

# **REMARKS PREPARED FOR DELIVERY INSIDER SCOPE 2010**



## **WILLIS AUDITORIUM THE WILLIS BUILDING LONDON, UK February 10, 2010**

Thank you Peter [Hastie] and welcome everybody to The Willis Building.

We are again extraordinarily proud to be hosting this event. There is no building like The Willis Building. And in the City of London, there are few rooms like this, where the men and women of influence in insurance – and those who cover it – can gather and discuss the most pressing issues facing our industry and the global economy at large.

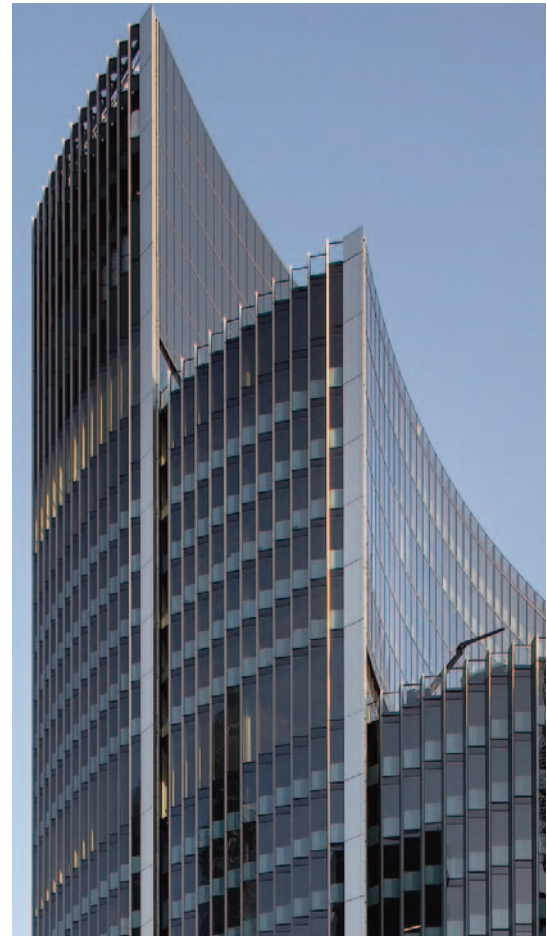
The organic growth numbers that Willis delivered last week told an interesting story. Certainly different than the stories we were seeing in some periods of 2009, especially the early months, when those in this room, myself included, were left to wonder where the roller coaster that is the global economy would take us.

The markets came back in 2009, but with the exception of Asia they did not return to their pre-downturn levels. In many areas around the world, “not getting worse” is the new “good.”

By no means are we out of the woods yet. But we’re beginning to see signs of improvement. And we’re also a better and stronger company – and I think a better and stronger industry – for what we went through last year.

### **A YEAR AFTER THE MELTDOWN - FROM WHERE HAVE WE COME?**

When Hank Greenberg and I gathered with you here in February 2009, we were still very much in the middle of the financial meltdown. One year later, we are only starting to see the true enormity of the impact. The financial crisis took with it about a quarter of Americans’ net worth. In 2008, household wealth plunged by \$11.2 trillion dollars in the U.S. alone, the most in a single year since record keeping began in 1952. And non-U.S. households didn’t fare much better. Around the world, about half of all stock market wealth disappeared.



In the last year, unemployment soared to 10% in the U.S. and 8% in the U.K. Some 27 million people around the world lost their jobs in 2009, according to the U.N. labor agency.

In the U.K. alone, 19,077 companies went bust. The U.K. government now owns three banks and, in the U.S., 207 banks are now under the control of the FDIC.

To date, both of our governments have paid a combined total of \$4.4 trillion (U.S., \$3 trillion; U.K., \$1.4 trillion) to bail out the bankers and others who caused this mess in the first place. The world as we know it has been flipped upside down.

## ONE INDUSTRY STANDS PROUD

In the midst of all the chaos, one industry has stood strong and proud – insurance. While 207 banks have failed in the U.S., only a few insurers who delved into exotic products and didn't stick to their knitting went under.

Good old “boring” insurance. We take a lot of flack, but when it comes to picking up the pieces after disaster strikes, insurance is there time after time. Take the floods that devastated Cumbria a few months ago – the wettest day on record in this country. It was called “biblical.” Thousands of claims. One industry was quick to respond. The insurance industry paid out over £200 million to rebuild the lives of homeowners and get businesses back up and running.

