GIRO Conference 2009

Managing business in a Capital Constrained era

Bryan Joseph
Path of the storm?
- Aerospace and defence
- Pharmaceuticals
- Utilities

Eye of the storm
- Commercial property
- Banking
- Housing
- Retail
- **Mono-line insurance**

In the storm
- Automotive
- Chemicals
- Construction / building supplies
- Entertainment and Media
- Hospitality and Leisure
- Transport and logistics
- D&O and E&O insurance

Edge of the storm
- Business services
- **Insurance**
- Manufacturing
- Mining and metals
- Oil and Gas services
## Pre-Credit Crunch World

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Debt</th>
<th>Reinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Availability</strong></td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>20%</td>
<td>10-20%</td>
<td>5-20%</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>≤10 years</td>
<td>Annual renewable</td>
<td></td>
</tr>
<tr>
<td><strong>Alignment of interest</strong></td>
<td>High</td>
<td>Low</td>
<td>High</td>
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General Insurance Industry has performed poorly
Sovereign health

CDR Government Risk index*, basis points

Source: Credit Derivatives Research

*Index of sovereign CDS spreads in Britain, France, Germany, Italy, Japan, Spain and US
Post event capital raising

Source: AON Benfield Research
# Post Credit Crunch World

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<tbody>
<tr>
<td><strong>Availability</strong></td>
<td>Low</td>
<td>Low</td>
<td>Cyclically high</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>20-30%</td>
<td>&gt;10%</td>
<td>5-20%</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>Early sale/ exit</td>
<td>&lt; 5 years</td>
<td>Annual renewable</td>
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*Capital less available and more expensive*
Regulatory pressure

**Solvency I**  
- Percentage of premiums and claims

**Solvency II**  
- Risk dependent framework
  - QIS4 results say that industry has enough capital, but not in the right places.
  - Alignment with IFRS for Phase 2
  - CEIOPS CP’s suggesting some capital increase over QIS4 likely.
Reinsurance

• Capital replenished by asset revaluation
• Absence of large loss
• Soft market conditions continuing.
Liquidity

- Governed by ability to raise capital in short term
- Need to model liquidity position
- Must subject liquidity stress scenario tests
- Asset position now very important
  - Currency
  - Spreads
  - Asset quality
Questions?

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