

**EUROPEAN
RISK MANAGEMENT FORUM**

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**INTEGRATED AND ENTERPRISE
RISK MANAGEMENT SOLUTIONS**

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William J. Kelly is a Managing Director of J.P. Morgan, a leading, global financial services firm based in New York City. His responsibilities include corporate risk and insurance management and various other corporate resource areas. Before joining J.P. Morgan fourteen years ago, he was the Director of Insurance and Risk Management at Merrill Lynch.

Mr. Kelly is presently the Chairman of the International Federation of Risk and Insurance Management Associations *(IFRIMA), a global body of 30 associations from over 20 countries throughout the world and he is also a member of the board of the Global Risk Management Institute. He was the 1995-96 President of the Risk and Insurance Management Society (RIMS), the world's largest such organization with membership of 4,500 entities in the U.S. and Canada, employing 8,000 individual deputy members. Mr. Kelly is a member of the Risk Management Advisory Council of Allianz Insurance Company, a director of the Spencer Educational Foundation and has served as a member of the Risk Management Executive Council of Protection Mutual Insurance Company. He was also the recipient of the 1995 Matthew Lenz Risk Management Award from the New York Chapter of CPCU. He has frequently spoken on risk and insurance management at conferences throughout the world and has published many articles on these subjects.

He is a past Chairman of the Insurance Committee of the American Bankers Association (ABA), served as Chairman of the ABA's 1993 National Security and Risk Management Conference and Co-Chairman of the 1995 Monte Carlo Risk Management Forum.

Mr. Kelly began his insurance career as an underwriter with the INA in 1972 and subsequently served as an officer in the Risk Management Department of Chase Manhattan Bank, and as a Vice President of Bankers Trust Company.

Mr. Kelly holds a B.A. in English Literature from Fordham University in New York City and a Masters Degree in Business from the Fordham Graduate School of Business at Lincoln Center.

* www.rims.org/ifrima

Guten Morgen,
GOOD MORNING

WE ARE HERE TODAY TO DISCUSS INTEGRATED AND ENTERPRISE RISK MANAGEMENT PROGRAMS. OUR SUBJECT IS REALLY THE EVOLUTION OF RISK AND INSURANCE MANAGEMENT. AS IN NATURE, EVOLUTION RESULTS IN AN ENVIRONMENT THAT IS INCREASINGLY COMPLEX. THE PRODUCTS OF EARLIER STAGES OF EVOLUTION DON'T NECESSARILY DISAPPEAR BUT OFTEN CONTINUE TO CO-EXIST WITH NEWER LIFE FORMS, ADAPTED TO DIFFERENT PURPOSES OR ENVIRONMENTS. THIS IS A CRITICAL POINT. NEW APPROACHES TO RISK AND INSURANCE MANAGEMENT DO NOT NECESSARILY ELIMINATE OR INVALIDATE ESTABLISHED METHODS. TO ME, THE REAL VALUE OF INTEGRATED AND ENTERPRISE RISK MANAGEMENT IS NOT AS RADICAL ALTERNATIVES TO INSURANCE BUT, RATHER AS ADDITIONAL METHODOLOGIES FOCUSING ON EXPOSURES AND FINANCIAL NEEDS NEVER PREVIOUSLY ADDRESSED, AT LEVELS NEVER BEFORE ATTAINED. AS A RISK MANAGER, MY ROLE AS THE FINAL SPEAKER ON THIS PANEL, IS TO CHALLENGE AND QUESTION THOSE WHO WOULD SELL THESE PRODUCTS TO US.

BEFORE WE CONSIDER WHERE RISK AND INSURANCE MANAGEMENT IS GOING, LETS TAKE A MOMENT TO REVIEW WHERE WE HAVE BEEN. IT IS IMPORTANT TO PREFACE THESE COMMENTS WITH THE STATEMENT THAT THERE IS NO ONE WAY TO PERFORM RISK AND INSURANCE MANAGEMENT, JUST AS THERE IS NO ONE WAY TO DESIGN AN INVESTMENT PORTFOLIO. IT DEPENDS ON THE NATURE AND GOALS OF THE CLIENT. THAT SAID, MOST CORPORATIONS HAVE THE SAME BASIC TYPES OF INSURANCE PROGRAMS: PROPERTY, CASUALTY, PROFESSIONAL LIABILITY, CRIME, DIRECTORS AND OFFICERS LIABILITY AND CERTAIN OTHERS.

