



Transcript

A glimmer of hope - Podcast

With Paul Bishop, Partner, KPMG in the UK

NA: Narrator

PB: Paul Bishop

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NA: KPMG International recently commissioned a global survey from the Economist Intelligence Unit to examine how the financial crisis has changed the attitude of the global insurance industry towards risk and capital management.

The findings reflect the sentiments (A) of the 315 senior insurance executives across 49 countries who answered the survey. Paul Bishop from KPMG in the UK is an advisory partner with over 20 years experience in advising insurance companies and is here today to comment on the findings.

Welcome, Paul, and thank you very much for taking the time to talk to us today.

PB: Thank you, I am delighted to have the opportunity to share with you the results of our global insurance survey.

NA: Well, with no further ado, I'd like to begin by considering that aside from a handful of high-profile casualties, the global insurance industry seems, so far, to have escaped the worst ravages of the financial

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crisis.

The survey that KPMG's Global Insurance practice undertook with the EIU considers how attitudes and prospects have changed within insurance in the wake of the crisis.

Paul, what was the motivation behind and objective of the survey?

PB: This initial survey is actually the first of a two-part series. Its objective was to take the temperature of the global insurance industry and assess the impact of the crisis upon it, in particular the topic of risk and capital management. We also wanted to find out how insurers view their opportunities resulting from the crisis and what areas they plan to focus on within the next six to 12 months.

NA: An intriguing finding is that respondents are optimistic about growth in the next 12 months; the industry anticipates it has seen the worst of the financial crisis and it also believes it has the attributes to prepare itself for a more favorable environment.

Paul, do you share these views and are they congruent with the views your clients share with you?

PB: The results show that 55 percent of respondents expect an improvement in organic growth and 53 percent expect an improvement in growth by acquisition or take-over during the next 12 months. While there are some minor differences between the responses of the life and non-life insurers across the regions who participated in the survey - namely Asia Pacific, Europe, the Middle East and Africa and North America - overall there is a striking consistency in their optimism as to their prospects.

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Beyond the high-profile casualties, the insurance industry has not been so deeply affected by the current economic conditions. Therefore executives within it are perhaps more optimistic about their prospects for the coming year than those in other financial services sectors. Our clients tend to share this sentiment. I think they will find it an interesting exercise to compare the outcomes from our survey with their own business operations.

NA: If there is a sentiment for optimism then there is also the need to manage the future insurance landscape cautiously.

According to the research, most insurers seem to agree that there will be an increased focus on risk and capital management from the board level down - and a significant increase in the perceived influence of the regulator in both of these areas. I assume that this was an anticipated outcome?

PB: Certainly. Although risk management is historically a central activity for insurers, the events of the past year have put even more focus on risk, particularly financial risk. Another feature of the survey is the increasing influence of regulators – again not a surprise - who are now seen to exert as much authority as senior management and they will clearly be looking for a significant level of comfort around the quality of risk management. What is surprising is that many respondents were not expecting to incur further costs in this area. Fifty three percent of respondents said that their companies will increase investment in risk management related resources over the next year. But the rest - almost half - expect to improve performance without increasing resources and with limited incremental spend.

Another interesting feature is that relative to their risks, an impressive two-thirds of respondents believe that they are well-

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capitalized. They also express widespread confidence that their institutions and the industry in general, are well-capitalized. On the other hand it is interesting that more than half of companies say that they will need to increase their capital reserves over the next 12 months, which frankly is more in line with the conversations we are having with our firms' (RC) clients.

Again we anticipate regulators having increasing influence in insurers capital management – it is certainly a major theme in Europe both in terms of their current capital position and the impending 2012 implementation of Solvency II. This is challenging for everybody, but particularly for the large global groups, because of the sheer scale and complexity of their businesses.

NA: So, it sounds as though now is not a time for complacency amongst global insurers?

PB Certainly not. The industry can take confidence from their overall business models which on the whole have appeared sound. But they will need to examine how they achieve growth and profitability in the wake of the crisis and within the economic landscape evolving from it – and how they adapt to it.

Another factor they will need to get to grips with will be increasing regulatory and governmental intervention, especially as regards their efforts to strengthen risk management and capital planning practices. We anticipate future regulatory requirements having a significant impact and insurers will increasingly need not just to implement well-designed and actionable procedures for identifying and mitigating the and managing capital, but also to be able to demonstrate their effectiveness clearly to others, particularly regulators and the market.

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In my view, the global insurance industry seems to be well equipped and prepared to weather the crisis better than their peers in the banking sector, but there is still a degree of uncertainty on how to respond to the challenges to come and to benefit most from the opportunities, and a lot of work to be done to implement successful solutions - which is where KPMG member firms (RC) can help....

We certainly look forward to the findings of the second phase of this significant research project which we'll undertake during the summer, allowing us to study the sentiments in the industry in greater depth.

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