
**How has the Insurance Industry emerged from the financial crisis?
What of the future course for the Industry?**

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Agenda

1. Overview
2. Impact on P&C
 - Capital adequacy
 - Risk
3. Major trends in risk are unaffected
 - Rising demand for catastrophe
 - Developing markets grow in size, complexity and importance
4. Closing remarks

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Global insurance market in 2008

Premium volume, USD bn	4,218
Premiums as % GDP	6.95
Shareholders' equity, USD bn	2,225
Invested assets, USD bn	20,850

Source: Swiss Re Economic Research & Consulting. Note: Premium volume includes Kampo & Zenkyoren (Post Office & agricultural cooperatives) for Japan. These are excluded from the data on shareholders' equity and invested assets.

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This was not an Insurance Crisis but it was not without pain

Capital Adequacy

- Asset uncertainty and widening credit spreads a problem for Life insurers
- Low claims environment and a higher quality asset base shield P&C industry

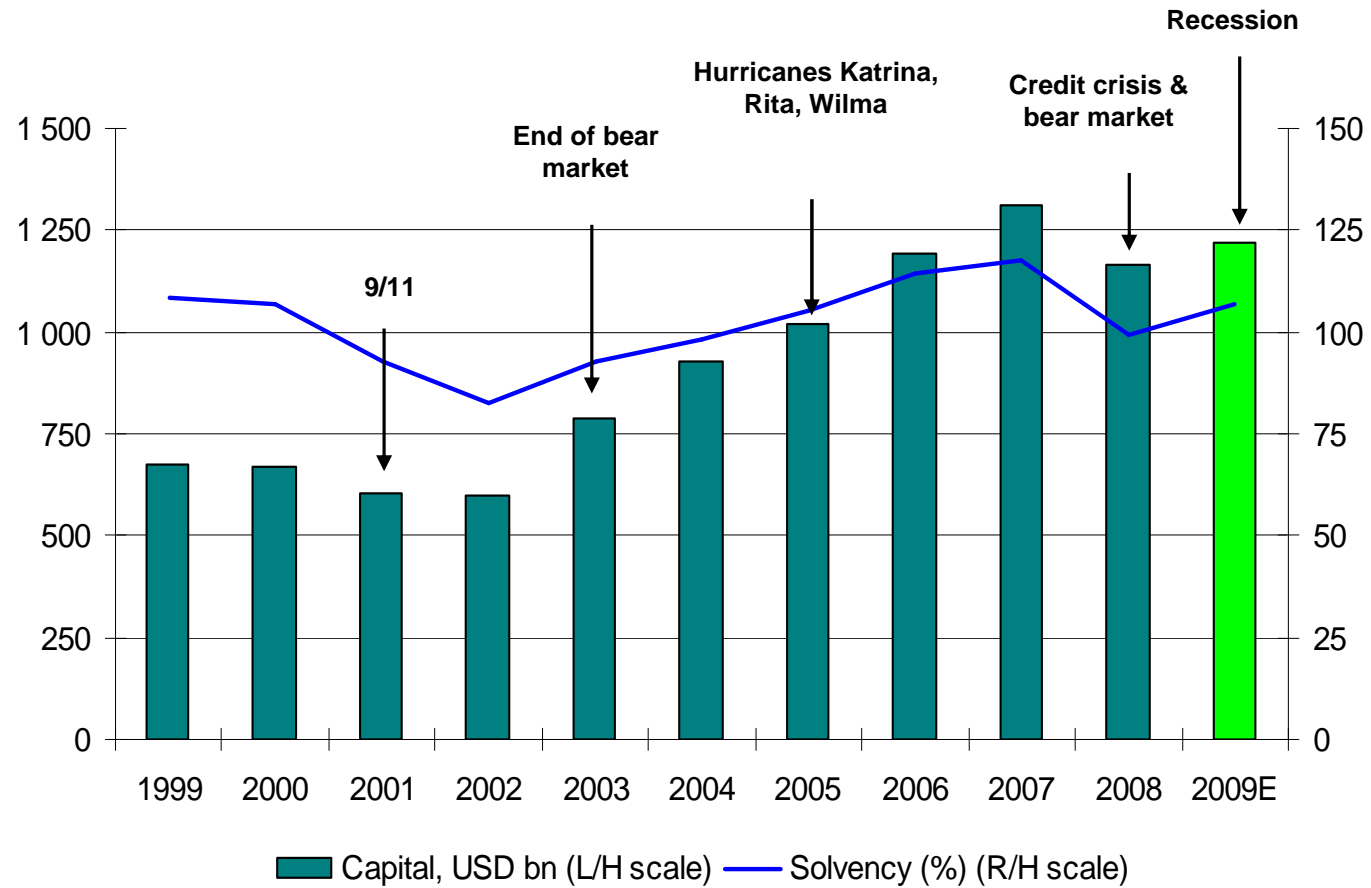
Risk (P&C)