IN A SOFT INSURANCE MARKET, WITH FLAT TO NEGATIVE GROWTH, THERE IS CLEARLY A MOTIVATION FOR INSURERS AND BROKERS TO SELL SOMETHING NEW AND DIFFERENT. IN ADDITION, RISK MANAGERS WISH TO BE INNOVATIVE. WITHIN THIS CONTEXT THE CONCEPT OF INTEGRATED COVERAGE WAS INTRODUCED. HAVING, OVER THE YEARS, WITNESSED THE INTRODUCTION OF A NUMBER OF PRODUCTS THAT WERE BORN BEFORE THEY WERE CONCEIVED, WE ALL KNOW THAT ANY NEW PROPOSAL MUST BE CAREFULLY CONSIDERED.

INTEGRATED PROGRAMS TAKE ALL OR A NUMBER OF THE PRE-EXISTING INSURANCE PROGRAMS AND PUT THEM UNDER ONE POLICY, SOMETIMES ALSO ADDING NEW COVERAGES. THE ARGUMENTS FOR THIS CONSOLIDATION ARE SIMPLE AND SEEMINGLY LOGICAL. IS IT NOT MORE EFFICIENT TO HAVE ONE POLICY WITH ONE RENEWAL THAN TO HAVE SEVERAL? IS IT NOT BETTER TO HAVE ONE FINANCIALLY SOUND INSURER THAN TO HAVE MANY, WHOSE FINANCIAL STABILITY MUST BE MONITORED? THE CONSOLIDATION OF COVERAGE CAN ALSO RESULT IN COST SAVINGS. AT FIRST GLANCE, THE CONCEPT SEEMS ATTRACTIVE, AND FOR CERTAIN FIRMS, ESPECIALLY THOSE HAVING DIFFICULTY SECURING COVERAGE, IT ACTUALLY MAY BE.

HOWEVER, FOR FIRMS WITH GOOD LONG TERM RELATIONSHIPS WITH THEIR PRIMARY INSURERS, THERE ARE A NUMBER OF QUESTIONS TO BE POSED BEFORE ENTERING INTO INTEGRATED PROGRAMS, ESPECIALLY WITH RESPECT TO THE BASIS OF THE PROJECTED COST SAVINGS.

WHEN INTRODUCED, INTEGRATED PROGRAMS WERE WRITTEN ON A CLAIMS MADE BASIS, RATHER THAN ON AN OCCURRENCE FORM. THIS IS A MAJOR DIFFERENCE. PUBLIC LIABILITY POLICIES WRITTEN ON AN OCCURRENCE FORM APPLY TO INJURIES WHICH OCCUR WHILE THE POLICY IS IN EFFECT. ON THIS BASIS, AN INSURED CAN BENEFIT FROM THE AGGREGATION OF ALL COVERAGES MAINTAINED OVER DECADES, AS HAPPENED WITH ASBESTOS CLAIMS. ON A CLAIMS MADE BASIS, THE INSURED ONLY HAS THE BENEFIT OF THE LIMIT OF THE ONE POLICY IN FORCE AT THE TIME THE CLAIM IS MADE.

ONE OF THE CHIEF REASONS FOR THE REDUCTION IN PREMIUM IN INTEGRATED PROGRAMS IS A RADICAL REDUCTION IN AVAILABLE COVERAGE. IN A TRADITIONAL ARRANGEMENT, EACH PROGRAM HAS ITS OWN AGGREGATE LIMIT OFTEN ON AN ANNUAL BASIS. AN INTEGRATED PROGRAM REDUCES COVERAGE IN THREE WAYS. FIRST, ALL OF THE PREVIOUSLY FREE STANDING AGGREGATES ARE REDUCED TO ONE. SECONDLY, SINCE INTEGRATED PROGRAMS ARE ON A MULTIYEAR BASIS, ANNUAL AGGREGATE LIMITS BECOME STRETCHED OVER 36 MONTHS. A \$100 MILLION ANNUAL AGGREGATE REPRESENTS \$300 MILLION OVER THREE YEARS. CHANGING A \$100 MILLION ANNUAL AGGREGATE TO \$100 MILLION OVER 36 MONTHS, REDUCES AVAILABLE COVERAGE BY \$200 MILLION. WHILE LIMITS CAN USUALLY BE REINSTATED, THERE IS A COST ASSOCIATED WITH THIS.

