FULLCOVER

MDS GROUP MAGAZINE

SPECIAL EDITION
OCTOBER 2012

Special Feature
AIG CEO Robert H. Benmosche interview inside

BrokersLink
Discover the history of the global alliance

Spain
ARTAI PRESIDENT Jaime Borrás shares his thoughts

Catastrophes Today
An interview with Erwann Michel-Kerjan

A SPECIAL EDITION FOR A SPECIAL POINT IN TIME

“I see great things on the horizon for MDS and all its partners and clients, and hope those who share our passion will be there with us.

Throughout my tenure as the CEO of MDS, I’ve had the opportunity to meet and work with bright people from around the world, to appreciate a variety of new perspectives and to work towards the strengthening of BrokersLink, a truly innovative and powerful international alliance we helped found. While there have been many moments along the MDS time line that have been cause for excitement, our current progress and accomplishments give me great pride and make me more confident than ever that together, we can achieve remarkable things in the world of risk management.

This special edition of Full Cover is a testament to the gravity and potential of this moment. Front and center is a captivating interview of Robert Benmosche, CEO of American International Group, Inc. (AIG), which helps answer some of the most pressing questions in insurance today and lend insight into one of the world’s largest and most storied firms. The issue also features interviews with Dr Erwann Michel-Kerjean and Manuel Padilla, touching on many important issues and giving readers a closer look at some of today’s top risk management executives.

These interviews are complemented by a number of reports and explorations of important businesses and markets, and are rounded out with a detailed look at the exciting proWgress within the BrokersLink’s history. As MDS moves towards the achievement of extraordinary new goals in the Latin world and beyond, I feel more passionate and driven about our work and our potential than ever before.

I see great things on the horizon for MDS and all its partners and clients, and hope those who share our passion will be there with us.

José Manuel Fonseca

ROBERT BENMOSCHE

A MAN WITH GLOBAL DRIVE AND CAPABILITIES

THROUGH AIG'S TURBULENT RECENT PAST, ROBERT BENMOSCHE HAS HELPED FORGE A PATH TOWARDS A STRONGER, BRIGHTER FUTURE.

As the Chairman of BrokersLink, it's my duty and also my great honor to help forge and nurture beneficial partnerships, and to meet with noted leaders in the insurance world where long term vision is critical to survive. As we gear up for the BrokersLink 2012 Conference in Madrid, we're looking forward to hearing from some of these exceptional leaders, and in particular from Mr. Robert Benmosche, CEO of AIG Group, who contributed to his company's impressive rise from the incredible challenge of the financial crisis of 2008 and beyond.

BrokersLink and its prominent co-founder MDS, together with AIG/Chartis enjoy a reciprocal and productive partnership. Where our strategies meet, we're able to broaden our reach and refine our skills for greater service to clients worldwide. As BrokersLink moves towards greater market diversification and the management of emerging risks, we know we'll go further with AIG/Chartis by our side.

Mr. Benmosche recently answered questions from the members of the BrokersLink's board of directors to bring our readers this captivating interview–setting an exciting tone for his upcoming speech in Madrid.

José Manuel Fonseca

> "...It's clear to everyone that the crisis at AIG is over.

"AIG is a company that keeps its promises to the American public, our clients, our shareholders and bondholders," says Bob Benmosche. "It's about having the ability to count on the AIG promise and the AIG skills." In the following interview, conducted in August, AIG's President and CEO talks about AIG's progress and rebranding, the property casualty industry and getting the right return on risks, opportunities with Independent Broker Networks, and more.

AIG'S PROGRESS AND REBRANDING

Jose Manuel Fonseca (JMF) | **Please tell us about AIG's progress since 2009.**
For us at AIG, the real question for the first year to year and a half after I got to AIG was: Will AIG make it? AIG appeared to be in crisis. If we weren't a company that had shareholder value, then the question was: What would happen to the bondholders, clients, and so on? In January 2011, we were able to do the restructuring, having taken AIA public at that point. By May, we were able to sell 100 million shares of AIG stock to the capital markets, which demonstrated to the Federal Reserve and the U.S. Treasury that we were able to raise capital, if we needed, to fund the company.

Since then, we've continued to make progress. As of August 2012, we've reached the point where the U.S. government only has approximately $24 billion of cash that has not yet been returned, which does not include more than $18 billion of profits. If you look at the profits that have been earned up until now, it's clear to everyone without question that the crisis at AIG is over; that AIG has sustained itself; that we're still, on a shareholder equity basis, the largest insurance company in the world and making progress on our market capitalization as well.

That's good for clients, it's good for brokers, it's good for everyone. Because now they can see that they can count on AIG to be there.

Hei Wong (HW) | **The company is returning to the AIG name. What led you to this decision?**
I believe we've gained new respect from people about the capability of the company. We're a strong, vibrant, leading company in the insurance sector around

• Joined AIG as President and CEO in August 2009, when he was also elected to the AIG Board of Directors.

• Retired as Chairman and CEO of MetLife, Inc., in 2006 after an 11-year career.

• Led the transition of MetLife from a mutual to a public company in 2000.

• Spent more than 13 years at PaineWebber Group Incorporated, and directed the merger of Kidder Peabody into PaineWebber in 1994.

• Earlier in his career was a Chase Manhattan Bank Vice President and a staff consultant with Arthur D. Little.

A look at some of the covers from AIG's employee publication, Contact, shows the company's long-standing presence in areas across the globe, from Asia and the U.S. to Latin America and Europe.

the world. We feel at this stage of the game, it makes sense to return to the AIG name.

The changing of the brand signifies what we believe, and what our research is telling us. The buyers of our products feel very good about AIG today and have a lot of confidence in us. And we're building that confidence around the world.

Our rebranding approach in the fall, once we're ready, is that AIG is a company that keeps its promises to the American public, our clients, our shareholders and bondholders. It's about having the ability to count on the AIG promise and the AIG skills.

Gregory Allard (GA) | **What are AIG's plans for continuing to buy back shares from the U.S. Treasury?**
AIG continues to focus on capital management. Capital management is not necessarily just buying back shares. It could be buying back our debt. It could also be buying companies. For instance, we decided to buy Fuji Fire and Marine, which was an acquisition we made in Japan. We also recently bought the broker-dealer from The Hartford for our Advisor Group. So we will do what we think is in the best interest of our shareholders. Buybacks are clearly one of several options.

