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London, 11 June 2010

2nd CEA International Insurance Conference

Insurance in a changing world

Contents

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Keynote address by Dr John Reid to the Second International Conference of the CEA, London, June 11th 2010.

Introduction:

Tommy, thank you for that kind welcome. I am very pleased to be here today as your keynote speaker at the second international conference of the CEA meeting here in London, in the heart of the City, one of the world's leading financial centres.

You are visiting the UK at a fascinating time in our political world. For the first time since the Second World War, we are experimenting with coalition government – an experience which, for many of you, will be the norm but which, for us, is a novel proposition. After 23 years as a Member of Parliament, I stood down at the recent election so I am watching events with a degree of detachment. However as one of our many British eccentricities is an entirely unelected second chamber, I will be returning to Parliament shortly as life peer in the House of Lords and look forward to continuing to play a part in public life from there.

Long before I became active in politics, I was active in your business – insurance. As a young man in my early 20s who had left school at 16, I found insurance offered the prospect of a career where I could study for professional qualifications that would give me a profession. Although I eventually decided to study at university as a mature student, I still have a modest degree of pride in my qualifications and have never forgotten some of the experiences that working in insurance gave me – particularly its huge importance to those most vulnerable in society.

Today I would like to talk about how our world is changing and offer some thoughts on the effects of globalisation on our security, our financial system and on our citizens. These are themes being explored by the Institute for Security and Resilience Studies at University College, London which I chair and helped set up. The Institute exists to help understand the modern world, developing innovative thinking and new solutions to some of the highly complex challenges we face in the early 21st century.

If the last decade has taught us anything, it is the need to get to grips with some of the great issues facing our world, issues in their own way that are just as portentous as previous generations of our ancestors had to deal with when Europe was plagued by constant war between our nation states.

The Mobility of the Modern World

At the heart of the challenges we face is mobility. 45 years ago when I was selling insurance on the streets of Glasgow, the Cold War was at its height and a bitterly divided world artificially suppressed free movement of people, trade and jobs. To a large extent this was still true when I entered Parliament in 1987. Even when I became a minister in 1997, the extent to which our world was being transformed by the free movement of people, money, jobs and information was not, at that time, fully understood. As Bill Clinton has pointed out, when he became president in 1993 few people had heard of the internet, yet when he left office in 2001 even his cat had its own website.

In the old world, religious extremism was often suppressed by cruel dictatorships and an inability for ordinary people to either escape from extremist teaching or be unduly affected by it. Now the propaganda of a jihadist in the tribal areas of Pakistan can be promulgated with deadly consequences to a group of restless British youths in a British city, as happened with the suicide bombers who killed 52 people here in London in the terrorist attacks of July 7, 2005. In the old world, it would have been unthinkable for terror attacks to be masterminded, funded and driven by someone thousands of miles away from the target but this is one of the many challenges politicians face overcoming.

This sort of development has been made possible by a very rapid expansion in the mobility of people, money and information. I will come to a moment about the opportunities as well as the problems this has caused the world's financial systems but in my positions, successively, as Health, Defence and Home Secretary I saw very closely the problems that this explosion of mobility has caused.

In healthcare, it has proved both a resource and a challenge to the UK health system. Our National Health Service is our greatest national asset, commanding overwhelming support from all parts of British society. Yet we could not operate it without the significant numbers of qualified medical staff from around the world who come to work in it, as well as in our private health and care sectors. At the same time, the NHS can struggle locally with the challenges of providing healthcare to immigrants and asylum seekers, particularly in areas that are already suffering from deprivation.

As Defence Secretary, I oversaw the deployment of British forces to Helmand Province in Afghanistan as part of the international effort to tackle the Taliban insurgency and prevent Afghanistan from returning to a state of lawlessness. In the 19th century, the British fought in Afghanistan in the interests of empire and trade. Now our forces fight to help keep suicide bombers from our country and help prevent Class A drugs destroying our communities, both made possible by the mobility of people and drugs.

And as Home Secretary, I faced up to the challenges uncapped migration were bringing to our economy and public services by introducing an annual cap for migrant workers from outside the EU, underpinned by a points-based system to balance the needs of business and the economy against the wishes of would-be migrants.

These difficult decisions mirror those faced by governments in the developed world over the last 15 years, particularly in the EU. In my case, all were controversial, particularly within my own party. All were driven by the demands the explosion of mobility has placed on us.

Financial Services:

Nowhere has the effects of globalisation been more apparent than in financial services and it is here that, looking ahead, governments and regulators face some of the toughest judgement calls about the way forward.

Of course the interconnectedness of global trade is not a new phenomenon and any recession in the United States was always likely to trigger similar consequences in the UK and Europe, just as it did in the 1930s before. But the financial crisis which began in 2007 and is still making its effects felt has shone a spotlight on the globalised nature of our banking systems, our markets and our assessment of risk.

Banking failures are nothing new – they are an inevitable product of the business model of banking and every country represented in this room will have dealt with the consequences of domestic or regional banking crises over the last 100 years, whether it was the secondary banking crisis in the UK in the 1970s or the US savings and loan crisis of the late '80s and early 1990s. The causes of those problems were nearly always a variant of too many loans and assets going bad at a time of economic instability which together threatened the viability of the individual institution or business model.