Not unlike the story of San Francisco in 1906. Northridge, California in 1994. New Orleans in 2005. And of course, Lower Manhattan in 2001 – the site of the World Trade Center, whose rebuilding proceeds apace right outside the window of my office. Following all of these catastrophes – and thousands more in between, when natural and manmade disasters upend our way of life – insurance is there to turn it right side up.

## OPPORTUNITIES IN RISK

We're here to talk today about “capitalizing on the vicissitudes of insurance.” That's a word we might say in London: “vicissitudes.” In Trenton, where I come from, we use a word with fewer syllables: “change.” There's a lot of it in our economy and our industry. And, yes, with it a lot of opportunity for those who can capitalize.

Kevin Landis, the Chief Investment Officer of First-hand Funds in the U.S., is one of America's best known portfolio managers in the high-tech industry. He has an interesting perspective that parallels a view I have had of insurance for a long time. He said that, and I quote, “Disasters, whether natural or man-made, are forms of economic stimulus. Most of

the replacement comes out of insurance instead of out of normal cash flows. That's the reason that any disaster gives you a silver lining of economic recovery.”

What an amazing opportunity: We are capital providers and risk advisors in a world where capital from conventional sources is hard to find and huge risk is found around every corner.

In Los Angeles last December, I spoke to a large group at Town Hall L.A. at a downtown hotel. The room was full of risk managers familiar with the traditional risks that their companies have had to deal with for decades. I laid out my “Top Ten Risks for 2010,” hitting on issues that barely existed in the minds of CEOs and Boards of Directors only 10 years ago. The list went as follows:

- Reputation
- Piracy
- Cyber Security
- Globalization
- Cost and Availability of Credit
- Market Cap Risk
- Regulation and Compliance
- Pandemics
- Terrorism
- Climate Change

In the speech in L.A., I said I couldn't foretell the future, but I talked about the winter of 1861-1862 and the worst storms in the recorded history of California. Not unlike Cumbria in 2009. Lakes formed in the Mojave Desert. The governor-elect in Sacramento had to leave his home from a second story window and take a boat to his inauguration.

Pick any of the top ten risks you want. Today, each of them – and many more – offer us as an industry a monumental opportunity to develop and market products that can help mitigate the risks of a free society.





## BLACK SWANS IN ABUNDANCE

So, was that bad weather in California 150 years ago a once-in-two-lifetimes event? A “black swan?” Maybe. That’s one reason we created the Willis Research Network, the world’s largest collaboration between the insurance industry and academia. We support leading scientists at the best universities hard at work modeling the worst scenarios. In the case of California, our network scientists are working with the U.S. Geological Survey to simulate the effects of storms where losses could exceed \$50 billion.

Around the time of my speech, Governor Schwarzenegger started holding events around the state forecasting that San Francisco International Airport could be underwater sometime in this century unless planning to prevent rising sea levels gets underway.

And wouldn’t you know it? If you were living in Southern California recently, assuming you had power to your house or the mud hadn’t plowed through your roof and walls, you’d have read headlines about biblical-type flooding that destroyed homes and overflowed catch basins. Here’s a passage from the *Los Angeles Times*:

*The front yard of Amanda Manukian’s home was strewn with mud and the remains of sandbags that had been washed away Saturday morning by heavy rains. Her garage had also flooded.*

*“It looked like the Niagara Falls was coming down the street,” she said.*

*“This hill right here, half of it came down,” Manukian said, pointing to a hill about a quarter-mile above her home on the 5400 block of Ocean View Boulevard.*

The world is full of risks, and getting riskier all the time.

Sophisticated analytics from our Willis Research Network and Structured Risk Solutions unit draw from the worlds of actuarial science, mathematics, cat modeling, capital markets and financial products. Our analytics consider every risk a company could face, from a hurricane wiping out its operations to credit risk destroying its balance sheet.

The CEO of Willis Structured Risk Solutions is Phil Ellis. A few weeks ago, in the aftermath of the Haiti earthquake that left 200,000 dead and 300,000 injured, he remarked that black swan events like the Haiti quake are not nearly as rare as people assume and he wrote up his thoughts for the

*Financial Times*. In a January 24 column (“Disasters are not rare, so prepare”), he argued that catastrophes are much more common than we think, and that we should not be so surprised when they happen. We need to plan and get ready to deal with them, because they will strike at any time.