Jamie Crystal (JC) | **What are your thoughts on being regulated by the Federal Reserve?**
We recognize and respect the need for regulation. The Federal Reserve has to look at large financial institutions, or large institutions that can have an impact on the financial markets. For a company like AIG, the Federal Reserve would make sure that noninsurance activities would not affect the insurance activities or the financial markets. When we think about AIG, we're a very large company. We have a large amount of resources at the holding company, which means they are not regulated by insurance company regulators in the states or countries we do business in. A regulator like the Federal Reserve would oversee the totality of the company.

People need to be comfortable that AIG is well-run, has excellent risk management, and can be supportive to the insurance companies if there is a problem. It would be an important statement for the Federal Reserve to make that we have sufficient liquidity and sufficient risk management so that we can live up to all of our obligations and promises, and not cause a problem for the financial markets. It says to the outside world that when AIG says it's strong enough to live up to its promises, we have a regulatory body – an independent third party beyond the rating agencies, beyond outside accounting firms – that says, you know what, we agree with them. That's our approach and why we're working hard to be ready for that day of supervision.

> "The buyers of our products feel very good about AIG today and have a lot of confidence in us.

Commitment to BrokersLink

AIG is committed to diversifying its distribution channels through Independent Broker Networks (IBNs) such as BrokersLink. AIG and BrokersLink share key characteristics, including a global footprint and an entrepreneurial approach to meeting clients' needs. BrokersLink is uniquely positioned – with the support of its senior leadership, Management team and members – to drive success through jointly identified strategies with AIG.

AIG sees its alliance and business with BrokersLink growing as this IBN focuses on such areas as:

- Multinational business, regional and global
- Middle market and other customer segments
- Specialty lines, such as aviation, energy, and marine
- Emerging risks, such as cyber risk
- Emerging markets, including Brazil, China, and India

Partnering with BrokersLink to help grow multinational business, AIG has hosted regional multinational training sessions for BrokersLink members: Latin America in 2011, Europe in 2012, and Asia Pacific, planned for 2013.

Steve Jackson (SJ) | **Besides acquiring broker-dealer Woodbury Financial from The Hartford in July, are you looking to make other acquisitions? If so, in what areas?**
In looking at potential acquisitions, we feel it's important to stay within our realm of insurance. We're looking at anything in the insurance arena that we think would provide us with a good investment return – better than buying back our debt or buying back our stock. I really can't give you a more definitive answer other than that we look at what the best return is for the company's shareholders over time.

> "...we look at what the best return is for the company's shareholders over time

EXPERIENCE IN INSURANCE AND AT AIG

JMF | How and why did you enter the insurance industry?

When I was at PaineWebber in the early 1980s, I was asked to take on

> “AIG has always been a strong and loyal partner of BrokersLink since its inception, and we highly value its close business relationship with our community around the world.
> José Manuel Dias da Fonseca, Chairman of BrokersLink

Key Facts and Figures

90+	Years in operation
100+	Countries where AIG operates
57,000+	AIG employees
30%	Percentage of revenue outside of the U.S. and Canada
$64bn	AIG's revenue in 2011
$85m+	Clients that AIG serves
87%	U.S. government assistance repaid
$27.5bn	Claims paid in 2011
$117m	Average claims paid each business day in 2011 by AIG's property casualty business

marketing responsibility for the insurance area. That was my first exposure. I didn't think, however, that I would be involved in insurance after I moved into other aspects of the securities business...until I decided to change my career in 1995.

I was looking for something else. One of the options was to help the Metropolitan Insurance Company think through distribution strategies. I figured that working for a mutual insurance company, you'd get a little bit of quality of life. It didn't last very long. I wound up helping them restore the field force. Within a couple of years, I was surprised to find that I was named the Chairman, CEO, and President of MetLife. Then we decided it didn't make sense to stay as a mutual, so we took it public in 2000.

I retired in 2006 after eight years as CEO, restoring MetLife as the leader in our industry. (We were second in the U.S. when I started, and when I retired, MetLife was the largest in North America.) I retired to Dubrovnik, Croatia, to become a winemaker.

HW | **What made you decide to come out of retirement?**
First and foremost, I realized that American business was in rapid decline because people had lost confidence in the ability of corporations to do the right thing. And I thought if AIG were to fail, it would be difficult for the industry to recover. It's a very important institution. I felt, and my family and close friends felt, that I could make a difference – that, along with my meeting with Hank Greenberg, who basically felt that if I were to do the job, he would be able to support the vision that I had, which was to restore AIG and do what we, in fact, have done.

In 2009, I said to the people of AIG that we were the icon of everything that went wrong in America in 2008. But if we all worked hard and had a vision that we all believed in, we could pay back the American people for their support with a profit and be left with one of the strongest insurance companies in the world.

The people of AIG at that time rolled up their sleeves and worked as hard as they could. What I say to them today is that we can actually become the icon of everything that's right about America.

JC | **What made you decide to stay on at AIG, despite your diagnosis/illness?**
When I was diagnosed with cancer, it was before we did the restructuring with the Federal Reserve. I felt that if I were to step down before I physically needed to, we would lose the momentum. I felt that we'd come too close to achieving the turnaround, and I wanted to make sure we reached the point where there was great confidence that this would happen. My family and I agreed that I should keep fighting this, keep doing what I had to do.

The good news is, while the original chemo did not work, they put me on a therapy in late November of 2010 that, by January of 2011 – just as we were doing the restructuring with the Federal Reserve – had an effect. I didn't know how much time I had, but the doctors said I had more time. And I'm still having more time. Then, in May of 2011, the crisis at AIG was over. This company would be here and continue to be strong. And the team that was here could carry the ball if I couldn't. I'm still here kicking and screaming. I couldn't be happier.

GA | **What drives you to succeed?**
I guess it's something to do with my mother. When my dad died, I was 10. He didn't have a will, didn't have any life insurance; he was 50 years old and left my mother with $250,000 in debt. My mom had a motel, cabins, a restaurant, and a bar. She was able to get her four kids off to school every day, close the bar at one in the morning, and start the restaurant at six in the morning. And she did it with a smile.

She made all of us go to college. We had to pay for it; she didn't have the money to do it. But she made us all go to college. I spent almost seven years driving a Coca-Cola truck selling soda. I made the most money of any salesman because I worked hard at it. It put me through all of my educational experiences – prep school as well as college. I'm proud of what it was able to do to get me started in life.