Fast forward to 2007-8 and we saw the individual failures of millions of sub-prime mortgages in the United States, that were packaged by investment banks into Collateralised Debt Obligations and sold to financial institutions throughout the developed world and we saw how the default of a mortgage on a trailer park in Nevada can be directly linked to the collapse of regional bank in Germany or the UK's second biggest bank, RBS.

These banking failures then inevitably hit the insurance sector, despite their fundamentally different models, as stock markets plunged and investment values plummeted and recession took hold. So the mobility of that single bad decision – the unviable loan to on the trailer park in Nevada – wreaked terrible consequences throughout markets and businesses far removed from the sub-prime mortgage specialist in the South West of the USA.

Government and Regulatory Response

So how do governments, regulators and international institutions respond to the challenges I have just described?

Firstly we need to understand the scale of what we are dealing with; changes to the world as fundamental and far-reaching as those that occurred in previous generations as a result of major warfare. The challenges posed by the information and technical revolutions; the relatively easy and cheap movement of people, goods and information we experience today are just the beginning. If we understand that, as governments, as collective organisations and as individuals, then we are more likely to make judgements which stand up in the long-run, rather than just take short-term steps to deal with yesterday’s problems.

Secondly, governments need to recognise the limitations of their own power. Almost every day as a senior cabinet minister I was reminded both of my power to make changes of immediate consequence and of the limitations of those powers to change the fundamental shifts in the world we live in. If we accept this, we are more likely to work with each other constructively and in the long-term interest, rather than in a resentful and suspicious manner. And I believe this principle applies to business too and industry groupings such as this one which seeks to have a common voice for the insurance industry in Europe.

Thirdly, we have to believe in the power of people and individual choice. In my 23 years in elected politics, I tried never to underestimate the common sense and judgement of the people I served and I always advise business never to underestimate their consumers either. Despite inevitable tensions sometimes over issues such as immigration, the modern consumer citizen has a fundamentally different view of choice and the value of their own activism, than peoples growing up in the more narrowly defined world of Cold War Europe. Governments have to understand this, especially when it comes to public service delivery and businesses like insurance, which rely on high volume sales of standardised products, have to comprehend it too. So while I do believe we will see greater use of international fora such as the G20 and IMF over the years to come as we grapple with these major issues, I would caution that such decision-making bodies have to respect the informed and activist outlook of the modern consumer-citizen.

Conclusion

We live in a fascinating and fast-changing world. It is a challenging time to be in government or positions of authority. All of us to strive to do better – as politicians, as businesses, as industry groupings – have to come to terms with an ever-changing and complex world where the mobility of people, money, information and trade is sometimes bewilderingly fast and continues to challenge the framework of our economies and ways of life.

We will adapt best to this world if we strive to understand its dynamics, work together rather than in isolation and respect how our citizens are responding. I believe the best of these endeavours can still be led from the UK and the countries of Europe and the Western world, building on our traditional values of liberal economics and free trade, free speech and tolerance of our neighbours and collective striving for a better good for all. Organisations like yours have a modest but important part to play in working together across national boundaries and I am delighted to have been able to join you here today as you continue that work.

Challenges and Opportunities for Insurers in the Current Economic Environment

CEA International Insurance Conference
London, England
June 11, 2010

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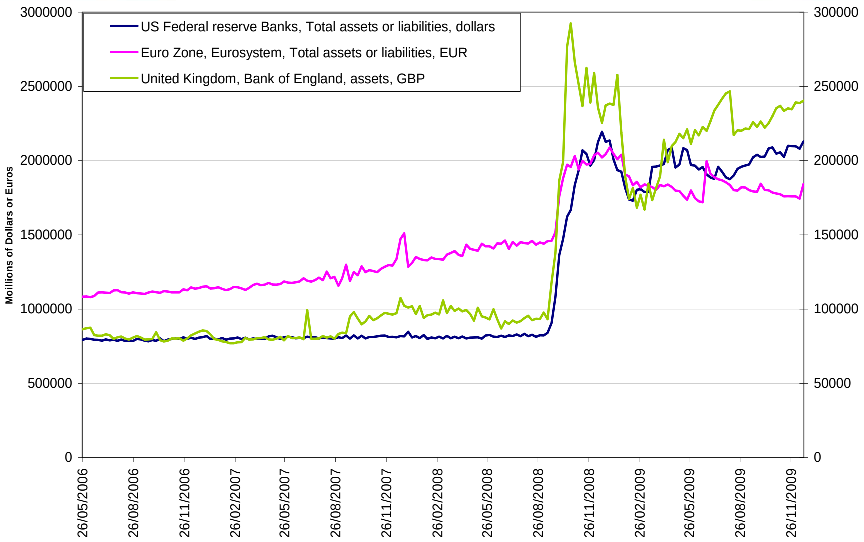
Four of the Many Challenges Facing Insurers Today

- Pricing, Investing: Will Inflation—As Insurers Experience It—Spike, Stay Low, or be Negative?
- Can Insurers Achieve Target Profits in an Era of Low Investment Returns?
- How Much More Capital Will Regulators, Rating Agencies, and Others Demand That Insurers Acquire and Hold?
- How Best to Prepare for the Next Chapter of the Global Financial Crisis?

