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INSURANCE INDUSTRY MUST BE MORE EFFICIENT TO MEET CHALLENGES OF CHANGE, SAYS CEO OF GLOBAL BROKER JLT RISK SOLUTIONS

London, 29 November 2004: The insurance industry is facing a period of uncertainty against a backdrop of challenges from terrorism to regulation, Mike Hammond, the CEO of JLT Risk Solutions, told insurance risk managers at the JLT annual industry symposium in London: “The Insurance Market & Risk Management in 2005.”

“As we head into 2005, I think that we would all agree that once again, the world of insurance and risk management, for various reasons, is in a period of uncertainty,” said Mr Hammond.

He continued: “Three years ago, after 9/11, we all sweated a bit wondering what was going to happen and no one thought the world would be the same again. However, since that time, we have seen all sorts of peaks and troughs and we again find ourselves in a market where those buyers in the audience are wondering what a technical rate is when you see 20% and 30% reductions on prices from two or three years ago.

“There is no doubt that the political, economic and social environment is affecting business in a very dynamic way. The continuing impact of terrorism, heightened risk awareness in boardrooms, and the emergence of new liability exposures to go with those that remain on the balance sheets of insurers and reinsurers from 20 years ago are all putting strains on the capital system that supports the insurance and reinsurance industry. The regulatory environment worldwide is placing a strain on business, not just from a point of view of compliance, which I should say we welcome at JLT, but from a cost perspective. We have to become more efficient and we must understand that, essentially, we are here to provide services to the customer.

“Our industry continues to attract negative publicity, and I am sure there will be some questions about that today. Where it is justified, it is essential that the industry responds positively, transparently and effectively to the challenges that inevitably will follow. However, I hope we remember that, three years after 9/11, Enron, and the crash in the equity market, which seriously impacted the industry, most of the buyers in the world were nonetheless still able to buy some insurance, if not the same insurance, at the end of those events. Sometimes, the negative publicity takes on too much of an aura and we forget about the positive things that insurance and reinsurance achieves for the businesses that we serve.”

Mr Hammond said that it should not be forgotten that the insurance industry acted in a positive way by helping to protect management and shareholders from risk.

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“Our challenge today and tomorrow is how we deal with such a dynamic and volatile risk and insurance environment. The fact is that the cost of risk, however you define it, has increased in most cases and is unlikely to reduce in the foreseeable future. The size, scope and depth of potential losses resulting from the risks that we in business either accept or, in some cases, create, require that we work together to achieve efficient and cost-effective solutions. That is the aim of JLT and we want to work in partnership with clients, insurers, reinsurers and other capital providers, rather than work in a vacuum. Sharing knowledge and being transparent is the key and we are committed to that goal.”

Mr Andrew Cornish, the chairman of the Association of Risk Insurance Managers In Commerce (AIRMIC) said that the Spitzer investigation in the US may encourage efficiency in the industry by taking out frictional costs.

He said: “If you do not know where your costs are or are not aligning the costs and the income, maybe that is something that stops efficiency in the industry. That is something we have to push for. We need to be working together. Brokers, underwriters and risk managers all have a key role and have to work together as a triumvirate to make the industry work better, and work through how these business models, which do have to change, are going to work. Brokers need to make money; they need to make returns for their shareholders. Insurers need to make money; they need to make money for their shareholders and so do we in risk management, in the buy side.

“Our businesses need to use insurance to protect them, but also need to ensure that that is done in the most efficient way. How about using this opportunity to try to sort out some of those inefficiencies and problems in our markets? Policy wordings need to be there from day one. We need to get contract certainty. Surely this is something that we can, as an industry, work together on to drive through.”

Other speakers at the event were: Martin Williams, Specialist insurance Marketer, HSBC; Clive Tobin, CEO XL Insurance; Kit Juckes, Head of Strategy and Credit Research, Royal Bank of Scotland and author/mountaineer Joe Simpson.

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