

Managing risk and capital performance are significant challenges following the financial crisis, but insurance executives are still cautiously optimistic about their growth prospects over the next 12 months, says Frank Ellenbürger.

A glimmer of hope

Despite some recent well-publicized casualties, the insurance industry is weathering the current economic conditions better than banking.

Mainstream business operations are holding up well. Problems have only arisen from exposures to risky financial instruments like credit default swaps (CDS) and collateralized debt obligations (CDO) or losses in investment portfolios. Profitability is more likely to have been impacted than underlying solvency. Currently troubled capital markets, falling ratings and plunging share prices have prompted many to rethink their risk and capital management strategies. With this in mind, KPMG International recently commissioned the Economist Intelligence Unit to survey insurance executives around the world to gain insight into their current perception of business prospects and risk priorities.



Frank Ellenbürger

Insurers cautiously optimistic about growth

The research found many were anticipating that growth would improve over the next 12 months. Over half of the respondents thought prospects for both organic growth and growth by acquisition/take-over were positive. North Americans appeared most confident, which may reflect a perception that this region will rebound most quickly from the current economic slump. The less optimistic news is that the same executives said a continuing lack of confidence in the capital markets could stifle their recovery. Less than four in ten respondents said that they expected an improvement in their share price over the next year. Well-designed and actionable procedures for mitigating the risks that created so much recent instability will likely be key to restoring faith in the markets.

Risk management is a significantly higher priority

It is clear that concerns over the impact of the weakened economy, and particularly the capital markets, have prompted insurers to place significantly more emphasis on risk management and capital performance. At board level, the survey showed that the proportion of time spent on both risk management and capital management has increased substantially. Over 80 percent of board members are now spending at least 20 percent of their time on risk management issues. The survey also found that almost two-thirds of respondents have appointed board-level risk committees in addition to their longer-established audit committees. In terms of priorities, market risk and credit risk are top of the agenda.

Greater focus doesn't equal more spending on risk

Interestingly, a significant majority of respondents regard themselves as already good at managing risk activities. When asked to rate their effectiveness in 11 different categories of risk management, at least six in ten respondents believed themselves to be effective in each area. And despite devoting more time to risk from the board level downwards, not everyone was intending to spend more money on the risk function. Around half of the respondents expected to invest more. But this leaves a substantial proportion (47 percent) expecting to achieve stronger performance with the same resources in both risk and capital management as before, and no plans to increase training resources, recruiting or other investments in risk functions.

Enough capital in the industry?

Meanwhile, there is an apparent contradiction around responses heard on capital. Most respondents (85 percent) believe they are well-capitalized relative to their risks, and most believed that the industry as a whole has sufficient capital reserves. But more than half nonetheless believe they will need to strengthen their capital over the next 12 months, which is more in line with messages we are hearing from the marketplace. The survey continues over the summer and will track any shifts in attitude.

Link to better valuation

The impact of the current financial crisis on the insurance industry is clear in terms of lower valuation in the market. But insurers clearly feel a sense of optimism that they have seen the worst now, and have the attributes to prepare for a more favorable environment. If they can demonstrate excellence in managing risk, continue to be profitable, and communicate this achievement effectively, we may well see market confidence and valuations boosted in the year to come.

For more information please contact:
Frank Ellenbürger
 Partner, Global Sector Leader, Insurance
 KPMG in Germany
 Tel: +49 89 9282 1867
 e-Mail: fellenbuerger@kpmg.com

KPMG's global risk and capital management insurance survey 2009

In April 2009, KPMG initiated a two-part research program to explore how the financial crisis is changing insurance industry attitudes to risk and capital management. We asked senior executives how they are responding to prevent further losses and position their businesses for growth in future. The initial report, capturing the thinking of 315 industry executives from 49 countries, was launched in early June 2009.

Key findings in April 2009

- Over half see positive prospects for growth in the next 12 months
- Managing risk is a much higher priority and two thirds of companies have appointed board level risk committees
- At least 6 in 10 think they are already effective at managing risk across the board
- Around half don't intend to increase investment in managing risk
- Top three activities where risk management plays an active role are new product development, strategy development and pricing



Part two of the survey will track further changes in attitude and responses to risk management in the forthcoming months. Results are scheduled to be published in

an in-depth briefing in November 2009. For more information or copies of the first report, please visit www.kpmg.com