- Corporate risk somewhat increased by recession
- Scale of 2009 crisis plus accelerated trend in outsourcing creates new risk scenarios

Regulation

- Crisis revealed systemic risk in banking, Regulators look for insurance parallel
- Greater scrutiny of credit and counter-party risk, also implications of sovereign risk
- Data risk and model risk remain centre stage

Capacity & solvency of P&C insurers



Source: Swiss Re Economic Research & Consulting.

Changes are occurring in the landscape of Corporate Risk

- Business Interruption:** reduced supply chain, consolidation of distribution centres, “just in time” philosophy to stock management
- Liability:** uncertainty as to who owns contractual liabilities such as product warranty, recall and design risk as outsourcing to low cost locations increases
- Liability:** race to protect market share by product innovation and speed to market reduces quality controls
- Event Risk:** sharply reduced spend on health and safety, “mothballing” of construction projects
- Technology Risk:** eg cyber crime for financial institutions

Across sectors, buyers and underwriters agree risk impact is material

Study extracts: buyer comments on risk

- “of course there are greater risks – new segments, new locations and suppliers and customers with whom we’re less familiar”
- “Contractors are now routinely winning bids they’re not qualified to do”
- “There is already far less standardisation on contract liability ...it gets harder and harder to negotiate”
- “Since 2007 our business has experienced a lot of changes ... which we are aware (are) more risky, but a necessary step in terms of cost efficiency”
- “Staff are under pressure, rushing around with less people .. we can definitely conclude that Health & Safety risks have increased”

