



Global Trade Opportunities & the Threats for Marine Insurance

Insurance Industry Megatrends

Prepared by Joe Trotti

September 2008

1. Global Trade Opportunities

- Economies of USA and Europe slowing down
- Five major Asian economies seeing signs of slowdown
- Emerging markets, such as Brazil and China are continuing to expand
- Commodity prices remaining high through 2008 and 2009
- Trade volumes of all major commodities increasing, in particular oil, metals and agricultural goods
- Trade patterns are regionalising due to impact of emerging markets
- The emerging insurance markets such as in India, China and Brazil are liberalising
- All major insurance companies / syndicates see the opportunities in these “new worlds”
- So what are the threats for Marine Insurers?

2. War for Distribution

- Access to any client in any sector
- Lessons from other financial services: affinity, collaborative networks (Banks)
- Consolidation of international and regional brokers
- Constantly evolving, innovative models
 - Aggregators
 - Agent networks
 - MGAs
- Insurers buying distribution

3. Risks Are Different and Global—and Scary!

- Historically – Property, casualty, marine, aerospace, executive risks, etc.
- Today – Shaped by globalization, the environment, the biosphere and powerful economic and ideological forces:
global warming, terrorism, cyber risk, credit risks
- Strict liability, products liability/recall, consumer and shareholder activism, cross-border suits, political risks
- ERM or “what’s on my balance sheet?” / “where are all the risks in my business?”
- Intricate global supply chains affecting companies of all shapes and sizes
- Innovative design driving size and complexity of vessels therefore expanding their use
- Lack of suitably qualified crews impacting Shipowners ability to continuously trade effectively

4. Embracing Technology for Productivity

- Information
- Placement: Aggregators e.g. Insurance Noodle
- Efficiency
- Facilitator of service excellence: policies/claims
- Better modelling/analytics
- Not instead of people but on behalf of people

5. Demand for Differentiated Value

- Driven by clients and topic #1 in most boardrooms
- Demand for exceptional quality AND best cost, driven by reliability, efficacy, consistency, measurability and accountability
- Value Gap
- Industry consolidation

“Price is an issue in the absence of value.”

6. Demand for and Retention of Professional Talent

- Huge variety of skills now needed – client-facing, product/technical, market, analytical, advisory
- Top professionals from insurance – but other sectors too
- Grow our own – have to get out of the recycling business
- Retention – career development and professional training key

7. Convergence of Capital and Insurance Markets

- Anticipated for years – now fuelled by
 - Growth in financial acumen of risk management community
 - Availability of large pools of capital
 - Potential to tap into trillions of dollars of capacity
 - Advances in modelling
 - Imperative for firm-wide capital efficiency
- Alternative risk and capital markets in the nascent stages
- Investment banks and hedge funds as “competitors”
- Clients recognize the need to measure, map and manage their exposures to aggregation risk
- Value Based Capital Management

8. Regulatory Issues All Over the Place

- Regulation stronger, more complex, yet uneven/unlevel:
Spitzer, FSA, OFC, European Commission, TRIA
- Transparency
- Contingents/supplemental compensation
- Principles-based regulation
- Attempts to mitigate / prevent risks for consumer
→ Creates risks for companies
- Creates significant risk issues for insurance sector itself

9. Appreciation of the Industry

- Insurance is the DNA of capitalism!
- Marine Insurance is the heritage of our Industry
- Marine Insurance leads the Insurance Industry in innovative products and services
- IUMI provides a wonderful forum for dialogue and debate
- The need for self-esteem

Don't be an industry of memories – be an industry of dreams

10. Insurance Industry Megatrends

1. Global Trade Footprint
2. The War for Distribution
3. Risks Are Different and Global –And Scary!
4. Embracing Technology for Productivity
5. Demand for Differentiated Value
6. Demand for and Retention of Professional Talent
7. Convergence of Capital and Insurance Markets
8. Regulatory Issues All Over the Place
9. Appreciation of the Industry