Since 1970, natural disasters killing more than 50,000 human beings have occurred on average every four years. The five biggest natural disasters in this period were:

- 1970 Bangladesh flood (300,000 deaths)
- 1976 Chinese earthquake (255,000)
- 1991 Cyclone Gorky, Bangladesh (138,000)
- 2004 Tsunami, Indonesia (220,000)
- 2008 Cyclone Nargis, Burma (138,000)

The *Financial Times* column explained how the world could – and should – prepare:

*“The United Nations, given a greatly strengthened capability may be able to deliver the skill and scale that is required. Inevitably, the Group of 20 leading economies must provide the lion’s share of the resources to get this done. Whatever the mechanism, now is the time to put in place a rapid response to natural catastrophes and to use this initiative to exert influence on developing countries to improve their own protective and preparatory measures.”*

Interestingly, late last week U.S. Secretary-General Ban Ki-moon appointed former U.S. President Bill Clinton to coordinate international relief efforts in the earthquake-devastated country. Visiting Port-Au-Prince for the second time since the January 12 earthquake, President Clinton seemed to be channelling Phil Ellis’s approach.

*To prepare for future disasters, Mr. Clinton said he planned to suggest that the United Nations consider stockpiling latrines and other sanitation supplies in disaster- or conflict-prone areas around the world, much as it already does with medical supplies, food and water.*

*He said he believed that the United Nations and the international community needed to devise plans for handling natural disasters and conduct practice exercises to improve coordination and diminish response time.*

Even in countries like Haiti, where there is little private insurance in place, we as individuals and professionals have an important role to play. A multinational catastrophe pool will pay \$8 million to the government. Beyond that, London-based AXCO Insurance Information Services estimated that non-life insurance premiums in Haiti are less than \$20 million a year. That's it, and it's not much. The rest is up to the collective response of governments, NGOs, companies and individuals.

## **NATURAL DISASTERS ARE ONLY HALF OF THE STORY**

Phil Ellis's column didn't limit itself to natural disasters. Indeed, the biggest losses our world has faced in the last 15 years haven't been from weather-related catastrophes. Consider these man-made catastrophes:

- 1997-1998 Asian Financial Crisis (\$700 billion in total losses)
- 1998 LTCM episode (\$4.6 billion)
- 2000-2002 dot-com crash (\$5 trillion)
- 2001 Enron (\$50 billion)
- 2007-2010 CDO/housing-led financial collapse (\$50 trillion)

Each of the above was extremely unlikely – a 100-year storm, a black swan. But they all happened in the last dozen years. As an industry, we can take the lead in risk management and save many lives and billions of dollars in the process.

The most recent financial crisis is just another example of a disaster that few saw coming. But we have lost much more than money during this recession. The financial crisis has cost us an ingredient that is essential for true recovery. You can't buy it. You can't borrow it. You have to build it. You have to earn it. It's that old thing called trust.

In 1873, the financial journalist Walter Bagehot wrote, "Credit, the disposition of one man to trust another, is singularly varying. In England, after a great calamity, everybody is suspicious of everybody; as soon as that calamity is forgotten, everybody again confides in everybody."

He was talking about Lombard Street – just down the road from here, which was the heart of London's financial district in the late 19th century. But he may just as well have been speaking about Wall Street, where trust and credit are rare commodities. And it is only once trust is rebuilt that credit will flow freely again.

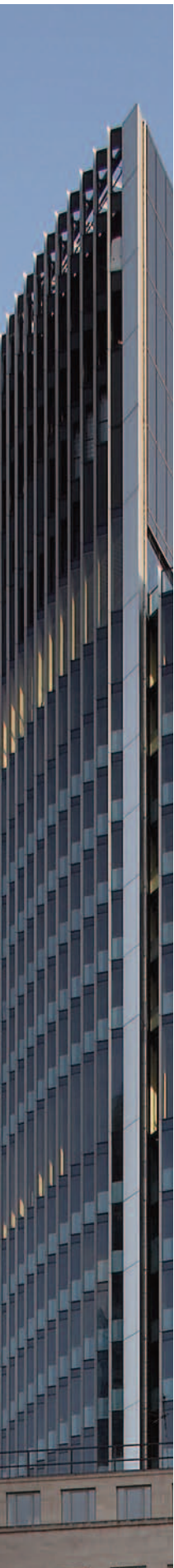
Consider this – in the respected Edelman Trust Barometer survey released late last month, the three biggest industries in the U.K. economy (insurance, media and banks) have the lowest levels of public trust (31%, 23% and 21% respectively). In fact, 51% of the U.K. public do not trust business! In that same survey, 72% say that trust is the most important criterion for corporate reputation in the U.K. and financial return is the least important. Before trust can be rebuilt, business has a lot to answer for.

