other regulators in an open and co-operative way and disclose appropriately any information of which the FSA would reasonably expect notice.

The Chiyoda Case

In *Yoshiaki Yamazaki and five others* the FSA has issued six prohibition orders. They are indefinite, but the individuals can seek to have them revoked in the future. Three of the individuals concerned are prohibited



Douglas Howie

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from performing any function in relation to any regulated activity carried on by any authorised person. The other three are merely prohibited from performing any function involving the exercise of management authority over any other person in relation to any such activity. The orders extend to any regulated business, so they extend to any other organisation regulated by the FSA such as a bank, friendly society, credit union, insurance intermediary, mortgage lender or mortgage adviser.

The *Yamazaki* case related to Chiyoda Fire & Marine Insurance (Europe) Ltd ("CE"). CE was authorised as an insurance company in the UK. In 1999 CE was making significant losses. In an attempt to improve CE's results for the 1999 year, CE entered into arrangements which were structured as reinsurance contracts (allowing the amounts received to be treated in CE's accounts as revenue thus reducing its losses for the year substantially) when the substance of the arrangements were held by the FSA, in reality, to have been a loan. The directors concerned had concealed the fact that these contracts were in substance loan arrangements, both from their auditors and in accounting returns made to the FSA, in the knowledge that the auditors would not have approved them had they known. The FSA concluded that this conduct demonstrated a fundamental lack of honesty and integrity, thus justifying the prohibition orders.

Following the *Chiyoda* case there has been another FSA decision, involving *Christopher Headdon*, a former director of Equitable Life, which has received wide publicity but is a much less detailed decision than the *Yamazaki* case.

Lessons From The Cases

- don't backdate documents or do anything else to mislead the FSA as to the sequence of events;
- don't only give half the story to the FSA – give them all material facts and documents to give them the full picture of what is going on;
- don't document transactions whose substance takes one form, with documents whose form is very different;
- address problems, don't sweep them under the carpet;
- consider whether the facts of a situation give rise to a need to initiate contact with the FSA eg because the position or prospects of the company may be different to that the FSA is likely to expect or a rule breach is detected;
- if you are invited to be a counterparty to an unusual transaction consider whether you should be entering into it – otherwise you may be subject to disciplinary proceedings by the FSA or (if the FSA has no jurisdiction over you) the subject of adverse publicity. If the FSA is of the opinion that any decision relates to matters which are prejudicial to a third party, they give that third party an opportunity to comment on the draft decision ("a warning notice"), which, when published, will refer to that third party as having been sent a copy of that warning notice for that reason. ■



CAPITAL ADEQUACY ONLY ONE PART OF RATINGS

S&P hits back at misconceptions

Rating agency Standard & Poor's (S&P) has responded to what it sees as a misunderstanding of its ratings by the reinsurance industry. It believes the industry focuses too much on the capital adequacy element of a rating when it is only a part of the overall rating process.

S&P issued a press release today (Wednesday) in response to comments made by PartnerRe chief executive, Patrick Thiele, in the July 12 (Monday) issue of the *IIS Reporter*. Thiele criticised rating agencies' methods of analysing capital adequacy.

But S&P has hit back, saying in the press release that

the industry places too much emphasis on the capital adequacy part of a rating. Capital adequacy is just one thing S&P considers when it assesses reinsurers' levels of capitalisation.

But capitalisation is only one of eight categories of analysis used by S&P when assessing companies. The other seven categories are industry risk, management and strategy, competitive position, operating performance, investments, liquidity, and financial flexibility.

"The impression that was given [by Thiele's comments] was that ratings were driven by the capital adequacy ratio,"

Simon Marshall, credit analyst at S&P, told the *IIS Reporter*. "For some time now, we have been saying that this is not the case. The capital adequacy ratio is only a part of one of the eight categories of analysis used in the assessment of financial strength."

For example, Marshall says that when S&P cut many reinsurers' ratings in the run-up to the Monte Carlo Rendez-Vous last September, it was S&P's view of the operating performance of the industry that was driving the downgrades, not the level of capitalisation.

Thiele said that companies' capital management has

improved much faster than rating agencies' capital adequacy tools have. But Marshall says it is unfair to place so much emphasis on the capital adequacy models.

"One reason we have issued this statement is that, even if that were the case, there are so many other moving parts that it is false to focus only on that," he says.

And Marshall says it is not possible for the agency to use reinsurers' own models of capital adequacy. He says each company has its own model, and it is necessary for S&P to have one model for capital adequacy to give consistency in ratings.