When I look at my life, what's clear to me is that however difficult the hand is that you're dealt, it's your hand. You need to make the most of it. If you wait for somebody else to do it for you, it won't happen. I believe we are what we choose to make of ourselves. And I recognize that if you take on a responsibility, you have to live up to it. Coming to AIG was something I chose to do. I will see it through. That's what drives me to succeed. And I enjoy it.

SJ | **How would you describe the corporate culture at AIG, and how has it changed since you arrived at the company in 2009?**
The AIG culture is about innovation, entrepreneurialism, and empowerment of people at the point of sale in working with our clients and our brokers. We've got to preserve those strengths.

On the other hand, we are changing into a culture that relies much more on analytics, data management, and data mining. We are highly skilled as technicians, underwriters, and product creators. We were not that skilled in leveraging information to help us think through what pricing should be and what risks really should be considered.

The new AIG has all of the old strengths, and we're adding to them a whole new strength of being very analytic, with predictive data modeling and other information-gathering tools to help us be even better than we were before.

> “...we are changing into a culture that relies much more on analytics, data management, and data mining.

FUTURE OF THE INSURANCE INDUSTRY

SJ | **In what areas of the world does AIG see the best growth potential?**
AIG has a deep relationship in many places around the world. One area where we see real growth is China. On the personal lines side, we're going to look to expand in mandatory auto. On the commercial side, we can leverage our global footprint for Chinese companies doing business outside of China. We also see Korea as an opportunity. And we continue to see Japan as an important market for us. We're very large in Japan; we're still the largest foreign property casualty insurer in the country.

We also see Brazil as a vibrant growth economy. We were very big in Brazil before the crisis. Unfortunately, we had to sell our joint venture there. Starting from scratch, we're making great progress, especially using the AIG brand in Brazil, and we think we can come back. We're also strong in Argentina and Mexico. We have been in Argentina for a long time and have a big operation there. Overall, Latin America still looks like a great growth opportunity.

There are opportunities for us in the Middle East, Asia, and parts of Europe. And we are – and expect to continue to be – a major player in the United States, with more innovation on the property casualty side.

I believe you'll see us continually grow our life and retirement business in the U.S., but also begin to move back outside the U.S. Having sold ALICO and taken AIA public, we still have the ability, in places where we currently have licenses,

History

1919	C.V. Starr establishes a general insurance company, American Asiatic Underwriters, in Shanghai, China.
1926	First U.S. office, American International Underwriters (AIU), opens in New York City.
1937	First Latin American market operation opens, in Cuba.
1939	Company headquarters relocates from Shanghai to New York City.
1946	Soon after World War II, C.V. Starr opens AIU offices in Japan and Germany to provide insurance for the U.S. military.
1948	Global expansion continues by entering France and Mexico.
1949	Offices open in Brazil and Italy.
1951	AIU establishes its first Middle Eastern operation, in Lebanon.
1969	AIG stock begins publicly trading in the over-the-counter market.
1984	AIG begins trading on the New York Stock Exchange.
1992	The People's Republic of China grants AIG a license to operate a life and non-life insurance business in Shanghai, the first license granted by the Chinese government to a foreign insurance organization in more than 40 years.
2001	Tata and AIG form a joint venture general insurance company in India.
2005	AIG receives a general insurance license in Vietnam.
	Progress Since 2008 **AIG is close to achieving a complete turnaround of the company:**
2008	The U.S. government, through the Federal Reserve Bank of New York (FRBNY) and the U.S. Department of the Treasury, steps in to help AIG during the financial crisis; maximum support authorized by the U.S. government to AIG reaches $182.3 billion by the end of 2008.
2009	AIG announces that its Board of Directors has elected Robert H. Benmosche as President and CEO. Mr. Benmosche is also elected a member of the Board.
2010	AIG enters into an agreement-in-principle with the Treasury and the FRBNY, designed to repay AIG's obligations to U.S. taxpayers, and to position AIG as strong, independent, and worthy of investor confidence.
2011	AIG announces that it has executed its recapitalization plan with the Treasury and the FRBNY; AIG repays in full the approximately $21 billion outstanding balance on the FRBNY credit facility and exchanges various forms of government support for 1.655 billion common shares, resulting in the Treasury owning approximately 92 percent of AIG's common stock.
2012	As of summer 2012, together with repayments, withdrawals, exchanges, sales, and other actions, total outstanding government support to AIG has decreased over 85 percent, or $158 billion (including $21 billion that was unused or expired), with approximately 871.1 million shares of AIG common stock owned by the Treasury as the remaining investment.

to grow those businesses organically or through acquisition – and, when the time is right, to expand to other countries.

Again, we're going to focus on a handful of countries in the growth economies, and we'll continue to keep moving in other countries as well. We just had our 50th anniversary in South Africa. We have a strong operation there; it's an important market.

AIG is strong in many places, and we want to make sure we maximize wherever we can.

SJ | **What is your outlook for the property casualty industry in general, and AIG's property casualty business specifically?**
There's no question that when people focus on capital preservation, they need to be able to use insurance companies to support that capital base in times of crisis. That's what insurance does. If you look at large fires, tornadoes, earthquakes, tsunamis…this is all about companies not having enough capital to withstand those kinds of crises. So they rent that capital from the insurance companies.

Clearly, I see the world growing, and I see the need for insurance growing. Therefore, I see our business as a growth business.

At AIG, what's important is that we make sure that we don't provide capital for an inappropriate return on the risks we're taking away from clients and putting on the books of AIG. We've got to be much more data-driven than before. That should give us a competitive advantage in making sure that whatever we are doing, it is priced appropriately for AIG and for the clients of AIG.

GA | **AIG is known for its innovative coverages. Can you tell us about how AIG is responding to some emerging risks?**

"Clearly, I see the world growing, and I see the need for insurance growing. Therefore, I see our business as a growth business.

Whether it's CyberEdge or whether it's taking a relook at workers' compensation, which is more traditional to other kinds of insurance, there's no question that companies have to ask themselves whether they understand what will happen under certain conditions.

Even at AIG, through our prior ownership of a company, we had a break in data security using a third party in another country. It was expensive and difficult to go through, and it required a lot of remediation and disruption. You've seen what's happened with other leaks where people's information is out there. This is a catastrophe that a company may face, and it may not have the skills, the loss control, or the ability to insure those resources when something does go wrong.

It's not only having the insurance. It's also having people who help deal with risk management. We're going to sit down with the client and broker, and say, "Here are the things you need to do to mitigate the risk." So they're getting the benefit of our skills and our knowledge, as well as our insurance products.