WHEN DEALING WITH ONE DISCREET COVERAGE LIKE DIRECTORS AND OFFICERS LIABILITY, AGGREGATE ADEQUACY CAN BE CAREFULLY MONITORED AND AUTOMATIC REINSTATEMENTS PRE-NEGOTIATED. WITH AN INTEGRATED PROGRAM, COVERING MULTIPLE AREAS, THE ISSUES BECOME MORE COMPLEX. WHEN INTEGRATED

PROGRAMS WERE INTRODUCED, THE TREATMENT OF AGGREGATE DEPLETION, EXCESS POLICY DROP DOWN AND REINSTATEMENT WERE NOT CLEAR.

THE THIRD WAY IN WHICH COVERAGE IS SIGNIFICANTLY REDUCED IS THE IMPOSITION OF A VERY LARGE RETENTION OR DEDUCTIBLE. THIS IS ESPECIALLY DIFFICULT TO JUSTIFY RELATIVE TO THE INEXPENSIVE COVERAGE AVAILABLE ON A PRIMARY BASIS. GIVEN ALL OF THE ABOVE, IT IS NOT SURPRISING THAT INTEGRATED PROGRAMS REDUCE COSTS... AS LONG AS THERE ARE NO SIGNIFICANT LOSSES.

IF A MAJOR LOSS OCCURS UNDER A TRADITIONAL ARRANGEMENT, IT AFFECTS ONLY ONE PROGRAM AND ONE INSURER RELATIONSHIP. UNDER AN INTEGRATED PROGRAM, A MAJOR LOSS, OF ANY TYPE, CAN PLACE THE ENTIRE ARRANGEMENT AT RISK, AS SOME FIRMS WHICH MOVED TO INTEGRATED PROGRAMS FOUND OUT. IS IT WISE TO SUBJECT THE INSURER PROTECTING THE PERSONAL ASSETS OF INDIVIDUAL DIRECTORS AND OFFICERS TO THE GENERAL LOSS EXPERIENCE OF THE FIRM AS A WHOLE?

THERE IS ALSO THE QUESTION OF THE DEGREE OF EXPERTISE ANY ONE INSURER HAS IN ALL COVERAGE AREAS. FOR EXAMPLE, HIGHLY PROTECTED RISK PROPERTY INSURERS REPRESENT A NICHE MARKET THAT OFFERS VERY COST EFFECTIVE PROTECTION. IN ADDITION, THERE ARE RELATIVELY FEW INSURERS WITH EXTENSIVE EXPERTISE IN DIRECTORS AND OFFICERS LIABILITY ISSUES.

AN INTEGRATED PROGRAM MAY BE AN ATTRACTIVE PROPOSITION FOR FIRMS WITH CERTAIN RISK PROFILES AND LOSS HISTORIES BUT THE ABOVE INDICATED ISSUES NEED TO BE THOROUGHLY ADDRESSED.

AS I SAID AT THE OUTSET, THE VALUE OF AN INTEGRATED RISK PROGRAM IS NOT AS AN ALTERNATIVE TO TRADITIONAL METHODS BUT AS AN ADDITIONAL METHODOLOGY FOCUSING ON EXPOSURES AND FINANCIAL NEEDS NOT PREVIOUSLY ADDRESSED.