MOST PRESSING INDUSTRY ISSUE IS IDENTIFYING GROWTH

Insurers look to the future

The future is bright. That is what Andy Giffen, principal at Tillinghast-Towers Perrin, concludes from the executive survey his firm conducted on behalf of the International

Insurance Society (IIS). "It is fascinating to see the evolution of pressing issues for the industry," he says. In 2000, the most pressing matter for insurance executives was technology. Then it

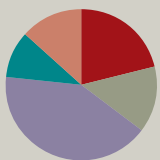
evolved to become Sarbanes-Oxley and terrorism risks, according to the survey.

"The most pressing issue for 2004 from these industry leaders is identifying emerging market

opportunities, which means the industry is looking to the future for a change," says Giffen.

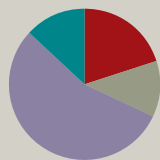
The IIS conducts the survey annually to determine the talking points for the next IIS meeting.

Your most pressing financial issue is?



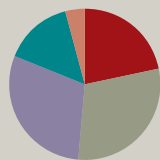
- 21% Managing risk
- 14% Measuring and reporting financial results
- 41% Maintaining competitive pricing with adequate profitability
- 10% Meeting regulatory requirements
- 13% Capital management/allocation

Your most pressing growth issue is?



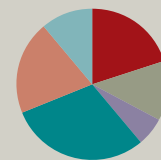
- 20% Recovery from adverse conditions
- 12% Merging or acquiring for needed growth
- 55% Taking advantage of new market opportunities
- 13% Industry consolidation

Your most pressing operational issue is?



- 22% Meeting customer demands
- 30% Keeping and building organisational talent
- 30% Productivity, efficiency, expense controls
- 15% Distribution efficiency/effectiveness
- 4% Leveraging technology/web services/Internet

Your most pressing overall issue is?



- 20% Managing risk
- 13% Maintaining competitive pricing
- 6% Recovery from adverse conditions
- 30% Taking advantage of new opportunities
- 20% Keeping and building organisational talent
- 11% Productivity, efficiency, expense controls

NEW BERMUDIANS MAY LOOK FOR NEW STAFF

A war for talent to start on Bermuda

A company is only as good as its people. But some companies may not be paying as much attention to their staff as they do to other parts of their operations.

Matthew Andrews, senior client partner at executive search firm Korn/Ferry International, says employing



Brooks Chamberlin

“What separates the great companies from the good companies is the people. You can buy the models but if you don’t have the right people then you won’t do well. This is just starting to dawn on companies. There is a war for talent.”

Brooks Chamberlin

the right staff is vital to a company’s success. He says companies often do not give this as much attention as it deserves.

“Cliché number one in the insurance industry is that it is a people business. But how many companies know how many

talented people there are on each level of the business? How do they identify who are going to be the stars of the future?”

“The problem with the industry is not a shortage of financial capital, it is a shortage of human capital. It is a lot easier to get the money to write the business than the right people.”

Insurers are getting better at assessing the talent in the industry, however. Some companies are taking a closer look at their staff. Andrews says Korn/Ferry has seen increased demand for detailed assessments of companies’ employees.

But this not only involves looking at what a company’s own employees contribute to the company but also how they compare with the staff of competitors. This includes looking at other firms’ employees’ backgrounds, what their strengths and weaknesses are and whether they potentially could be recruited.

Brooks Chamberlin, managing director for the insurance practice at Korn/Ferry, says companies are starting to appreciate the importance of a good team to performance a lot more.

“Companies are becoming much more introspective,” says Chamberlin. “This is generally a result of the poor property/casualty results in the late 1990s. They really don’t want a repeat of that. And it has been compounded by changes on the regulatory side and corporate governance.

“There is a lot more emphasis on human capital management. It is human

capital that drives the business. You don’t just need \$750m or \$1bn to start a new business, you need human capital.”

Chamberlin says this will soon be seen in the companies set up on Bermuda after September 11. All of these companies have managed to post impressive growth since



Matthew Andrews

they were set up because of the good pricing conditions.

But Chamberlin predicts the performance of these companies will soon be diverging. He says the quality of their staff will be an important determinant of which companies emerge as winners.

“The senior people who set up the businesses on Bermuda are starting to retire,” says Chamberlin. “The question is: do they have the right people to take them forward? And are the second- and third-tier people the right people? They are now in a period of longer-term settling in and growth. We are going to see some separation among the pack.”