Senior underwriters on same risks

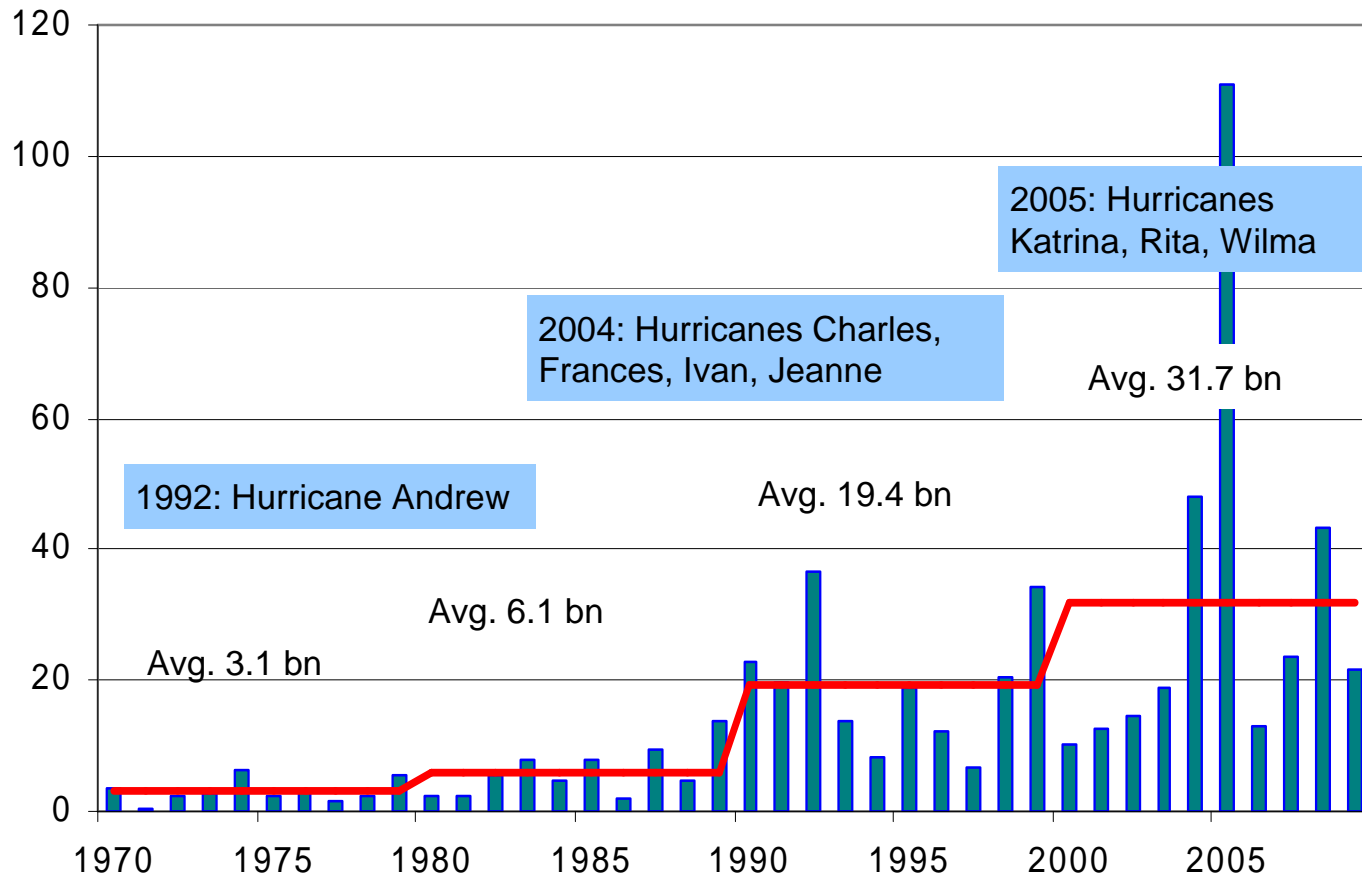
- “Risk has been drastically increased by the increasing complexity of supply chains”
- “Contractual liability just frightens me at the moment”
- “The huge increase in the risk of suppliers going bust has had a massive impact on UK companies’ risks”
- “We have had a lot more issues recently which come down to workmanship and standards”
- “Retailers’ product liability is changing dramatically ... often because the manufacturer is in the Far East, subrogation is impossible”

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Insured weather-related natural catastrophe losses 1970-2009

(USD bn, price level 2009)



Growing values in exposed areas are a major driver of higher losses



Ocean Drive, FL, 1926.