IN THE CASE OF MY OWN FIRM, WE APPLIED THE CONCEPT OF RISK INTEGRATION TO ACHIEVE A WHOLE NEW LEVEL OF PROTECTION AND ALSO EMBRACE PREVIOUSLY UNINSURABLE OPERATIONAL EXPOSURES. LEAVING ALL OF OUR PRIMARY RELATIONSHIPS AND PROGRAMS INTACT, WE SYNDICATED A \$400 MILLION CATASTROPHE EXCESS PROGRAM. AS EXCESS, THE POLICY ATTACHES IN EXCESS OF THE PRE-EXISTING DIRECTORS AND OFFICERS LIABILITY POLICY AND OUR CRIME INSURANCE. AS A CATASTROPHE PROGRAM, IT ATTACHES OVER A \$100 MILLION RETENTION PROVIDING CORPORATE PROFESSIONAL LIABILITY COVERAGE AND WHAT, IN 1997, WAS THE FIRST INSURANCE POLICY PROVIDING COVERAGE FOR ALL UNAUTHORIZED ACTS, INCLUDING, WITHOUT LIMITATION, UNAUTHORIZED TRADING. THIS PROGRAM IS AN EXAMPLE OF THE INTEGRATION OF RISK WITHOUT ANY OF THE POTENTIALLY NEGATIVE EFFECTS. THE KEY REASON FOR THIS IS THAT THE CONCEPTS OF INTEGRATED RISK WERE NOT APPLIED AS AN ALTERNATIVE TO EXISTING PRIMARY PROGRAMS BUT AS A FURTHER ENHANCEMENT AT A HIGHER LEVEL, THEREBY PROVIDING A MORE MATERIAL LEVEL OF EARNINGS PROTECTION. IT ALSO PERMITTED US TO ELIMINATE CERTAIN MORE NARROWLY FOCUSED AND EXPENSIVE EXCESS COVERAGES.

SOME MONTHS AFTER THE POLICY WAS EFFECTED, LLOYDS INTRODUCED A COVERAGE SOLELY FOR UNAUTHORIZED PROPRIETARY (FIRST PARTY) TRADING LOSSES. THIS COVERAGE WAS INTENDED TO ATTACH SUBJECT TO A LOWER RETENTION BUT WITH A

MUCH HIGHER PREMIUM. THIS MUCH MORE LIMITED COVERAGE IS REFERRED TO AS THE SVB FORM.

JUST AS EVOLUTION IN NATURE RESULTS IN SOME RATHER STRANGE CREATURES, SOME ODD COMBINATIONS OF EXPOSURES HAVE BEEN INTRODUCED IN THE NAME OF INTEGRATED RISK. ONE FIRM, FOR EXAMPLE, CHOSE TO COMBINE THEIR PROPERTY AND CASUALTY PROGRAM, INCLUDING PHYSICAL DAMAGE, PUBLIC LIABILITY AND WORKERS COMPENSATION COVERAGE, UNDER A POLICY ALSO COVERING FOREIGN EXCHANGE RISK. AS BANKS HAVE FOR DECADES PROVIDED CLIENTS WITH THE ABILITY TO INSURE AGAINST FOREIGN EXCHANGE EXPOSURE, THE VALUE OF ADDRESSING THESE EXPOSURES UNDER ONE CONTRACT IS NOT IMMEDIATELY APPARENT.

THE ARGUMENT IS ADVANCED THAT SINCE THE EXPOSURES ARE SO UNRELATED THEY WILL NOT BE AFFECTED BY THE SAME EVENT. THIS IS TRUE. IN FACT, THEY ARE SO COMPLETELY UNRELATED THAT THEY CAN READILY BE ADDRESSED SEPARATELY. IT WOULD APPEAR MORE ADVANTAGEOUS TO COMBINE TWO RISKS THAT BEAR AN INVERSE RELATIONSHIP TO EACH OTHER, SUCH THAT UPWARD MOVEMENT IN ONE WOULD SERVE TO BE OFFSET BY DOWNWARD MOVEMENT IN THE OTHER, CREATING AN AUTOMATIC HEDGE.

THIS COMBINATION WAS SAID TO RESULT IN COST SAVINGS. AS WITH OTHER INTEGRATED RISK PROPOSALS, THIS CLAIM WOULD HAVE TO BE ANALYZED IN TERMS OF THE DEGREE TO WHICH OVERALL COVERAGE WAS REDUCED AND THE RETENTION WAS INCREASED. IT WAS REPORTED THAT THIS PROGRAM WAS STRUCTURED WITH ACROSS THE BOARD ANNUAL RETENTIONS OF FROM \$25 TO \$35 MILLION DOLLARS.

