

# INSURANCE DAY SUMMIT

LONDON

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## Insurance Day Summit London 2007 Survey Results Revealed

In Association With

**C/M/S/ Cameron McKenna**

## Insurance Day Summit London Survey 2007

The Insurance Day Summit London conducted an industry-wide survey – sponsored by CMS Cameron McKenna, to gather the views of senior insurance executives on capacity/pricing, regulation, and insurance market challenges. The results of the survey were discussed and debated during this year's Insurance Day Summit London. Below is a summary of the findings.

### CAPACITY AND PRICING

68.9% of those responding to the survey believed that the capacity available to the insurance industry globally was likely to grow over the next 18 months. 53.4% thought that UK domestic capacity would also grow. Bermuda was thought to be the most likely overall beneficiary of future influxes of capital, particularly from hedge funds and private equity investors.

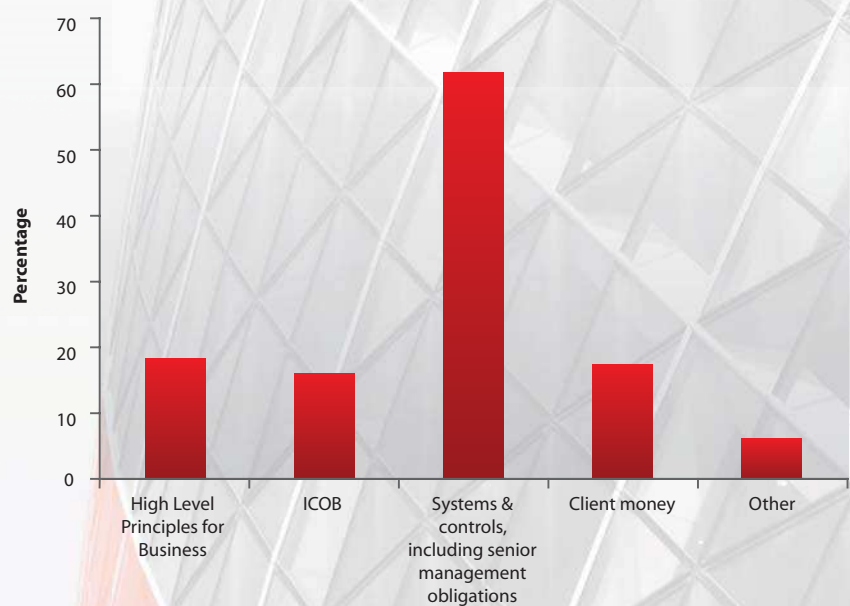
Perhaps, predictably, respondents to the survey foresaw that the result of the anticipated increase in capacity was likely to be for the market to pursue prices downwards. This is consistent with the market reviews produced earlier this year by leading brokers and accountancy practices, all of which predict a general softening of rates across a broad range of classes.

The debate on the survey results at the Insurance Day Summit London does, however, reflect a growing determination on the part of Insurers to smooth the effects of market softening. Nick Sinfield of Catlin, for example, emphasised the huge benefits that could be brought by even a small percentage reduction in claims leakage. Emphasis was also placed on the continuing need to build and maintain confidence within a changing investor constituency by enforcing and ensuring proper underwriting disciplines.

It remains to be seen whether the determination expressed in May will be shared generally across the market. There must be some optimism that it will. The drive towards contract certainty over the last two years, coupled with the attention now being paid by insurers to the production of crisp, accurate wordings should provide underwriters with more control over the risks that they write, as should the growing awareness amongst both insurers and insured of the value of sound risk management. Neither of these entirely desirable trends seems set to abate.

### REGULATION

Which FSA rules give rise to the great difficulties and the greatest risk of compliance failings?



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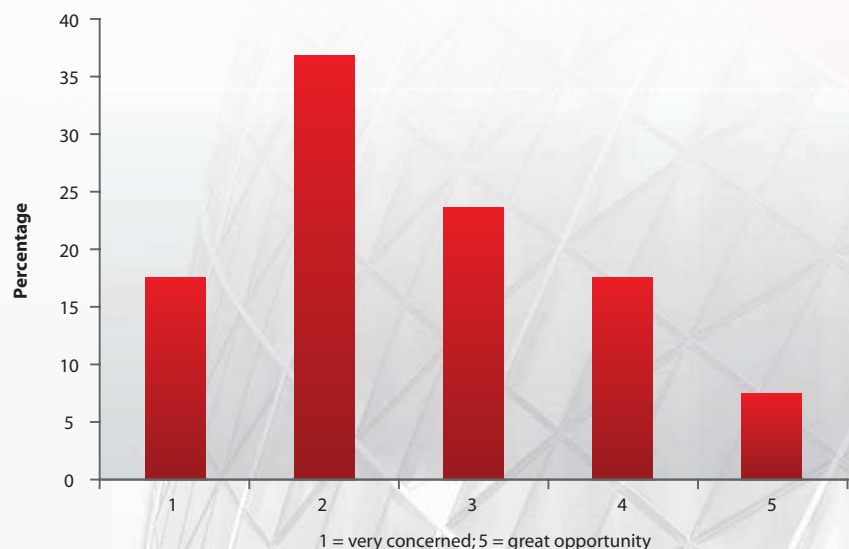
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From a regulatory perspective, the industry's top concern is the move towards principles-based regulation. This is surprising, given the principles are already in place and have been for many years. All firms ought to be complying with them now. Principles-based regulation should be welcomed. In theory, it frees firms from the shackles of prescriptive regulation and gives them much more flexibility in how they operate. Of course, it can also lead to uncertainty: fewer prescriptive rules means it is less easy to adopt a tickbox approach and greater responsibility is placed on senior management to ensure that the principles are met, customers are treated fairly and so on. This must be a concern, given the industry's perception that the greatest risk of a compliance failing under the current rules is in the area of senior management responsibility systems and controls - over 60% identified this as the greatest weakness.

Two more concerning issues come out of the survey: second on the list of regulatory challenges was the need to carry out further work to meet the FSA's current standards and bottom of the list (and, therefore, of least concern) was conflict management. This indicates an alarming complacency on conflicts. Much work may have been done as a result of Spitzer, but conflicts is and always will be an issue for the insurance industry, a fact recognised by the European Commission's recent report into the business insurance sector. Jane Owen of Aon concurred with this view, noting that the industry is concerned with the threat of full commission disclosure, which Jane supported as an important element in the effective management of conflicts of interest.

## CHALLENGES AND OPPORTUNITIES

What should the attitude of the London Market be to the growth of other insurance market places?



Just over 50% of respondents thought that London should be concerned to a substantial degree about the growth of other insurance markets. This raises the interesting issue as to whether those responding should have been in fact more concerned at the position- is this in fact actually a sign of complacency at London's position? In examining the qualitative responses, it is quite clear that all respondents believe that the challenges facing London mirror those facing the market internationally i.e. of managing the cycle, of becoming more innovative and of the need to develop electronic trading. Clearly, from these responses, if London is to meet the challenge identified, London must "out do" the international market in meeting these common challenges and only by doing so will London differentiate itself and make itself more attractive despite advantages perceived in other markets, particularly of a regulatory/fiscal nature.

There was also a general consensus from the responses submitted that all markets worldwide faced the ongoing challenge of managing consolidation. There also appeared to be no one product or line of business that respondents saw as having particular growth potential going forward, although honourable mentions were given to the belief that catastrophe reinsurance and also D&O insurance products would be important in the future.

Unsurprisingly, the importance of China as a developing market was noted across all business areas.

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