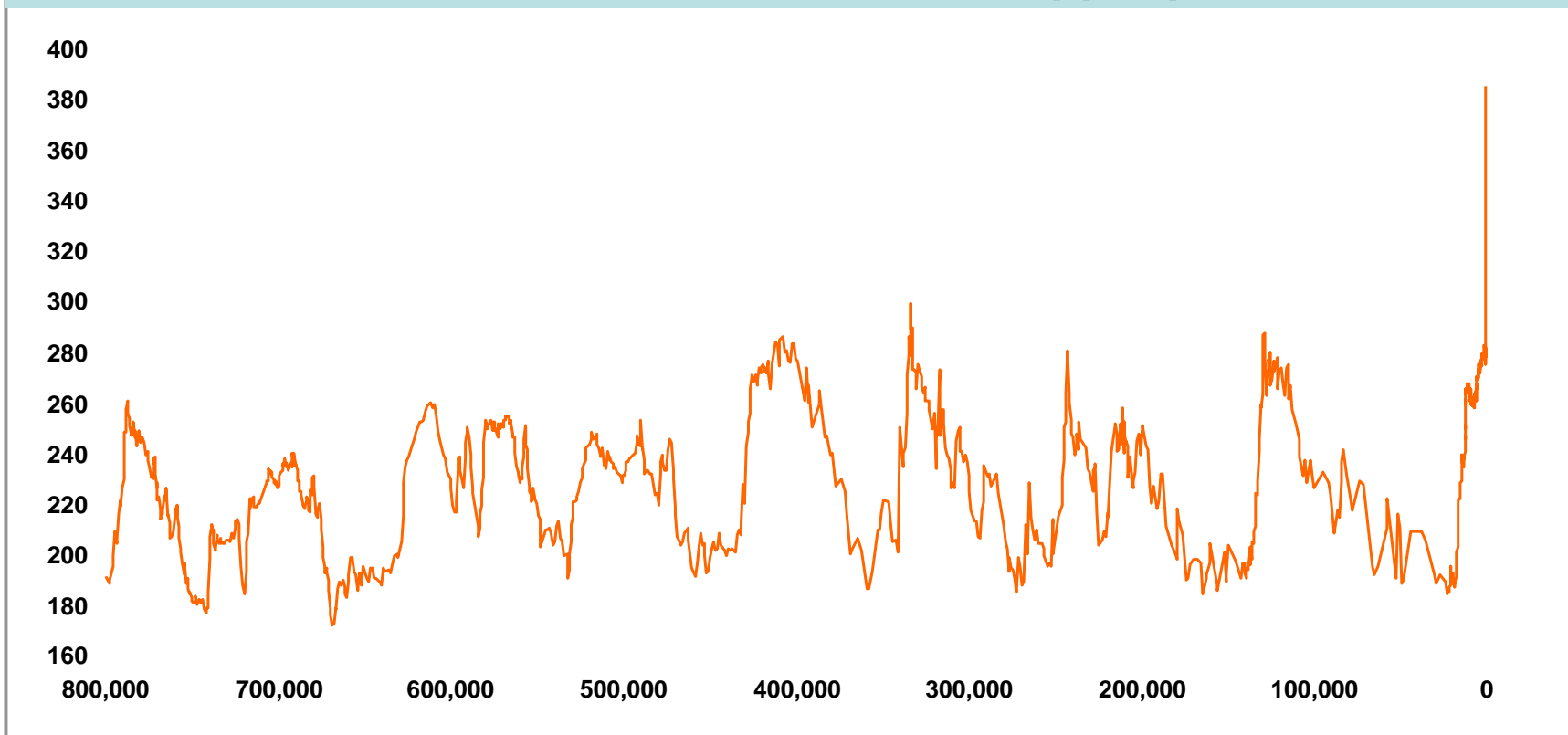


Ocean Drive, FL, 2000.

- ▶ The number of Floridians increased by 70% from 1980 to 2001, while state GDP soared by 130%