THERE IS CERTAINLY POTENTIAL FOR FURTHER INVENTIVE COMBINATIONS OF RISKS AND THERE ARE SOME VERY TALENTED PEOPLE EXPLORING THE POSSIBILITIES. BUT ANY PROPOSAL MUST BE CHALLENGED IN TERMS OF AVAILABLE ALTERNATIVES AND IT MUST BE DETERMINED THAT COMBINING THESE RISKS REPRESENTS GREATER VALUE THAN ADDRESSING THEM SEPARATELY. THE WHOLE MUST TRULY BE GREATER THAN THE SUM OF ITS PARTS AND, AS WE HAVE DEMONSTRATED, ALLEGED COST SAVINGS CAN BE ILLUSORY.

THE CONCEPT OF ENTERPRISE RISK IS FAR MORE SWEEPING THAN INTEGRATED RISK. WHERE INTEGRATION FOCUSES LARGELY ON THE COMBINATION OF WHAT ALREADY EXISTS. ENTERPRISE RISK ATTEMPTS TO ADDRESS THE ENTIRE SPECTRUM OF RISK FACED BY A BUSINESS ENTERPRISE, INCLUDING MARKET RISK, CREDIT RISK AND OPERATING RISK. STRATEGICALLY, THERE IS VALUE IN VIEWING RISK HOLISTICALLY BUT IN TERMS OF TACTICAL SOLUTIONS, IT IS NECESSARY TO DISTINGUISH AMONG THE DIFFERENT TYPES OF RISKS. WITH RESPECT TO MARKET AND CREDIT RISK, THERE ARE ALREADY MANY WAYS IN WHICH TO FUND AND HEDGE THESE EXPOSURES. IN ADDITION, THERE ARE FINANCIAL SERVICE FIRMS FOR WHOM THE MANAGEMENT OF MARKET AND CREDIT RISK IS THEIR CORE COMPETENCY AND REVENUE SOURCE. THIS DOES NOT MEAN THAT NEW PLAYERS AND APPROACHES MAY NOT BE VALUABLE BUT IT DOES MEAN THAT THE VALUE CANNOT BE ASSESSED WITHOUT A THOROUGH UNDERSTANDING OF THE EXISTING ALTERNATIVES.

EARLY ITERATIONS OF ENTERPRISE RISK PROPOSALS FAILED TO RECOGNIZE THE DIFFERENCES IN RISKS. THEY WERE CHARACTERIZED AS “BALANCE SHEET”

PROTECTION PROGRAMS. THEIR FOCUS WAS NOT ON THE SPECIFIC CAUSE OF LOSS BUT RATHER ON THE BALANCE SHEET IMPACT OF ANY TYPE OF LOSS.

THE FIRST PROPOSALS OF THIS TYPE USUALLY CALLED FOR A GROUP OF FIRMS TO POOL ASSETS OVER THE LONG TERM TO CREATE FROM \$500 MILLION TO \$1 BILLION IN COVERAGE, THAT WOULD ATTACH AT PERHAPS \$100 MILLION. THESE EARLY PROPOSALS WERE EXTREMELY EXPENSIVE FOR THE PROSPECTIVE INSUREDS BUT HIGHLY LUCRATIVE FOR THE INVOLVED INTERMEDIARIES. THE PROJECTED FINANCIAL ADEQUACY OF SUCH ARRANGEMENTS WAS BASED ON MODELS WITH A QUESTIONABLE AND LIMITED STATISTICAL FOUNDATION.

AGAIN, THE BASIC PROBLEM WITH THESE PROPOSALS WAS THAT THEY WERE STILL BEING PRESENTED AS AN ALTERNATIVE TO INSURANCE. THE LIMITS BEING OFFERED AND THE POINT OF ATTACHMENT COULD READILY AND INEXPENSIVELY BE MATCHED THROUGH A BROAD INSURANCE COVERAGE, SUCH AS THE CATASTROPHE PROGRAM WE ARRANGED AT J.P. MORGAN.