In the Edelman survey in the U.S., only 38% of respondents said they trust business to do the right thing – a 20% drop from 2008, and worse than after the Enron scandal and the dot-com bust. Worst of all, only 17% said they trust information from a company's CEO. That's one out of six people. That means only one in six of you in this room believes what I'm saying. Would all the non-believers please stand up?

## **TRUST IN OUR INDUSTRY**

In our own industry, there is talk of a return to the days when the biggest brokers relied on contingent commissions for a substantial part of their revenue. Some of the most important players in this drama are here, right now, in this room.





How will we look as an industry if the leading brokers can once again earn commissions from insurers for giving them business and not for the value we provide to our clients? We're already one of the least trusted industries globally. People aren't looking where they should – to how we as an industry provide the capital to help pick up the pieces like we did in San Francisco, Northridge, New Orleans and Lower Manhattan. Instead, they're looking at how we are compensated, and they're not happy – with good reason.

We actually took a big step toward building trust with our clients when contingent commissions were banned for the largest brokers in 2005. At Willis, we've abolished them for good. We're a better company for it. When the last contingent commissions from HRH – a company we acquired in 2008 – are finally ended, we'll have transformed ourselves fully into a company with only one focus: the needs of the client.

What will clients of other companies say if this conflict of interest raises its head again? It's one reason I extended my contract to 2013. I can't wait to find out.

I am convinced the only way to resolve the conflicts inherent in contingent commissions is to reject them. We stopped taking them because we want to be paid for the value we provide our clients, not the insurance companies.

Many in our industry believe that simply telling clients that they are taking contingents makes it OK. I disagree. With contingents, telling your clients you take them does not resolve the conflict. That's just lip-service. It sounds like transparency but it can never be true transparency. It does not change the fact that your true incentive is to act in the interests of someone other than your client – and that when push comes to shove you're not going to fight for the best deal in the marketplace or advocate fiercely to recover a claim if you know your compensation from the insurer will suffer.

Our clients agree. The presidents of RIMS and AIRMIC had this to say on the topic:

*“RIMS’ position has always been to support a prohibition of contingent commissions because of the inherent conflict of interest when a broker receives payment from both buyer and seller in an insurance transaction.”*  
Terry Fleming, President, RIMS

*“Airmic does not believe it is possible for an intermediary to act as both an agent of the insurer and of the insured at different times during a transaction, without risking significant potential conflicts of interest.”*  
John Hurrell, CEO, AIRMIC

The principle on which insurance has been founded for over 200 years is uberrima fides, utmost good faith. This means that all parties to an insurance contract must deal in good faith, making a full declaration of all material facts in the insurance proposal. In this time of turmoil and distrust of our industry, we should be sticking steadfastly to this doctrine more than ever before.

I may be one of the older people in this room, but I'm a great believer in our future and the role that our professionalism and our innovation will play in it.

- The more expert we are about the needs of our clients and their industries, the more we'll be valued.
- If ideas such as the New York Insurance Exchange take off, I hope they will be implemented in a way that allows us to place business with greater speed through smart technology. Ultimately, that's our job: to place our clients' unique risks with the best markets, prices and terms.
- If we can each get our businesses operating at optimal efficiency, we will be better equipped to relentlessly deliver quality client service.
- And when disasters do strike, we all have to be unencumbered by allegiances to other constituencies – like carriers who may be dangling contingent commissions at the end of the year – and fight with all of our ability to get claims paid quickly.

At Willis, we look at those four things: industry expertise; developing solutions for our clients with the best markets, prices and terms; relentlessly servicing our clients; and getting their claims paid quickly; and wrap them together in a simple promise we call the Willis Cause. The Willis Cause is bound together by an overarching commitment to integrity that guides the way we run our business and underlies everything that we do.