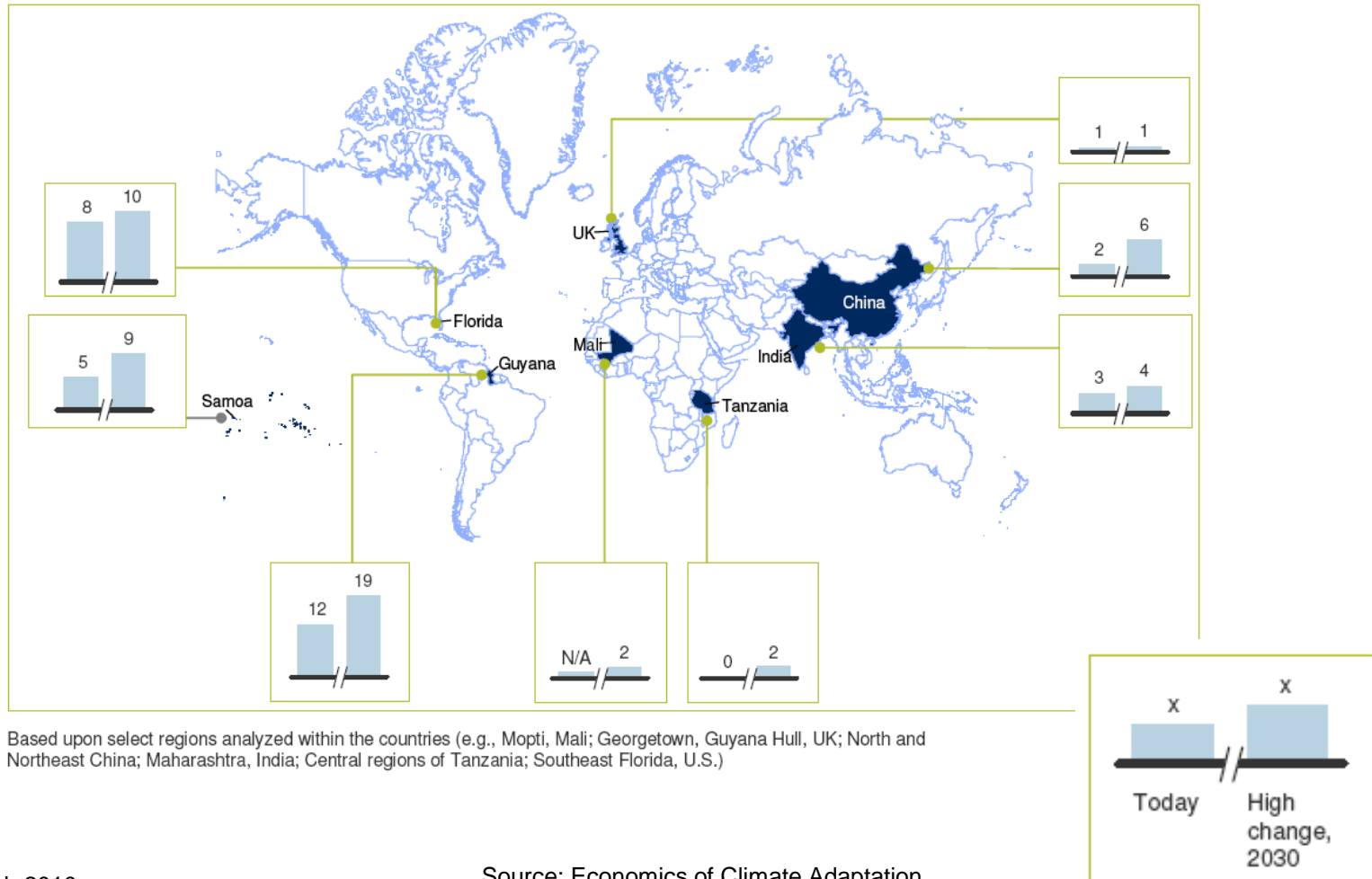
.... Also a new trend in 800,000 years of atmospheric CO₂