Challenge:
An Inflation Spike?
Low Inflation?
Deflation?

The Only Certainty: Broad Ambiguity

In 2008, Central Banks in Europe, the UK, and the US Dramatically Expanded the Money Supply



Source : Ecowin

Inflation Rates for Largest European Economies & Euro Area, 2009-2011F

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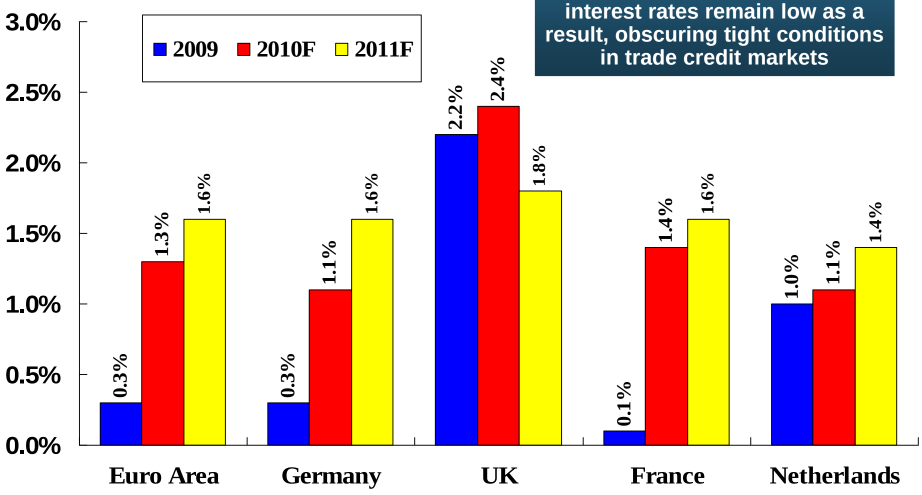
% Change from Prior Year

Inflation is below 1.5% across major European economies and interest rates remain low as a result, obscuring tight conditions in trade credit markets



Source: Blue Chip Economic Indicators, 3/10/10 edition.

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests

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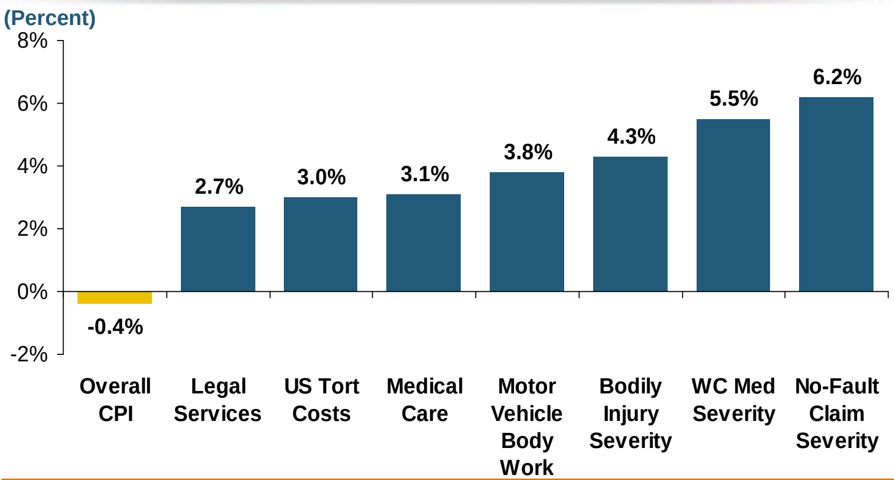
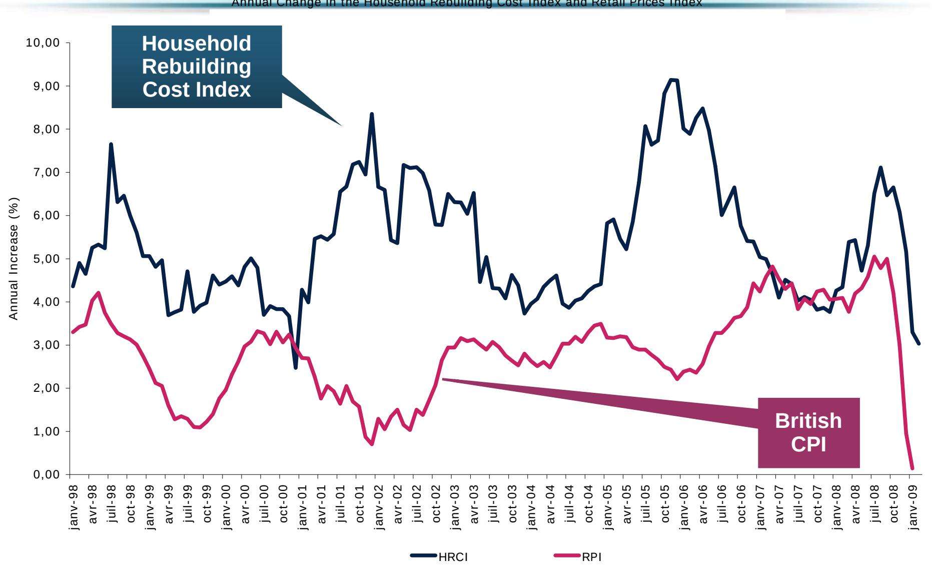


Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

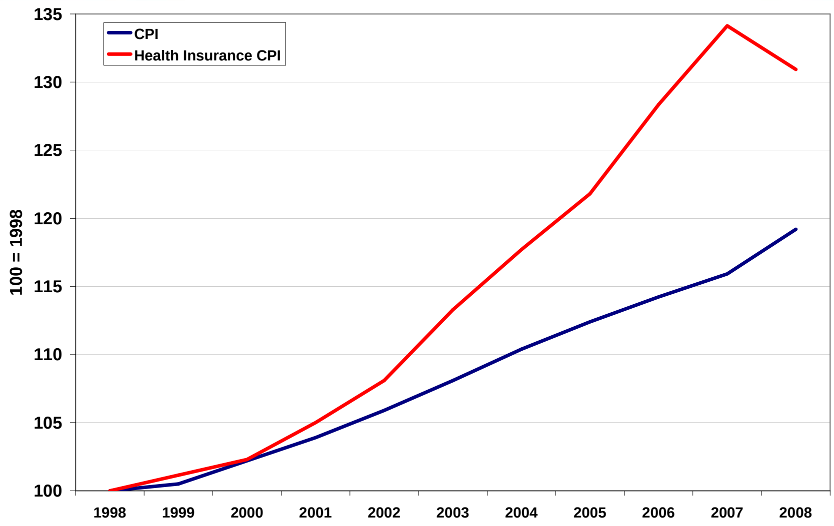
Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

In the UK, the Household Rebuilding Cost Index is Also Higher Than the British CPI



Source : Association of British Insurers

French Health Insurance Tells the Same Story (as Does Many Other Countries)



Source : INSEE

Risks for Insurers if Inflation Is Reignited

- **Rising Claim Severities**
  - Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
  - Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
  - Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
  - Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
  - Higher costs → risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Challenge: Low Investment Returns and High Downside Risk

World Economic Outlook: 2009-2011P

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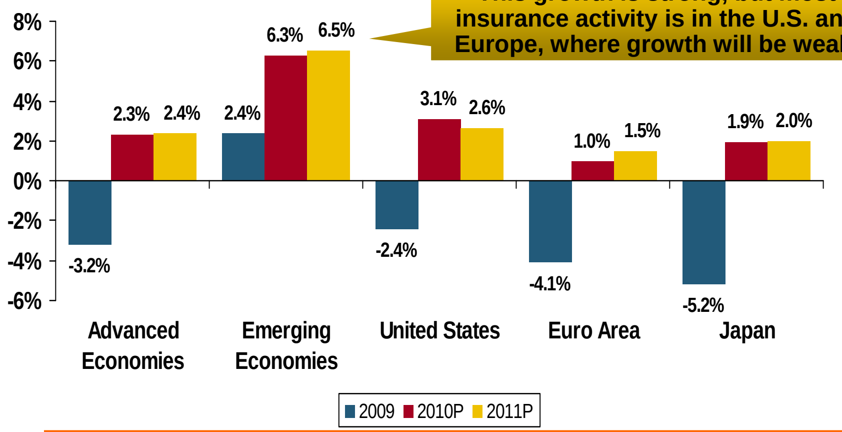
This growth is strong, but most insurance activity is in the U.S. and Europe, where growth will be weak.



Outlook uncertain: The world economy is recovering from the global crisis, but at different speeds in different parts of the world, according to the IMF. Insurance exposure growth will vary regionally and by industry.

Sources: IMF, World Economic Outlook; Insurance Information Institute.

3-Month Interest Rates for Major Global Economies, 2008-2011F

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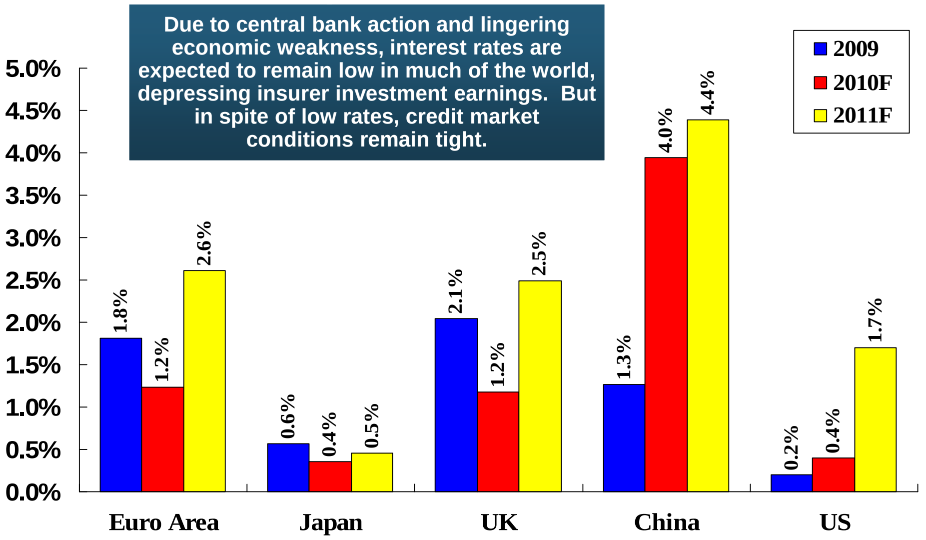
Due to central bank action and lingering economic weakness, interest rates are expected to remain low in much of the world, depressing insurer investment earnings. But in spite of low rates, credit market conditions remain tight.