We're going to continue to look at major issues and see how we can support clients as they deal with those issues.

GA | **What are your thoughts on pricing and property casualty rates?**
People are looking for a hard or soft market, which has been the tradition of the business. What we're looking at is not prices per se, but risks and whether we're getting the right return on risks. For example, we looked at the way we were handling fleet risk in transportation companies. We realized that, regardless of price, we were not doing the right risk selection. Some of our competitors had better analytical tools. They understood what risks they should or should not write, and then they thought about how they priced.

Part of what we're going to see at AIG is a lot more refinement in how we use data, which is a competitive advantage for us because we have more information than most about many risks. We just have to do a better job of mining it – especially on the property casualty side, but also on the life side. We're doing a lot more analytics than we ever did before. That's allowing us to be much more effective in selecting and pricing the right risk.

INDEPENDENT BROKER NETWORKS

GA | **What do you see as the role of Independent Broker Networks in a global environment?**
What we've seen is an industry that grew up being very product focused – focused on how to distribute its products and on finding specialized brokers, who then found clients who needed those specialties. It's clear that clients are now becoming more than just mono-product and mono-geography.

At AIG, we now have a Global Commercial business and a Global Consumer business, versus a U.S. business and a non-U.S. business. We have to think about our financial lines products around the world, our liability products around the world, our medical products around the world, because our clients now want us to pull all of this together. So the independent brokers out there that are much more limited in geography, limited by product, aren't going to retain those relationships unless they can make themselves virtually appear as a global broker with broad skills.

"We're doing a lot more analytics than we ever did before. That's allowing us to be much more effective in selecting and pricing the right risk.

Independent Broker Networks are allowing their members to virtualize themselves by being part of a broader group providing service around the world. And we, as a manufacturer of product, are going to be able to provide service around the world. So this form of independent distribution is important.

GA | **What's your advice for Independent Broker Networks like BrokersLink?**
We see Independent Broker Networks as helping us be part of the solution in a broad way. Clients rely on us to do more than just be product sales organizations. I would encourage everyone to think about how we can be more to the client than we are today – to ask clients, "As you think about our relationship, what more could we give you to make your job easier and better?" Sometimes we're afraid to ask those open-ended questions.

It's got to be beyond just financials. It's got to be problem solving – thinking about innovative ways to be more to the clients than just somebody who helps them work on the financial spreadsheets.

One change I've seen at AIG is that, because of the crisis, we have gotten closer to our clients. Clients are looking to AIG and the broker to problem-solve. So it's all of us working together to be more client-focused and nimble in meeting their needs.

There's no question that there's got to be more seamlessness as we think about the client. It can't look like a patchwork quilt; it's got to look like a blanket that's been woven by everybody working together.

FROM THE BROKERSLINK BOARD OF DIRECTORS

A CLOSER LOOK AT THE PEOPLE GUIDING BROKERSLINK TOWARDS ITS GOALS.

The role of a BrokersLink Board of Directors member requires focused work. It relies on a broad yet skilled background in risk management and related fields, and demands careful attention to ensuring the alliance has the leadership and resources to reach its goals. It can also be very rewarding, and as BrokersLink gains momentum worldwide, we couldn't be more excited –or more grateful to our members, partners, and clients for helping to make this alliance a success.

Today, we're attracting an increasing number of new members, and interest from new clients and carriers is on the rise. Every day we move towards a more powerful and capable position in the insurance field, delivering ever-better products and services while forging meaningful new connections. The diversity and talent of our network, echoed in the qualifications and experience of our Board, helps to meet the market's needs in a practical and valuable way, and the results are cause for a very positive outlook on BrokersLink's future.

As we've watched BrokersLink grow to become the exceptional network it is today, all members of the Board have remained deeply committed to collaboration and the pursuit of quality, and these principles have helped to guide our decisions. We believe these same principles will continue to drive us forward and further establish BrokersLink as the ideal network for risk management professionals, their partners, and their clients.

"... all members of the Board have remained deeply committed to collaboration and the pursuit of quality.

JOSE MANUEL FONSECA

THE BROKERSLINK CHAIRMAN OUTLINES HIS RISE IN THE INSURANCE FIELD AND HIS TAKE ON WHY THE NETWORK THRIVES.

What are the key milestones of your career?
The first major milestone was probably during my time working in a bank, back in my twenties. BPA, the leader bank at the time, was a very innovative and aggressive company. I was given a position in charge of insurance and risk, and leveraging that I lead the team that created the first Portuguese project of Bancassurance, in 1985. This was one of the first such projects in Europe. It was quite a success. Following this initial stage of my career, I helped to create and strengthen a pensions funds management company, Praemium. I then moved to another bank, and I was appointed President of an insurance company called Real Seguros in 1990. It was there that we launched the ambitious AssurFinance program, selling mortgages, car financing, and personal loans. Then MDS and Sonae Group provided a fantastic management school from which I learned a great deal. Over the course of these experiences, I must say that my involvement with Ferma was very important –I acted as a Board Member and Vice President. And of course, the most significant milestone of my career, the project of my life, would be the BrokersLink alliance.

Could you tell us a little bit about your family?
I have a big family, which makes me a happy man. I have four kids from a first marriage (they're now between 20 and 27 years old), all working except the youngest, who is still at university. I now live with my wife Carla, the love of my life, with my son Afonso and our little princess Leonor, who is four years old. She makes me feel younger every day.

> “The network is an ideal medium for leveraging and showcasing our international approach.

What do you do besides working at your company?
I simply love music and books. My favorite types of music are mainly classical and jazz. I'm a big fan of literature oriented towards politics, social affairs, history, and related subjects. I am chairman of the Casa da Musica Foundation, which owns of a huge concert hall and symphonic orchestra. I'm also President of a football club near the city of Porto.

Why is BrokersLink important for your business?
It is indeed very important. The network is an ideal medium for leveraging and showcasing our international approach, which for us means the creation of a fantastic knowledge base. It's also a fabulous brand and marketing tool, and of course BrokersLink is also a group of great friends and business partners.

What makes Brokerslink special and what are its key strengths in the marketplace?
The excellent, motivated professionals and the collaborative spirit of the alliance are what really stand out to me as the great differentiators. It's easy and profitable to conduct business in BrokersLink, which also means great service and support for the international clients. The potential of BrokersLink is enormous, and while we've already brought several competitive advantages to market, I firmly believe we'll see more in the near future.