Is any one of us in this room perfect? No. Not by a long shot.

But one look at the headlines today or at the risks that loom around the corner tells us that this can be the dawn of a great era for the insurance industry. New risks demand new

solutions. Change can be our friend. We have an incredible opportunity to help manage the vicissitudes of insurance, and to come through this challenging period better, stronger and more trusted than ever before.

This is not February 2009, when few of us in this room could have predicted with any confidence when the volatility would ease, when the crisis would crest or when growth would resume.

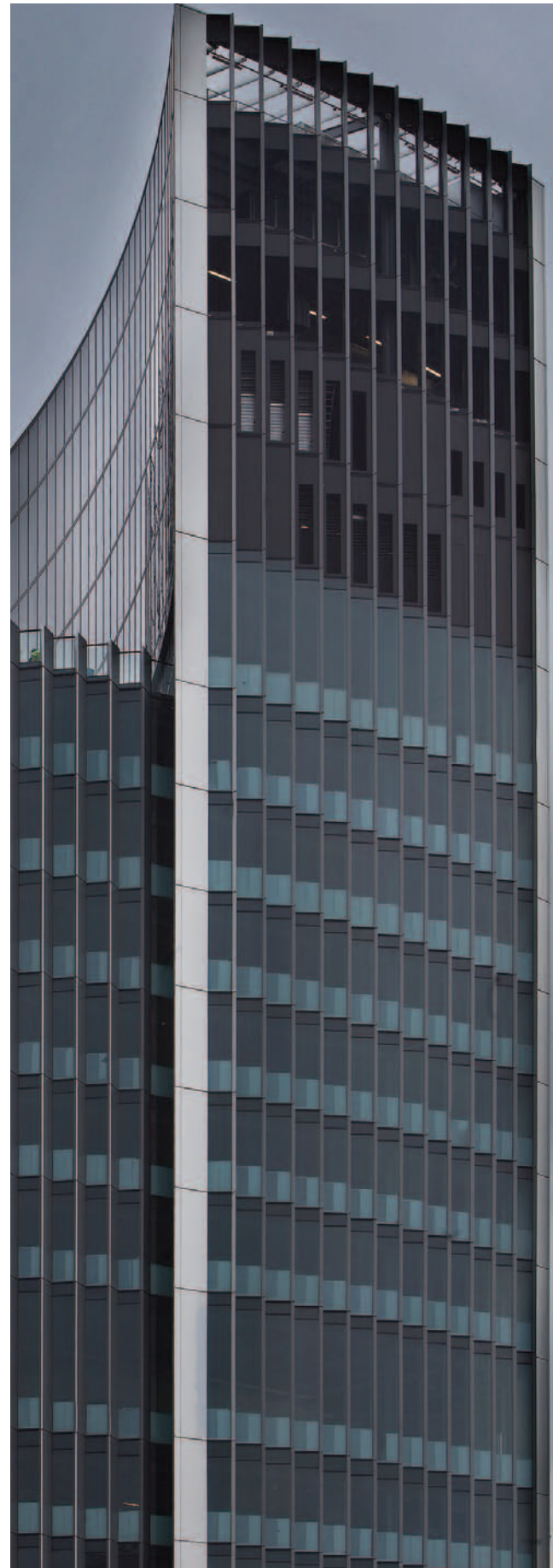
By no means are we there yet. The market tumble last week served as a reminder of the fragility of our global economy.

But the Fourth Quarter earnings numbers coming out over the last few weeks from many companies, Willis included, show that in some areas volatility has lessened, the crisis is calming and growth is returning.

If we want this truly to be the dawn of a great era for our industry, we have to learn from our past mistakes, help our clients better plan and prepare for their future risks, and engage with them, our shareholders and our many stakeholders to create a culture of trust and transparency that is the envy of the financial services industry.

Thank you.

*Willis Group Holdings plc is a leading global insurance broker, developing and delivering professional insurance, reinsurance, risk management, financial and human resource consulting and actuarial services to corporations, public entities and institutions around the world. Willis has more than 400 offices in nearly 120 countries, with a global team of approximately 20,000 Associates serving clients in approximately 190 countries. Additional information on Willis may be found at [www.willis.com](http://www.willis.com).*



Willis Building on Lime Street, London, UK  
(Pictures courtesy of Stanhope by Hufton + Crow)