Andrews says the companies were set up very quickly after

September 11. Because of this, posts were filled by people well known to the capital providers. A number of the chief executives of the new companies came out of retirement to set up the companies. Andrews says these companies will now have to assess their strategies and what talent is available to them.

“From a search consultant point of view, we didn’t see that much business when the companies were set up,” says Andrews. “It was more a case of: ‘Who do we know?’ These businesses were set up very quickly and very successfully. But now they are assessing what their cultures look like, what the succession plan is and so on.”

The talent pool available to these companies is very small, says Andrews. But joining a relatively young company may appeal to the brightest talents in the industry. He says an employee may be able to show more entrepreneurial ability at a newer company. They could feel they are being held back at a more established company with traditional ways of doing business.

But it is not only the new Bermudians that may be looking for new talent. Chamberlin says the industry in general is becoming more concerned about recruiting the best people.

“What separates the great companies from the good companies is the people,” says Chamberlin. “You can buy the models but if you don’t have the right people then you won’t do well. This is just starting to dawn on companies. There is a war for talent.”

GLOBAL COMPANIES TO MANAGE COMPLIANCE RULES AT LOCAL LEVEL

Zurich cracks compliance

For a global company to adhere to solvency and compliance regulations across many different territories is like solving a Rubric's Cube, says Wayne Fisher, chief risk officer of Swiss financial services group Zurich Financial Services.

"Some countries' solvency tests are principles based, and some are rules based," he explains. "But the way we solve it is by working on our own risk-capital principle that we view as adequate for the group."

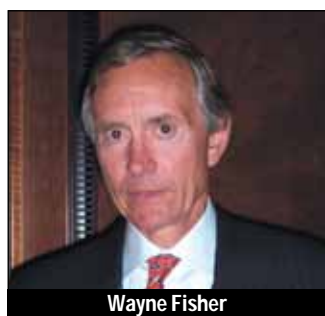
He says Zurich uses common elements from these different regulatory regimes, but combines them with its own approach. "We ensure that we are globally compliant with these regulations. You have to remember that complying with local regulations is only one element of the company's overall compliance plan."

He explains that Zurich is in the process of formulating a mandate for the entire group that will outline what best practice should be across a number of areas. The company wants to make compliance for its subsidiaries in different countries an easier task. "We are embarking on a major activity within the company, which we call The Zurich Way. It will agree on best practices for underwriting, financing and distribution of management. then take these best practices and implement them across the organisation," he says.

Fisher is confident that his company is compliant with all the processes and regulations in the different jurisdictions it operates in. "We have risk

management processes in place to ensure that we are in compliance with international risk rules and local laws. You can't do that from a central point in an organisation. It has to be done in the local jurisdictions."

Corporate governance is taking up an increasing amount of management time. But Fisher believes this should not result in companies being



Wayne Fisher

overwhelmed with red tape. "The best defence against local red tape is having a strong governance framework in the company, which you are confident clearly demonstrates how you govern your firm. If internal controls are absent, a company opens the door for local regulatory intervention."

The Sarbanes-Oxley Act in the US and stricter solvency requirements in Europe were both introduced in response to specific incidents in the world of corporate governance where individual companies – not necessarily insurance companies – underestimated risks or misrepresented their results.

But Fisher maintains that he is not concerned about the effects similar cases may have on regulations. "Just the fact that another company won't have a governance framework in place won't trip us over. We

will still have the opportunity to explain our own governance controls and how they meet the needs of local regulations.

"We believe that you have to run an enterprise in the way you believe to be prudent, with respect to adequate capital reflecting the risks on your books. Document it well and make it transparent. Then I don't see how you can have a problem with explaining your business to the regulators," he says.

Zurich uses the same principle when talking to rating agencies, says Fisher. Some observers have claimed that rating agencies use different models to measure solvency than those regulators are moving towards such as Solvency II. This over-complicates compliance, these commentators believe.

"I have just had that discussion with my colleagues in the industry about which tail is wagging the dog," says Fisher. But he adds that Zurich's solution to the problem is simple. "We run the same models [as the rating agencies] so we know what they look at. But at the end of the day we don't run our business to please rating agencies. We still run it in the way we see it prudent.

"Rating agencies and regulators are a constraint when you have to concentrate on operating a business. The regulators have different approaches and the rating agencies have different approaches. We have to be able to demonstrate to them all that we are transparent and feel comfortable with how we run the business."

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