SINCE THAT TIME, ENTERPRISE RISK MANAGEMENT CONCEPTS HAVE FURTHER MATURED. THE CRITICAL FACTOR IS THE REALIZATION THAT ENTERPRISE RISK PROGRAMS ARE NOT IN COMPETITION WITH INSURANCE, WHICH REMAINS CHEAP AND EFFICIENT. WHILE THE EARLY "BALANCE SHEET" OFFERINGS ATTEMPTED TO ADDRESS ALL RISKS BY FOCUSING ON BALANCE SHEET IMPACT AS A TRIGGER, MORE RECENT DISCUSSION NOW TENDS TO FOCUS MORE SPECIFICALLY ON OPERATING RISK. AS I HAVE INDICATED, THERE ARE MANY FINANCIAL VEHICLES AVAILABLE TO ADDRESS MARKET AND CREDIT RISK AND THE MODELS USED HAVE AN EXTENSIVE STATISTICAL FOUNDATION. HOWEVER, OPERATING RISK, HAS REMAINED A RELATIVELY UNDEFINED

THREAT. THE AVAILABLE DATA ON ACTUAL OPERATING LOSSES HAS BEEN QUITE LIMITED AND IT HAS, THEREFORE, BEEN VIRTUALLY IMPOSSIBLE TO QUANTIFY THIS EXPOSURE.

OPERATING RISK FUNDING PROPOSALS, NOW IN THEIR EARLY STAGES OF INTRODUCTION, NO LONGER CHARACTERIZE THEMSELVES AS ALTERNATIVES TO INSURANCE BUT AS CAPITAL ALLOCATION TOOLS AND ARE BASED ON MORE EXTENSIVE OPERATING LOSS EXPERIENCE DATA. THE STATISTICAL UNIVERSE OF SUCH LOSSES IS STILL RELATIVELY LIMITED, AND THE CONTINUOUS CHANGES IN THE UNDERLYING TECHNOLOGICAL ENVIRONMENT MAKE HISTORICAL EXPERIENCE OF LIMITED VALUE IN PREDICTING THE FUTURE. HOWEVER, THESE LIMITATIONS ARE RECOGNIZED BY INSURERS WHO REALISTICALLY VIEW THE DATABASE OF OPERATING RISK AS ONE ADDITIONAL TOOL, WHICH NEEDS TO BE FURTHER IMPROVED.

FOR MAJOR CORPORATIONS, TRADITIONAL INSURANCE CONTINUES TO OFFER AN EFFICIENT METHOD OF EARNINGS PROTECTION, ESPECIALLY IN COMBINATION WITH EXCESS INTEGRATED CATASTROPHE PROGRAMS. HOWEVER, THE AMOUNT AND SCOPE OF COVERAGE AVAILABLE HAS NEVER BEEN SUFFICIENT TO PROTECT SUCH ENTITIES FROM LIFE THREATENING LOSSES ARISING OUT OF OPERATING RISKS.

ONE INSURER ATTEMPTING TO ADDRESS OPERATING RISK IS SWISS RE. SWISS RE IS IN THE PROCESS OF INTRODUCING A NEW FINANCIAL INSTITUTION OPERATING RISK INSURANCE, WHICH THEY REFER TO AS FIORI. THE INSURER PERCEIVES OPERATING RISK AS ARISING OUT OF THE FOLLOWING CATEGORIES: PERSONNEL, TECHNOLOGY, PHYSICAL ASSETS, RELATIONSHIPS AND EXTERNAL.

- PERSONNEL – BUSINESS REQUIREMENTS ARE NOT MET DUE TO MOTIVATIONAL ISSUES, FRAUD OR IMPROPER PERSONNEL POLICIES.
- TECHNOLOGY – SYSTEMS UNAVAILABILITY, POOR DATA QUALITY, SYSTEM ERRORS, SOFTWARE PROBLEMS
- PHYSICAL ASSETS – ONGOING BUSINESS ADVERSELY AFFECTED BY DAMAGE OR LOSS OF PHYSICAL ASSETS
- RELATIONSHIPS – UNSUITABLE RELATIONSHIPS, SALES PRACTICES, CUSTOMER PROBLEMS ETC.
- EXTERNAL – RISK THAT A TRANSACTION IS OR BECOMES UNENFORCEABLE, AS WELL AS CHANGES IN LAW OR OF RELEVANT STANDARDS