Source: Blue Chip Economic Indicators, 3/10/10 edition.

Internationally, Most Short-term Interest Rates Are Still Quite Low

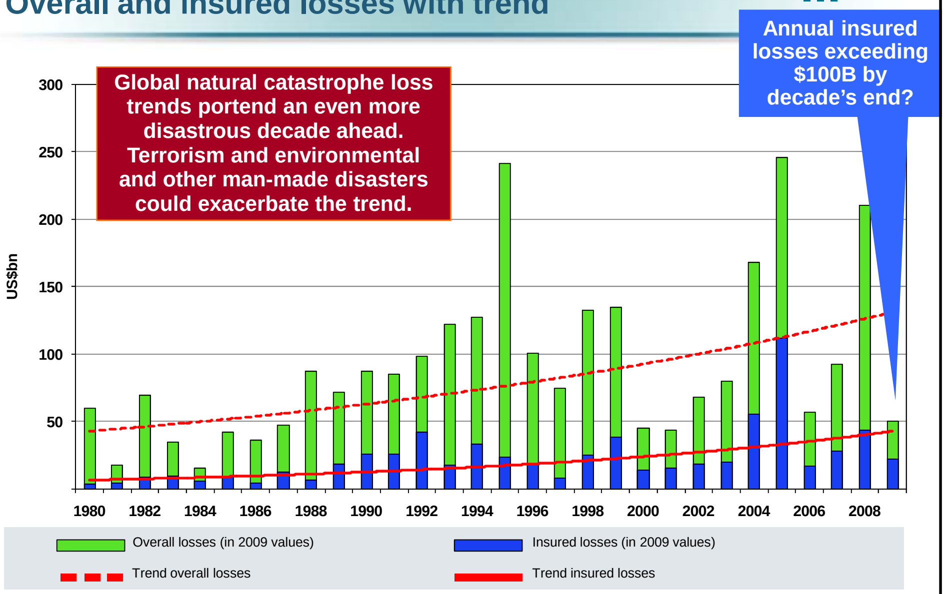
Central Bank	Current Interest Rate	Last Changed
Bank of Canada	0.25%	April 21, 2009
Bank of England	0.50%	March 5, 2009
Bank of Japan	0.10%	Dec 19, 2008
European Central Bank	1.00%	May 7, 2009
U.S. Federal Reserve	0.25%	Dec 16, 2008
The Reserve Bank of Australia	4.50%	May 4, 2010
China	5.31%	Dec 22,2008
Hong Kong SAR	0.50%	Dec 17, 2008
India	5.00%	Mar 19, 2010
Korea, Republic of	2.00%	Feb 16, 2009

Source: http://www.fxstreet.com/fundamental/interest-rates-table/

Challenge: How Much Capital is Enough?

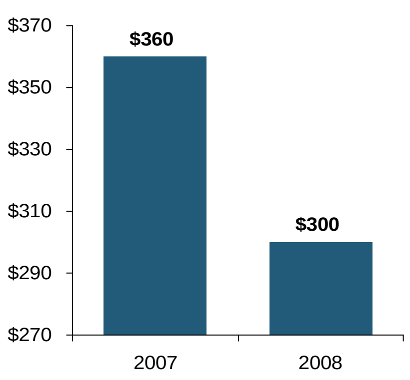
Global Natural Catastrophes 1980–2009

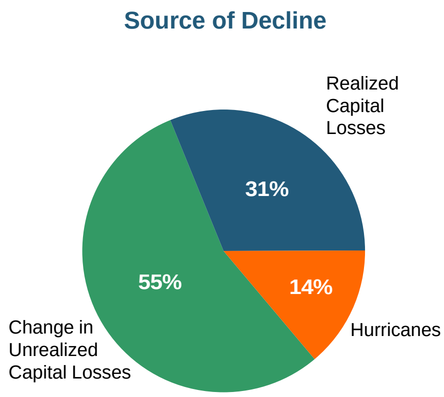
Overall and insured losses with trend



Source: Munich Re NatCat*SERVICE;* Insurance Information Institute.

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments





Global Reinsurance Capacity Fell by an Estimated 17% in 2008

Source: AonBenfield Reinsurance Market Outlook 2009; Insurance Information Institute.

"Bullets Dodged"

- Being "overcapitalized"—the criticism often leveled at insurers before the financial crisis began—was a good thing
  - We might have needed some billions of that capital for death and medical benefits if the H1N1 "swine" influenza pandemic—which began in April 2009— had been much worse than it was

Challenge: How to Prepare for the Next Global Financial Crisis?

The Next Global Financial Crisis Might Come Sooner Than We Think

- If fiscal imbalances are not addressed through spending cuts and revenue increases, only two options remain:
  - inflation for countries that borrow in their own currency and can monetize their deficits; or
  - default for countries that borrow in a foreign currency or can't print their own.
- Thus, the recent ... global financial crisis is not over; it has, instead, reached a new and more dangerous stage. ... now comes the rescue of the rescuers – i.e., governments. The scale of these bailouts is mushrooming. …But who will then bail out governments...? Our global debt mechanics are looking increasingly like a Ponzi scheme.