STEVE JACKSON

WITH ROOTS IN LATIN AMERICA, MR. JACKSON ENVISIONS A MORE ROBUST BROKERSLINK.

What are the key milestones of your career?
To date I've spent nearly 30 years at Cooper Gay. I was made a director in 1990, at the age of 26. After several years focusing on this position, I became managing Director of Cooper Gay y Co. Ltd.'s Non-Marine Division in 1998. In 2001, I was promoted to the Group Executive Committee, and was pleased to join the BrokersLink Group Board in 2007. I was named CEO of Cooper Gay Latin America in 2010.

Who is your Favorite Sport Star?
Tennis champ Rafael Nadal. He's incredibly focused and aggressive on court, whether during practice or matches, yet he also seems to be a very generous, loyal, kind, and family- and friends-oriented person off court.

What should the members know about you regarding your leadership and management Style?
I'm naturally quite a passionate person and somewhat competitive. Must be the Latin American experiences I've had over the years! When approaching leadership, I tend to steer towards rolling up my sleeves and getting very involved. I prefer to lead by example and try to do myself what I would like others to do. I can be impatient with people and situations, I know, and that's something to which I've been devoting extra attention.

Why is BrokersLink Important for your business?
Cooper Gay is an independent global wholesale and reinsurance broker --we have no owned retail network. Having a strategic association with a global network of independent retailers like BrokersLink is a perfect fit for our business model. We're able to extend the services and benefits our clients seek, and to forge fruitful new professional relationships.

> "I believe BrokersLink will become a real and credible alternative to the mega brokers.

What is your vision for BrokersLink in next 5 years?
I expect BrokersLink to keep growing and attracting like-minded retailers all over the world. I believe BrokersLink will become a real and credible alternative to the mega brokers like Aon, Willis, and Marsh, though you could argue that the alliance has achieved this milestone already. Eventually, I would like for BrokersLink to become a holding company through which shares of key participating brokers can be purchased (if the brokers so wish) in order to glue the alliance together more formally and with greater robustness.

What makes BrokersLink special and what are its key strengths in the market?
There are other global networks that could claim to do what BrokersLink does, but there are several key differences –and key advantages-- that distinguish the alliance. BrokersLink is not a network created just to service USA-multi-national businesses. It's an alliance of brokers formed to compete effectively and offer an alternative to the mega brokers. It has more in-house services through partner service providers than other networks. It has significant premium leverage in the international market and not just from USA. Other networks don't have a strong global wholesale and reinsurance partner. The culture of BrokersLink is very special. Under Jose Manuel's leadership, BrokersLink has created a strong culture of profound professionalism, personal relationships, and mutual assistance.

GREGORY ALLARD

A FIRM BELIEVER IN THE POWER OF REGIONAL STRENGTH SHARES HIS VIEWS ON THE NETWORK TODAY.

What are the key milestones of your career?
There have been several important points in my 40 years of life so far; I'd say the first was my graduation from Esslsca's business school. In 1996, my career began to take shape in New York, where I worked as Assistant Vice President of the Syndicated Loans department at BWCC. I joined Filhet-Allard in 1998. My career got another critical boost upon my graduation from the Center of Advanced Insurance Studies, drawing upon the resources of the Conservatoire National des Arts et Métiers.

Could you tell us a little bit about your family?
I'd definitely describe myself as a family man. My children are central to my life and my hope for the future. I have three children; two boys, who are 10 and 7, and one girl, who is just over 2 years old.

What do you do besides working at your company?
First and foremost, I take care of my family, and work towards enjoying every moment as time seems to go by so fast. I also focus on staying healthy and improving my fitness level through sport whenever I can. I mainly participate in running, golf, and skiing. I strongly believe that sports are the best way to balance a very busy job.

Why is BrokersLink important for your business?
With the increasing globalization of our economy, it is necessary to be able to serve our clients throughout the world. We currently have 4 operations abroad, and our clients are actively looking for new markets and opportunities. I believe that BrokersLink is the right answer for serving our clients with a more broad spectrum of insurance products and services, meeting needs that are growing increasingly complex as they cross borders. BrokersLink not only allows us to better serve our clients –it also enables us to compete more effectively with integrated global networks.

What is your vision for Brokerslink within the next 5 years?
I think BrokersLink is on track to become the authoritative reference for managing medium-sized global accounts. This is the reason we need to continue improving our reporting process and leverage technology to develop relevant IT systems and support.

What makes Brokerslink special and what are its key strengths in the marketplace?
At the core of what makes BrokersLink special is the fact that every member gets to be part of the same family --and of course, that members strongly believe in this project. BrokersLink is a collaboration of the most efficient brokers across the globe. Each member is one of the leading brokers in its domestic market, and this brings a great deal of strength and authority to the network. The specialized resources and reinsurance members involved with BrokersLink allows the alliance to cover a full spectrum of risk management.

A full-time team with regional COOs is also a key of BrokersLink's success, as they implement the strategy devised by the board, and are close to their markets.

> "...BrokersLink is on track to become the authoritative reference for managing medium-sized global accounts.

HEI WONG

> “…the business development of BrokersLink needs more cooperation between members.

A TALENTED EXECUTIVE WITH BIG IDEAS FOR THE FUTURE OF BROKERSLINK.

What are the key milestones of your career?
I started my career as an office assistant in an insurance company in the early 1980s. As time went by, I took up a more client-facing role as an marketing executive. After that, I was assigned to set up a new branch in Macau. I joined the New World Group in the early 1990s and was put in charge of setting up a joint venture in Thailand. Following this move, I took up various management positions in Singapore, Malaysia before returning to Hong Kong to step into my current role.

Could you tell us a little bit about your family?
Prior to taking up my positions in the Asia Pacific Region, I established a home in Australia. I have three children. My eldest daughter is in her fourth year of law study. My son is studying urban and regional planning, and is on an exchange program in Denmark. My youngest daughter is still in highschool.

What do you do besides working at your company?
During my leisure time, I focus on staying fit. Meditation and yoga are some of my favorite pastimes. I also love meeting new people, traveling, photography, and the occasional game of golf with my clients and business partners.

Why is BrokersLink important for your business?
As a local independent broker, it's a great competitive advantage to be able to access a flexible network. As reliance on a single international broker is far from ideal, we started thinking about setting up our own network about 15 years ago. Roughly 8 years later, we formed the Pan Asian Alliance. We exchanged ideas, information, and knowledge –a real change from the status quo. Together, we strengthened business and created a new image for ourselves in the market. Adding to these benefits, a global platform like BrokersLink allows us to reach brokers and specialist service providers around the globe.

