How to Thrive in Recession and Recovery

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Recession or Recovery?

It has been a deep downturn ...

Economic headwinds & tailwinds

Tailwinds
- Massive policy stimulus
- Rapid inventory adjustment

Headwinds
- Collapse in confidence
- Contraction in credit & liquidity
- Slump in global demand
- Long-term need to repay debt
Recovery?

- There are signs that the worst is over and that we are entering the recovery phase.
- But while the government stimulus is providing a boost, there are still long-term structural issues (especially debt) to address.
- We expect a slow, gradual recovery.

It appears that the worst is now over

% of companies saying that, compared to a month ago, business levels are...

<table>
<thead>
<tr>
<th>Service sector</th>
<th>Manufacturing sector</th>
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<tbody>
<tr>
<td>Balance</td>
<td>Balance</td>
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<tr>
<td>Higher</td>
<td>Higher</td>
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<tr>
<td>Same</td>
<td>Same</td>
</tr>
<tr>
<td>Lower</td>
<td>Lower</td>
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</tbody>
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But the hang over may last a while...

Household savings ratio (%)
Economic Outlook

- There are signs that the worst is over
  - Conditions in some markets have begun to normalise
  - Some asset prices have begun to recover
  - As well as some real economy indicators
- But there is no easy fix
  - Balance sheets have to be repaired
  - Exiting unconventional policies will bring new challenges
Implications for the Insurance Sector

1. Deterioration in Investment Income
2. Price Pressure
3. Cyclical Business Pressures
4. Claims Cost Inflation
5. Active Regulation

1. Investment Income is lower

2. Customers are even more price focused

“Perfect” market differentially rewards players with advantaged cost base, cross-sales, retention and pricing/rating excellence
3. Business cycle impact

Strongly correlated insurance losses
- Creditor Insurance
- But also credit insurance
- Mortgage indemnity
- Directors and Officers
- Errors and Omissions

Strongly correlated business volumes
- Construction
- Marine
- SME start-ups
- Travel

4. Claims Costs are up

- Recession – impact on theft, arson, fraud, etc.
- Increase in ‘claims farming’ e.g. “No win – no fee”

Higher bodily injury claim severity due to more claimants per claim

Avg. claimants per claim

Q1 2006
Q1 2007
Q1 2008
Q1 2009
Q2'09

- Recession – impact on theft, arson, fraud, etc
- Increase in ‘claims farming’ e.g. “No win – no fee”

NHS Compensation Recovery Unit

“Claims farming and an increase in BI claims reflects the increased costs of personal injury claims”

“14% increase in notifications”

5. Increasingly active regulation

- TCF
- ICAS
- PPI
- Solvency II
- Turner Report
- Executive Pay (Walker Report)
What trade-off do insurance customers want to make?

- Low Cost
- High Service

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Paul's 6 “S” For Success

1. Scale benefits
   - Better buying
     - Supply chain
     - Fulfillment
     - Marketing synergies
   - More data
     - More customers
     - More brands
     - More channels
### How to Thrive in Recession and Recovery

#### 2. Slick service
- “1 Kitchen, many restaurants”
- LEAN = only activity valued by the customer
- Everyone enrolled and skilled in process improvement
- Multi-channel
- Straight-through processing
- Paper elimination
- Buy vs build choice

#### 3. Smart & swift
- Optimise data assets
- R&D into pricing & rating, claims, fraud
- Quickest wins
- Turn-up the clock speed
- Learning from other industries
- Key role for Actuaries

#### 4. Salient
- Brands that meet different customer needs
- Noisy advertising
- Call to action
- Value proposition
- Partnerships
- Channel Management
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5. Skill
- Best business lags having best people
- Mutual respect between technical experts and commercial management
- Development of people across this divide
- Professional selling, professional claims
- Investment in training – people factory
- 360 degree for development and reward
- Key roles for Actuaries

How to Thrive in Recession and Recovery

6. Safe & Sane
- Risk is not a department
  - Solvency II owned in the business
  - CRO at top table
  - Risk core part of 360 degree
- Sensible pricing
  - Avoid top-line vanity
  - Price for lifetime value
  - Remember the recovery may be slow

Can we do all that?
Oh yes!