Source: Return to the Abyss, by Nouriel Roubini, Commentary, Project Syndicate at http://www.project-syndicate.org/commentary/roubini25/English

Lessons Learned

- The effects of the crisis on insurance companies varied considerably, depending on
  - What products they sold
  - What investments they made
  - The economic environment in which they operated, and
  - How strong they were entering the crisis

Insurance LOBs Most Directly Affected by the Financial Turmoil

- Mortgage and Financial Guarantee insurance
- Trade Credit insurance
- Credit Default Swaps (not legally insurance, but functioned that way)
- Variable annuities (unit-linked life insurance products) with downside investment guarantees

Lessons Learned

- The insurance sector's business model is robust and generally able to withstand and conduct normal operations during
  - a sudden and sharp asset value meltdown
  - a soft pricing market,
  - an eroding exposure base, and
  - a challenging [man-made and natural] CAT environment

All at the same time!

In the Last Crisis, the Insurance Sector Helped Stabilise the World Economy

INSURANCE INFORMATION INSTITUTE

- "…the insurance sector has arguably helped to provide a stabilising influence in light of its longer-term investment horizon and conservative investment approach."

Source: OECD, *The Impact of the Financial Crisis on the Insurance Sector and Public Policy Responses*, April 2010

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Thank you for your time and your attention!

2nd CEA International Insurance Conference

"Insurance in a changing world"

London

11 June 2010

Peter Braumüller

Chairman of the IAIS Executive Committee

Good afternoon Ladies and Gentlemen,

I would like to thank CEA for organising this well-attended event and to invite me to deliver this speech here. On behalf of the International Association of Insurance Supervisors (IAIS), I very much appreciate the opportunity to speak about the changes proposed to the supervisory and regulatory regime and the IAIS' role in this respect. The financial world is indeed changing - we are seeing the change from all sides including the current debates to seek financial services regulatory reforms as driven by the G20 heads of state.

As you all know, during the past two and a half years, we have endured the worst global financial crisis since the Great Depression. This puts considerable pressure on supervisors and regulators throughout the world. At the same time, the crisis also provided us with a unique opportunity to learn from the experience. We are building on a more effective and globally consistent regulation and supervision of the insurance industry for the benefit and protection of policyholders.

The IAIS:

Many of you know that the IAIS is the international standard setter for insurance supervision. Established in 1994, its membership now includes more than 190 insurance supervisors and regulators from all around the world. Furthermore, about 130 insurance companies and insurance related entities contribute as observers. The IAIS' mission is to promote effective and globally consistent regulation and supervision of the insurance sector in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Based on lessons learned from this crisis, and building on the solid foundation that we have developed over the past 16 years, we also plan to further enhance our global principles & standards and strengthen the role the IAIS plays in the financial community.

I would now like to take this opportunity to highlight some of the key areas that IAIS is working on for global, sustainable and coherent supervisory principles, standards and guidance, while minimising opportunities for regulatory arbitrage.

1. Macro prudential Surveillance

Traditionally the main focus of insurance supervisors was to supervise individual insurance entities to protect their policyholders – the so called ***micro*** prudential approach. This approach –supplemented by a thorough market analysis – still forms the foundation of insurance supervision and will certainly continue to do so. However, based on lessons from the recent crisis the G20 leaders have asked regulators to put more focus on the bigger market and risk picture and to take into account system-wide risks. This will mean a major change of the supervisory philosophy.

The IAIS is currently developing macro prudential surveillance to build appropriate economic expertise within the IAIS including a network of experts on macro prudential surveillance. The IAIS will contribute to the development of a global framework in this regard by building on and expanding beyond the Global Reinsurance Market Report and by leveraging information from other sources, such as individual and regional supervisory groups and the IMF. It is important to monitor & assess risks and vulnerabilities both arising within the global insurance sector and developments relevant to insurance originating from other sectors. Furthermore, the IAIS is developing macro prudential tools that can be used by supervisors to mitigate system-wide risks that spread to the insurance sector.

2. Systemic risk

Clearly evidenced by the crisis, a key message from G20 heads of states is that all financial regulators and the IAIS should take into account financial system stability in their mandates. Supervisors, including insurance supervisors, should put more emphasis on systemic risk and financial stability. Following a request from the G20, the IMF/FSB/BIS jointly developed a definition and criteria of systemic risk. The definition is that systemic risk is the risk of disruption to the flow of financial services that is: caused by an impairment of all or parts of the financial system, and has the potential to have serious negative consequences for the real economy.

Since this financial crisis originated from the banking sector, discussion on systemic risk has been led by banking experts and often does not clearly reflect the special character of the insurance sector. Therefore it is important for the IAIS to analyse and assess what systemic risk means for the insurance sector before taking or supporting any concrete policy measures.

It is crucial to understand the nature of the insurance business model and the role of the insurance sector within the financial sector and more widely the contributions to the economy.