What do the clients like about BrokersLink?
Our clients enjoy the friendly, flexible, and professional services provided by BrokersLink.

What is your vision for Brokerslink within the next 5 years?
I hope there will be more referrals between members in the future, and this will be the foundation for us to secure more global accounts. Moreover, I hope mid-level management can achieve greater collaboration.

What are the areas that need further development at BrokersLink and what would be your key suggestions to make it happen?
Firstly, I think the global image of BrokersLink should be more of a focus, driven by improved PR. I also think that the business development of BrokersLink needs more cooperation between members. This could be achieved by selecting a coordinator for each region. Last but not least, we need more regional training for mid-level management to help them develop swiftly.

What makes BrokersLink special and what are its key strengths in the marketplace?
BrokersLink is a unique organization supported by key regional brokers. Many of our members own their firms. We can serve both multi-national corporations and smaller clients. Professional, quality service is our main selling point.

DR. ERWANN MICHEL-KERJEAN

INTERVIEWED BY JACQUELINE LEGRAND, COO AT MDS HOLDING.

WHAT DEFINES A CATASTROPHIC EVENT, AND WHERE IS RISK MANAGEMENT HEADED TODAY? JACQUELINE LEGRAND GETS THE ANSWERS.

"This is the flipside of globalization: risks are becoming more global, too.

Jacqueline Legrand: Dr. Erwann Michel-Kerjan, you are an authority in managing the risks, the financial impact and the public policy challenges associated with catastrophic events. How do you define a catastrophic event?

Dr. Erwann Michel-Kerjan: How you define a catastrophic event really depends on who you are. At an individual level, a car accident can be a catastrophe. If you're a publicly trade company and your stock drops 30 percent in a week, that can be catastrophic. A government that just suffered large economic losses or a high number of fatalities from a disaster, well, that is clearly a catastrophe, too. There's not a single definition of what a catastrophe is. It really depends on your perspective. But everybody understands that a catastrophe is an untoward event that inflicts unusually consequential consequences. In the past few years the world has seen so many catastrophes that affected several continents and trillions of euros of losses that there is a fast-growing interest in these questions among prime ministers' and presidents' office as well as by many company boards and in civil society.

JL: What projects are you currently working on?

Dr. EMK: There are quite a few. Let me mention about two or three briefly. The first has just been completed here in the US with my team at the Wharton School. We worked closely with key decision makers to reform the residential flood insurance market in the United States. The President signed a new law in July that was based on some of the work we had done in the past few years recommending to move away from subsidized rates to risk-based premiums. The reform of the National Flood Insurance Program was a perfect example of how leading research institutions can create value by giving policymakers the tools they need to make informed decisions that will affect millions of people. This program covers $1.3 trillion of assets, so this is a substantial move.

On the corporate side, my Wharton colleagues Howard Kunreuther, Mike Useem and I are leading an ambitious project that aims at developing good practices for C-suites and Boards of S&P 500 firms to approach and act upon catastrophic risk management today. We have already conducted interviews with 100 of these firms. We have also reviewed public data on companies' risk propensity and analyzed the stock market performance of these 500 firms over the past 10 years. One preliminary conclusion is that many more Boards are now considering catastropherisk management as a strategic issue. Three or five years ago this would have been a non-issue for many of them. Times have changed. Results of our analysis will be made public this coming year – stay tuned!

Internationally, I'm advising the World Bank on a project for the Kingdom of Morocco. The goal is to develop with them, from scratch, their entire national risk management strategy, which includes everything from probabilistic risk assessment, to risk management and financing. We're looking not just at natural catastrophes such as floods, droughts, earthquakes and tsunamis, but also investigating the country's exposure to commodity price volatility, social risks, and agricultural risks. That's a big endeavor and I think we're going to show very quickly that if a country can be much more proactive at managing its risk, that same country could achieve greater political stability and bring in more foreign investments. There are reasons why Morocco went through the Arab Spring very differently than many of its neighbors in that part of the world.

JL: Who are you working with in Morocco for this project?

Dr. EMK: A project like this has to be by and for the country, which is exactly what we do there. We work with all ministries. The initiative is coordinated by the Ministry of General Economic Affairs under the Prime Minister.

We are currently discussing the opportunity for Morocco to develop a National Risk Management Office (with a national risk officer equivalent to the Chief Risk Officer for a corporation), which would make this country the first in the world to make such an important move. If it happens, this is likely to become a best practice that many other countries could be inspired by and which would respond pretty well to the new reality of interdependent risks. The strategic framework we have developed there could then be used elsewhere.

JL: Such an approach would benefit some emerging countries in Asia that are growing at the moment but prone to a lot of catastrophic events that can have a negative effect on the whole world.

Dr. EMK: Absolutely. We've seen that last year with Thailand when the world saw, once again, that we're living on a small highly interconnected planet. This is the flipside of globalization: risks are becoming more global, too. Maybe ten

"I actually do not think the end of the world is coming on December 21, 2012!

Maybe it is because I was first trained in mathematics and physics and that I've enjoyed the practice of martial arts for many years (Japanese Karate). It's a good way to stay balanced.

Also I like good discussions with those who have something to say and do so by tasting great wines. We live in a just-in-time world today, but it still takes years to make good wine, so it helps keep a longer view on life. A suggestion for a special occasion? Sure:

- For a great French wine, go with a 1990 Pauillac, premier cru classe 1855; if you are in Paris: try the Clos Montmartre (yes there is a vineyard right in the middle of the city of light!; not super good but fun to drink–if you can find it).
- If you move to Spain, try THE Vega Sicilia Unico; nothing younger than 1998;
- For a great American wine, go with an Opus One (of course) (not all years are equally great though). (And drink with moderation)"

years ago, many business leaders could have said, "Well, I don't really care much about what's happening in Thailand; most of my business is here in the US or in Europe." Today, if your factories or some of your suppliers (or the suppliers of your suppliers for that matter) are in Thailand, you want to make sure your entire global supply chain is resilient, not just the first cycle of large suppliers....

JL: You raise a good point here. Globalization has definitely brought tremendous benefits to our economies.. Do you see governments, major companies, and organizations working together to create risk management and risk transfer solutions for our world to sustain large scale disasters of all kinds?
Dr. EMK: In terms of collaboration between the public and private sectors, to be somewhat blunt, it works well on paper. In reality though, there are inherent tensions. This often does not make a good start for long-term sustainable collaboration. There are good examples of public-private partnerships where you can mutually bring the strengths of the two camps together, though, and that works well at managing risks.