Rate of change	1960 - 2005:	1.4 ppm per annum
	2004 – 2008:	2.9 ppm per annum



Potential Losses in 2030 by GDP Impact

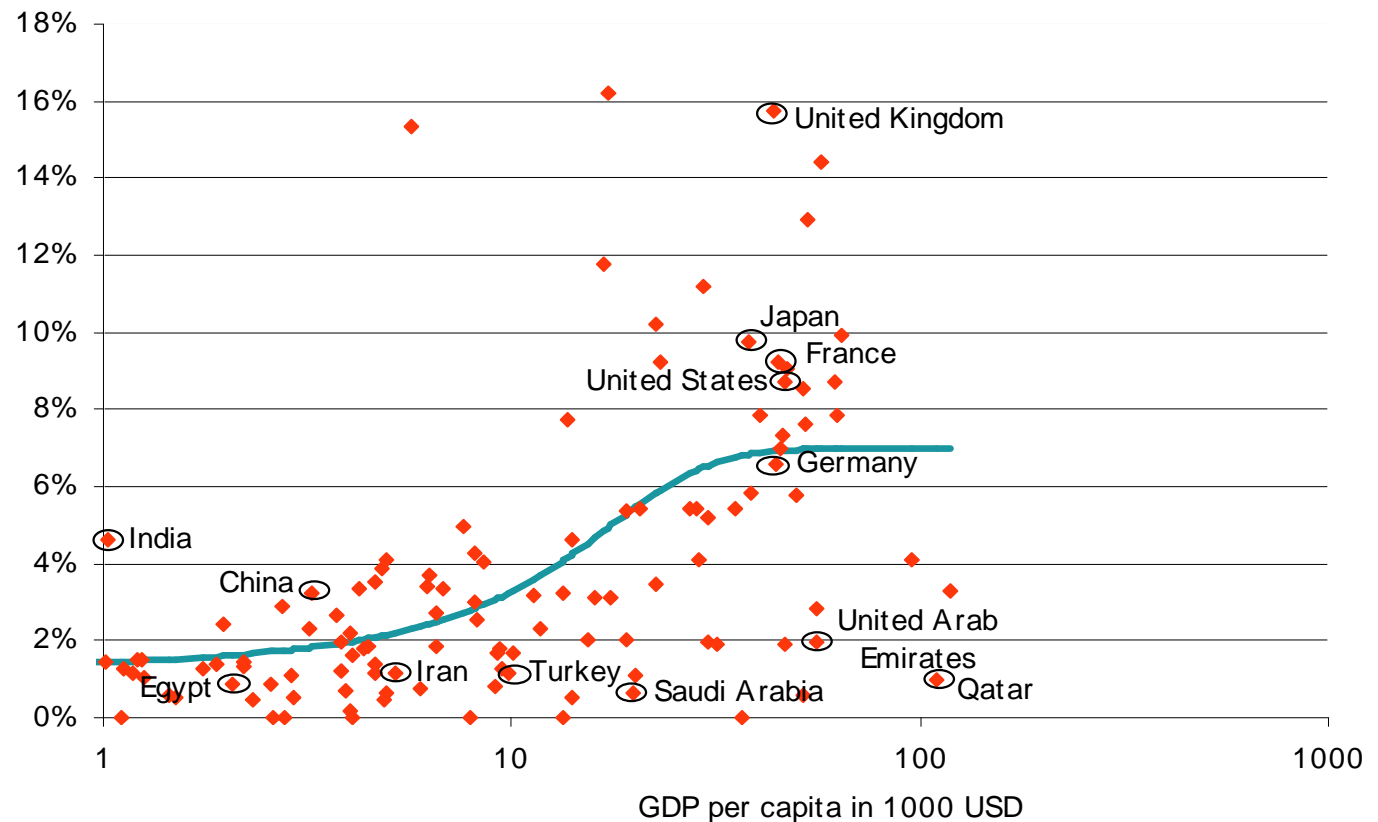
Weather-related natural catastrophe losses have the potential to increase as a consequence of climate change