From the beginning, the IAIS has actively participated in the discussions on systemic risk and this topic is high on our agenda. Already in October 2009 the IAIS submitted a note on systemic risk and insurance to the FSB. Since then, the IAIS – mainly though its Financial Stability Committee – has analysed the role of insurance related to financial stability and systemic risk. IAIS observers were also involved in the discussions. This week, the IAIS issued its position statement on key financial stability issues. As a result of its analyses, the IAIS concludes that the insurance sector is susceptible to systemic risks generated in other parts of the financial sector. For most classes of insurance, however, there is little evidence of insurance either generating or amplifying systemic risk, within the financial system itself and in the real economy. The paper also analyses specific circumstances where insurers could possibly amplify systemic risk, the issue of non-regulated entities in insurance conglomerates, and the role of financial guarantee insurers. The paper also stresses the stability role insurance can play in the economy. As part of the financial and insurance market stability, IAIS also plans to assist members to develop suitable methodologies to identify systemic risks or threats to financial stability in the context of insurance.

3. Group-wide Supervision and ComFrame

According to statistics[1], in 2008, there were 18 general insurance groups and 27 life insurance groups that ranked among the largest financial institutions in the world and accounted for nearly half of the world's insurance premiums. Through its work, the IAIS confirmed its assertion that a multilateral framework for group-wide supervision was needed. It was necessary to close loopholes in the system and address regulatory gaps in a concerted and collective manner as opposed to individually or in isolation. In this context, the IAIS is establishing a Common Framework for the Supervision of Internationally Active Insurance Groups or ComFrame. This will:

- provide parameters for assessing group structures and group business from a risk-management perspective;
- set out quantitative and qualitative requirements that are specific and focused but not rules based; and
- cover the necessary areas of supervisory cooperation and coordination.

The ComFrame aims to assess Internationally Active Insurance Groups on a similar footing through better aligned supervision undertaken by home and host supervisors. ComFrame should largely overcome the current fragmented approach and align supervisory practices with the transnational approaches that groups actually apply in doing business.

4. Supervisory Cooperation

During normal business periods but even more during a financial crisis it is crucial that supervisors understand each other and communicate very closely. The IAIS has taken many steps and implemented changes to strengthen cooperation and exchange of information among supervisors:

Firstly, a Multilateral Memorandum of Understanding (MMoU) framework for cooperation and exchange of information has been established. The framework sets minimum standards to which signatories must adhere to improve the effectiveness of cross border supervision of insurance companies. Currently, 8 insurance supervisory

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[1] Sources: Fortune Global 500 list (2008) and Swiss Re's "sigma (No.3/2009)"

authorities have become signatories and another 16 applicants are being validated. The IAIS is strongly committed to the promotion of supervisory cooperation and information exchange and the steady increase in the number of applicants to become MMoU signatories is an indication of its growing acceptance amongst insurance supervisors.

Secondly, the IAIS is currently reviewing the insurance core principles and existing standards on supervisory cooperation and coordination taking into account lessons learned from the financial crisis.

Thirdly, the IAIS has provided a timely standard setting response to the financial crisis by developing guidance papers on the use of supervisory colleges in group-wide supervision and the role and responsibilities of a group-wide supervisor.

Fourthly, the IAIS also issued a draft *Standard on Cross-border Cooperation on Crisis Management* for consultation. This standard applies to home and host supervisors of insurers and insurance groups operating on a cross-border basis as well as other relevant authorities. Groups covered by this Standard are those whose main activity is insurance, including reinsurance groups and an insurance subgroup within a financial conglomerate. The main objectives of supervisory crisis management are to seek to protect policyholders and to prevent serious domestic or international financial instability which could have an adverse impact on the real economy.

5. Enhancing standard implementation

The financial crisis has shown that there is no substitution for effective supervision. It is not enough to put regulations in place. Regulations must be implemented as intended and in a consistent manner across countries. Supervisors must be knowledgeable and capable of conducting comprehensive risk assessments. Supervisors must also be empowered to challenge senior management and boards. And supervisory authorities must have the necessary resources to successfully achieve their supervisory objectives.

The IAIS conducts a number of activities to foster effective supervision, including training seminars and translation of supervisory papers.

We are currently developing assessment mechanisms including methodology and tools (e.g. on-line assessment system) that helps assess observance including both legal aspects and supervisory practice. The IAIS also plans to carry out targeted self-assessment of Insurance Core principles and define its role in conducting thematic peer reviews for key IAIS standards.

6. Concluding Remarks

Let me conclude. We have a remarkable opportunity to build a stronger regulatory and supervisory system to further improve policyholder protection. We have seen that due to inter-connected financial systems, a single problem can reverberate and change the world economy. In my speech, I have explained some of the key areas that the IAIS is working on. We continue to assess the lessons learned and where necessary, will take additional steps.

Despite the changing world, I am confident that we will be able to meet these challenges and changes by working together with all stakeholders for the protection of policyholders.

Thank you for your attention.