JL: More generally, where is risk management going?
Dr. EMK: I think the world is pretty exciting given the immensity of the task before us.

I like to say that given all the catastrophes and crises that have unfolded in just the past ten years, risk management has become too important to be left to risk managers alone. And those who realize that will be the winners. Is this the same type of risk management that we used to do ten years ago? No, it has to be much more global and strategic risk management. It's a risk management capacity that requires not only good quantitative skills but also to be adaptive and to be able to translate risk dilemmas into boardroom discussions.

"...risk management has become too important to be left to risk managers alone.

It's about moving from the over-protected silo approach (my "favorite" risk, in my favorite facility in the next 20 years) to a much better understanding of the interdependencies of the risks not only within the organization but within the entire international environment in which your organization operates. This is a world where being agile and responsive are maybe the most important attributes.

JL: Speaking of agile brains, You are part of the forum of Young Global Leaders., which is a unique recognition on the World Economy Forum for exceptional young leaders who share commitment to shaping the global future. What is that all about?
Dr. EMK: I feel honored to be part of this fantastic group of amazing leaders The idea came from Klaus Schwab, founder and chairman of the World Economic Forum (he was in his early thirties when he created the Forum, by the way). While senior world leaders have been gathering together in Davos for the past 43 years, Professor Schwab realized the importance of preparing the next generation of leaders as well.

The program was originally called the Global Leaders of Tomorrow, I think, and counted among their ranks several young, yet not well-known, individuals. Their names were Bill Gates, Larry Summers, Condoleezza Rice, Tony Blair, Angela Merkel, Philipe Calderon... who all made history later in their careers, as we know. The program was reinvigorated early 2000's after being dormant for several years. And it's now called the YGL forum and lead by David Aikman at the WEF under the high patronage of Her Royal Highness Queen Rania of Jordan.

Every year, the Forum selects 100 or so of the most promising global leaders, based on what they have already achieved. We all come from different fields, cultures, backgrounds, etc. and from all continents. We get together several times a year for five consecutive years to work on joint projects. This has always been a very humbling experience.

JL: Back to large-scale disaster and not only natural catastrophes but all kind of disasters. What is your view for the future?
Dr. EMK: No doubt we'll see more and more of them. That's something that I've been talking a lot about. What many people have still failed to do is to ask the right question, which is not whether we'll have another hurricane in Florida this year or another social unrest in China next year. The real question is what is going on here, what are the fundamental trends that are changing the world we're living in so profoundly that the whole system is becoming much more sensitive and volatile?

Understanding the symptoms is the first step to cure. Take natural disasters. It's not rocket science but just common sense to see that more people are living on planet Earth and most of these people are in highly hazard prone areas.

Take the east coast of China for example. We could very well see a massive typhoon hitting Hong Kong, Shanghai and then Dalian next year. The ripple effects would be worldwide and extreme. Or take the state of Florida in the United States, where the population increased about 600 percent in the past 50 years. Many more people in harm's way means more exposed assets, too: mathematically, the same hurricane that had mild effects 50 years ago would be catastrophic today.

We'll see many more costly disasters unless we start putting preparedness and resilience very high on the agenda. The good news is that there is a general recognition that the past few years are just the beginning of a new era of catastrophes we need to seriously prepare for. That's true for virtually all industry sectors.

International organizations, pushed by their donors, have started to seriously work in this catastrophe risk management space in recent years, and this is very encouraging: that's true of the OECD and its 34 industrialized member countries; that is true of the World Bank in low- and middle-income countries. And this year, even the G20 recognized disaster risk management as one of the key priorities.

To stay positive, it is also important to keep in mind that risk management should not be a brake against transforming business opportunities into reality; rather it ought to be about sustaining this vision. Risk Management 2.0 is all about value creation. More boards and government offices are interested in it, also, and are looking for high-level expertise. For instance, if the world is going to see more disasters, can we develop new technologies, new services, new products that will help during disaster time? What financial products do we design to take advantage of increased volatility in the financial markets? There are massive untapped opportunities with this new (and very unusual) way to think about risk management and value creation.

"...risk management should not be a brake against transforming business opportunities into reality.

Erwann O. Michel-Kerjan is Managing Director of the Wharton School's Risk Management and Decision Processes Center, and teaches Value Creation in the Wharton MBA program. He is also Chairman of the OECD Secretary-General Board on Financial Management of Catastrophes, which advises its thirty-four member countries on these issues. Dr. Michel-Kerjan was named a Young Global Leader (YGL) by the World Economic Forum (Davos), an honor bestowed to recognize and acknowledge the most extraordinary leaders of the world under the age of 40; in 2011 he co-led the Global Risks component of the G20 YGL Paris Initiative under the High Patronage of President Sarkozy. He has worked extensively on terrorism, hurricane and flood insurance and how to reduce America's exposure and the need for federal disaster relief. Dr. Michel-Kerjan is the author of several acclaimed books, including, most recently, The Irrational Economist (PublicAffairs, with P. Slovic) and At War with the Weather (MIT Press, with H. Kunreuther) which received the prestigious Kulp-Wright award for the most influential book on risk management. He is a regular contributor in the media and has given over 100 public speeches. He has studied at Polytechnique in France, McGill and Harvard. Email: erwannmk@wharton.upenn.edu

JL: It's really about creating value.
Dr. EMK: Absolutely, and the good news is that we know how to do it: that's the cool part of it.

JL: That's where, as people, we have to get creative.
Dr. EMK: Sure. Creativity, but also concrete implementation with short-term measurable return.

JL: One of your main areas of work is the financial management natural disasters and terrorism risk. What solutions are emerging today?
Dr. EMK: It depends on what markets you're looking at. In the US there are two trends. There has been a radical shift in risk sharing arrangements. It used to be very market-oriented, and it still is, but with a growing role for the Federal Government in terms of risk sharing. We have for instance: a state-run insurance program for earthquakes in California, multiple state insurers to cover against wind loss on the coast, a terrorism risk insurance program which benefits from free up-front federal reinsurance, a federal national flood insurance program, etc.

The pendulum has swung from a world where the government was not covering those risks to one where it does. As the swing happened in America, one can expect to see it in other countries as well, if they suffered from a series of catastrophes.