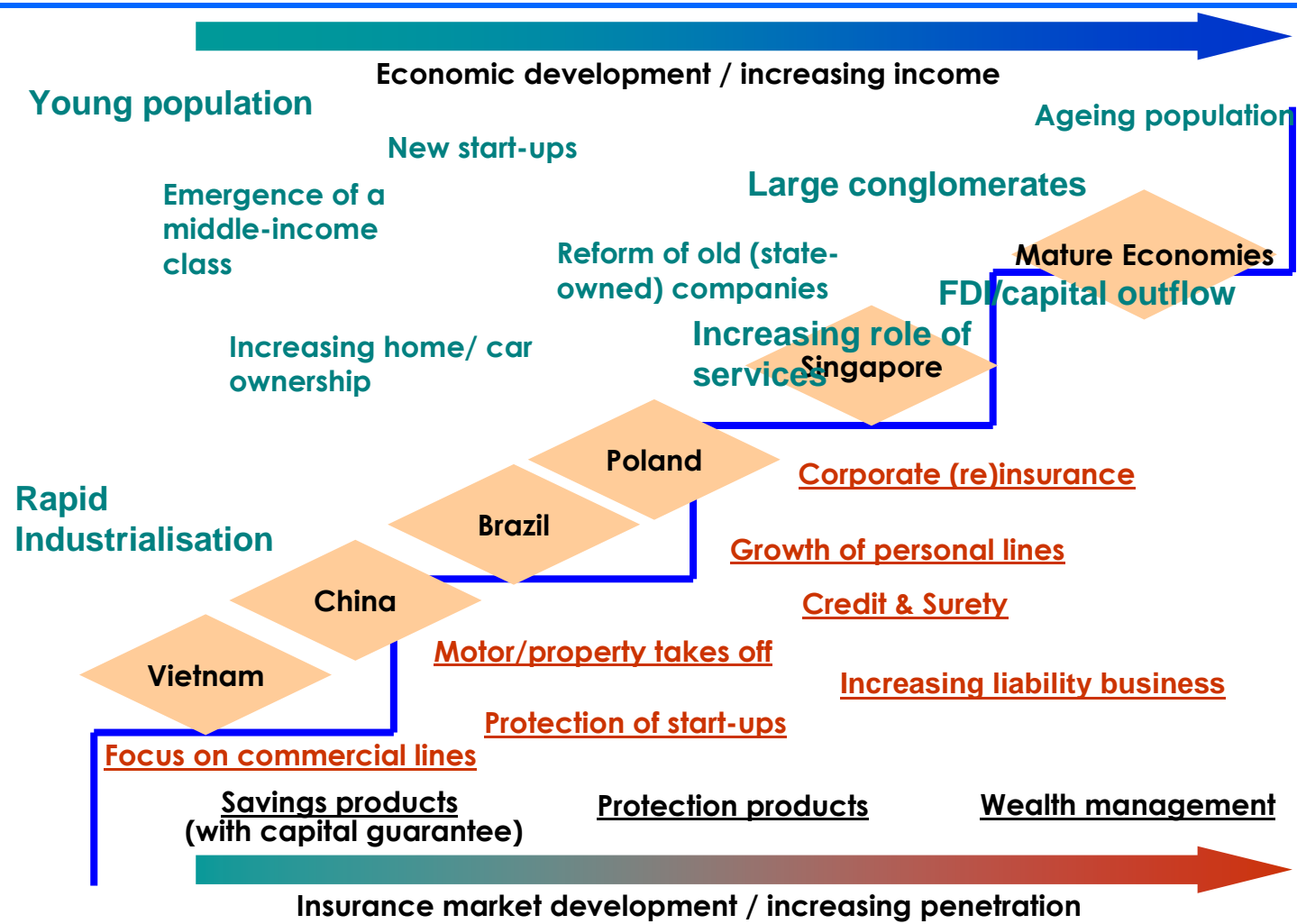
Mature economies show high insurance penetration

- Premium volume correlates with GDP and per capita income
- Step change in demand function. When GDP per capita gets close to USD 10000, insurance penetration rises above 4% with a steep slope

Premiums per GDP, life and non-life, 2008



Product complexity increases in line with GDP per capita



Growth Potential in Middle East Region is considerable

Estimated Premium 2010 \$ Bn	Nominal Growth In GDP	Estimated Premium US\$ Bn in 2020 assuming Insurance penetration		
		1%	2%	3%
25	7	49	98	147
25	10	65	130	195

- If 3% penetration is achieved, market in 2020 will be 6-10 times today's size
- This will present skilled resource and technology challenges

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Closing (personal) observations

- The global insurance industry has not been impacted like the banks by the financial crisis so far
- Fundamental socio-economic value of insurance remains important but more attention is needed to risk measurement as industry globalises and innovates
- Developing markets, including this region, will take an over-proportionate share of future growth in world premium