CEA Insurers of Europe

CEA International Conference

Panel III – The regulator's view

Alberto Corinti, CEA
London, 11 June 2010

CEA Insurers of Europe

Dimension of the crisis

A Global, economic crisis

… however impact of the crisis differs by region and sector

Unprecedented intervention by some governments

Globally 11000bn$
… of which 10bn$
went to insurance

CEA Insurers of Europe

Regulatory Reaction

- G-20:
  - Slow but steady progress at global level
  - Varying levels of committment
- Policy options developed by:
  - Financial Stability Board (FSB)
  - International Monetary Fund (IMF)
  - Joint Forum (supervisory bodies for banks, insurance and securities markets)
- **Concrete initiatives** at regional and national level

CEA Insurers of Europe

G-20 Financial Regulatory Reform Agenda

Macro-prudential supervision

Address systemic risk across the financial system with new bodies and new tools

Reducing the moral hazard of SIFIs (FSB) Oct. 2010

- **Improving resolution capacity**
- **Reducing contagion Risk**
- **Reducing the probability and impact of a SIFIs failure**

Prudential Regulation (BCBS) End of 2010

More and higher quality capital & mitigating procyclicality

Financial Sector Burden Sharing (IMF) June 2010

Systemic Levy
Recover occured losses/ financing future crises

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Lessons from the crisis from EU industry's perspective:

Enhance stability of the financial system	• Systemic risk oversight that look at the risks developing in the financial system as a whole
Capital should be in line with underlying risk	• Move to economic risk-based prudential regime
Get a clear risk picture of the group as a whole	• Develop appropriate group supervision

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Lessons from the crisis from EU industry's perspective:

Increase responsibility for risk management	• Enhance Enterprise Risk Management
Anticyclical measures to counteract market fluctuations	• Avoid pro-cyclical supervisory reactions under a transparent reporting context
Financial services burden sharing	• Follow "polluter-pays" principle as cross-sector subsidisation is inappropriate

Same rules for all?

- Global regulators focus on banking,
  ... but read across to insurance
- Arguments:
  - Assure level playing field
  - Avoid regulatory arbitrage

Same rules for all?

- Do Banks & Insurance pose the same risks?
- Would uniform regulation assure overall stability of the financial markets?
- Cumulative effect of proposed measures?
- How to address regulatory imbalences between regions?
- Insurance sector adequately represented?

Audience Vote

Which feature of the insurance business model — in contrast to the banking business model — is most important to the sector's financial stability? Please choose one.

1. Long-term investment approach — 26%
2. Limited liquidity risk — 21%
3. Stable upfront funding through premiums — 21%
4. Ability to match assets to liabilities — 31%

Audience Vote

What is the biggest concern for insurers in the wave of new regulatory requirements? Please choose one.

1. Higher capital requirements — 64%
2. Additional regulatory reporting — 7%
3. Introduction of new taxes/levies — 15%
4. New corporate governance requirements — 14%

Audience Vote

When seeking insurance coverage, what are the main selection criteria?
<u>Please choose your top three.</u>

1. Insurer's brand and reputation — **22%**
2. Insurer's financial strength — **15%**
3. Product design — **17%**
4. Price (and return) of the product — **29%**
5. Comprehensiveness of the information provided — **17%**

Audience Vote

Does policyholder protection need strengthening?

1. Yes — **48%**
2. No — **31%**
3. Not sure — **21%**

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Audience Vote

How can policyholder protection best be strengthened? Please choose your top three.

1. Macro-prudential initiatives — 23%
2. Micro-prudential regulation — 24%
3. Information and transparency — 32%
4. Protective measures such as price ceilings — 4%
5. Introduction of insurance guarantee schemes — 17%

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Audience Vote

How can financial sector company failures best be prevented? Please choose one.

1. High capital requirements — 6%
2. Detailed supervisory scrutiny — 10%
3. Strong corporate governance, with good risk management and controls — 84%

Audience Vote

What is the best way to achieve international convergence in regulation? Please choose one.

1. Binding minimal global standards — **51%**
2. Increased formal dialogue between regulators — **35%**
3. Regulatory staff exchanges/secondments — **7%**
4. Lobbying by global companies of governments/regulators — **7%**

CEA Insurers of Europe

2nd CEA International Insurance Conference

11 June 2010

Opening keynote speaker Dr. Reid addresses the audience on the complex challenges of a changing financial world

Moderator Monica Mächler of Finma (left) asks the audience to vote on the biggest concern for insurers in the wave of new regulatory requirements during the CEO's panel, watched by (second left to right) Generali's Sergio Balbinot, John Keogh of Ace, Geoff Riddel of Zurich Financial Services and Aegon's Alex Wynaendts

CEA president Tommy Persson introduces the day's debate

Steven Weisbart, senior vice-president of the Insurance Information Institute, sets the scene for the CEO's panel

Recaredo Arias of Fides (second left) responds to a question from moderator Karel Van Hulle of the EC during the consumer representatives panel. The other panelists (middle to right) Ferma's Peter den Dekker, Holly Nicholson of the Canadian OmbudService for Life & Health Insurance and Mick McAteer of the UK Financial Inclusion Centre are listening to his response.

Moderator Kerrie Kelly of the ABI (left) asks the Manuel Aguilera of the CNSF (second left) about the future of risk-based prudential regulation, listened to by (middle to right) Low Kwok Mun of MAS, the EC's Karel Van Hulle and the NAIC's George Brady

Keynote speaker Peter Skinner, MEP

Keynote speaker Peter Braumüller, Chairman of the executive committee of the International Association of Insurance Supervisors (IAIS)

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