SWISS RE WOULD LIKE TO DEVELOP OPERATING RISK PROTECTION THAT WOULD MATERIALLY IMPROVE THE PERCEPTION OF THE INSURED BY REGULATORS, STOCKHOLDERS AND BONDHOLDERS. THE DIFFICULTY WILL BE IN SYNDICATING SUFFICIENT CAPACITY TO PROVIDE A MATERIAL LEVEL OF PROTECTION. FOR THE LARGEST FINANCIAL INSTITUTIONS, IN MY OPINION, THIS COULD REQUIRE TOTAL CAPACITY APPROACHING \$10 BILLION. IT IS SWISS RE'S STATED VISION, AS A PIONEER IN THIS AREA, THAT INSURANCE COMPANIES AND BANKS SHOULD WORK TOGETHER TO CREATE A COMMON MARKET, WHERE INSURERS WILL ACT FIRST AS PROVIDERS OF CAPITAL AND LIQUIDITY, IN THE LONG RUN BECOMING MARKET MAKERS FOR ADDITIONAL CAPITAL, WHICH MIGHT FLOW IN FROM OTHER SOURCES SUCH AS ASSET MANAGERS.

THE EMERGENCE OF SUCH ENTERPRISE RISK PROGRAMS FOCUSING ON OPERATING RISKS POSES A SIGNIFICANT CHALLENGE TO PRACTITIONERS OF TRADITIONAL RISK AND INSURANCE MANAGEMENT. THERE ARE TWO MAJOR ASPECTS TO ENTERPRISE

OPERATING RISK PROGRAMS: THE FIRST IS FINANCIAL, IN THAT THESE PROGRAMS ARE BEING DESIGNED AS CAPITAL MANAGEMENT TOOLS AND THE SECOND IS TECHNOLOGICAL, AS TECHNOLOGY IS PERHAPS THE MAJOR SOURCE OF OPERATING RISK FOR MANY FIRMS. FOR THESE REASONS, THE DEVELOPMENT OF THE ROLE OF ENTERPRISE RISK MANAGER MAY, DEPENDING UPON THE NATURE OF THE FIRM, FAVOR INDIVIDUALS WITH EXTENSIVE FINANCIAL AND/OR TECHNOLOGICAL BACKGROUNDS. IN MY OPINION, THIS DOES NOT DESCRIBE MOST CURRENT PRACTITIONERS OF RISK AND INSURANCE MANAGEMENT. SUCH PRACTITIONERS MUST EITHER GROW TO MEET THESE OPPORTUNITIES OR RISK BEING RELEGATED TO A MIDDLE MANAGEMENT ROLE, AS LIMITED SUBJECT MATTER SPECIALISTS, FOCUSING ON A NARROW INSURABLE BAND WITHIN THE BROAD SPECTRUM OF OPERATING RISK. THIS VIEW IS REINFORCED BY THE FACT THAT TODAY AN INCREASING NUMBER OF LEADING UNDERWRITERS HAVE BACKGROUNDS IN BANKING AND FINANCIAL CONSULTING RATHER THAN INSURANCE.

CONTINUING WITH OUR THEME OF EVOLUTION AND THE PROCESS OF NATURAL SELECTION, THOSE RISK AND INSURANCE PRACTITIONERS WHO CAN ADAPT AND CONTRIBUTE IN THIS CHANGING ENVIRONMENT BY ARRANGING THE BEST COMBINATION OF AVAILABLE ALTERNATIVES, WILL SUCCEED.

AS IN NATURE, EVOLUTION RESULTS IN AN ENVIRONMENT THAT IS INCREASINGLY COMPLEX. THE PRODUCTS OF EARLIER STAGES OF EVOLUTION DON'T NECESSARILY DISAPPEAR BUT OFTEN CONTINUE TO COEXIST WITH NEWER LIFE FORMS, ADAPTED TO DIFFERENT PURPOSES OR ENVIRONMENTS.

Dankeschön.