The other interesting aspect revolves around developing countries asking themselves what type of insurance market they should develop. China is a good example, as it's potentially a huge market. Can they develop large-scale insurance market and if so, what would it look like? Maybe they would create

> “It is crucial to break the risk management silo so that many players in an organization have a important role to play to manage it.

something different from the US or European market because the Chinese philosophy vis-à-vis risk is very different itself. You need to understand the market to develop these things.

As the world is becoming richer, and as people move from being poor to entering the middle class, they buy a car, then buy a house, and then a second car and a second house, and then maybe they start a business. All of that creates huge potential markets for insurers, so these middle class trends in many developing countries represent enormous potential business in the next ten to fifteen years.

Finally, what I'm very interested in is what we call “alternative risk financing instruments.” This is where you can start being even more innovative and transfer part of the exposure directly to the financial markets. The first catastrophe bond was done in 1994. The market is slightly growing but it's still very small compared to what it could be. There are reasons for that but maybe in the next five to ten years we can make catastrophe bonds accessible to you and me as individual investors. Imagine that tomorrow you could take 0.001 percent of hurricane exposure in Florida or earthquake in Japan and California as part of our investment and retirement portfolio. There could be regulations so as to limit the maximum exposure you can buy. Wouldn't that create a brand new investment potential and bring hundreds of billions of euros of capital into this market, helping risk financing cost to decrease (in turn becoming accessible to many more countries)? The market would be several orders of magnitude larger than it is today and would also enhance social good. Taiwan and Mexico and several American states have already issued catastrophe bonds, as did the international football federation FIFA to cover the 2006 World Cup final game against a possible terrorist attack.

> “middle class trends in many developing countries represent enormous potential business in the next ten to fifteen years.

JL: Investors are not comfortable yet with catastrophe bonds and don't see this as an investment diversification. What is your take on this?

Dr. EMK: It's because they have a feeling that they can lose all of their nominal if they invest big. And you don't want to be the person at the board meeting being looked by everybody else saying, “How could you lose 100 percent? 100%!” Now if you invest a small part of your portfolio, that's another story.

JL: You contribute actively to the “Global Risks Report” released every year in Davos since 2006 by the World Economic Forum. What are the risks at the top of governments' agenda, senior management from multi-national corporations, and international organizations?

Dr. EMK: The Forum partnered with a few organizations six years ago with the idea of not necessarily quantifying big risks in great detail, but of trying to get a better sense of what's coming in the next five to ten years. We asked what could happen in the next ten years, and then we looked at about 50 risks and we surveyed about 500 top leaders around the world.

It's amazing what you can see coming from very far away. I remember vividly in 2007 that in the Davos release of the report, the top risk was called “Asset Price Collapse” and it's easy now to say well, we were right. At that time we weren't sure whether it would happen this year or the year after, but clearly the status quo was unsustainable.

The year after that, the top risk was food crisis, and that was six months before the worldwide food crisis hit. You have to understand why we got it right twice: since we were right the first time that the world would see a collapse of very sophisticated financial products, we could predict that what would happen next would be hundreds of billions of dollars moving from very sophisticated assets to very simple assets, known as “the fear factor.” And what's simpler than rice?

Trillion of dollars moved from sophisticated CDOs to commodities. What happened in a very interdependent world, while markets reacted the way they were supposed to, is that the price went up 100 percent for some commodities. That's great if you have invested in these commodities at the right time, but less so for the 2 billion people who are living on two dollars a day

Many people died, and that's for me a perfect example of trying to move from the silo approach to how things interact with each other. It's not complicated to do if you have the right mindset. I think that's applicable for the world as a whole, but also for the individual corporation.

Since 2008, more people are starting to pay attention to what the World Economic Forum says, and what the risk report suggests.

In 2012 the top risk was: income disparity. The reality is that 1 percent of the population owns 50 percent of the total wealth and 50 percent of the population owns only 1 percent of it. This disparity is fueling future crises, as I described in an op-ed for the Wall Street Journal a few days before Davos in January.

JL: Why is it more an issue today than 20 year ago?

Dr. EMK: First, because the gap is much larger. Second, because this gap is public information today: Transparency is becoming a big deal and with the development of the Internet and social media, the very poor now know well about the way that the very rich live. Third, this could be okay if government had reinforced social programs to help those in need, but all of this is happening at a time when such programs are cancelled or downsized because of the fiscal situations many countries are in now.

This is a perfect receipt for disaster. Social disaster.

Will income disparity trigger a major crisis next month? Probably not, these trends develop over several years, but who knows when they break. The Arab Spring is a perfect example.

Who's next: Europe, the US, Latin America, or China? What would be the ripple effects on the world economy?

JL: Looking at big trends for corporations to evaluate their risks in terms of complexity, what are the other big factors that are starting to change the way companies look at risk management?

Dr. EMK: Where you generate your revenue is one of these big factors. Many large corporations are now making more than 50 percent of their revenue outside the country they are headquartered in. So, for many of the firms I work with, the big catastrophic risk is not a hurricane or terrorism. It's not even lack of access to financial capital. It's how they will secure skills; the big risk is accessing and maintaining the right human capital. How do you retain talented people? This is a big issue in Brazil for instance.

This is a good example of what I meant earlier by Risk management 2.0. This is not only about fire risk and workers' compensation. It's about adopting a comprehensive view of what could go wrong and how the world is evolving that will affect the assumptions your business model is currently based on.

JL: After experiencing the recent catastrophic events and the reality of supply chain risk exposures, we are back to the bottom line of risk management that goes well beyond insurance products.

Dr. EMK: Sure. You need to understand your full exposure and monitor it. It's both your exposure to inside and outside risks, to national and international risks, to physical, social, financial, geopolitical, health risks, not just your “favorite” one (for example, financial because you are the CFO, workers' risks because you are the VP for Health and Safety). More than one company reacted to the events in Japan and Thailand by starting to monitor the whole supply chain, not just part of it. It's the first step and it's a big step. We also have the technology to do it today at a fairly low cost.

JL: To your point about everyone having his or her own pet risk, your Risk Management 2.0 strategy will imply that all departments of a corporation, whether legal, finance, sales, or logistics collaborate together to share the information and create solutions, would you agree?

Dr. EMK: Let's face it: no one can own all the risks alone. It is crucial to break the risk management silo so that many players in an organization have a important role to play to manage it.

JL: Any last words?

Dr. EMK: Risk Management 2.0 is about doing risk management in a world that has radically changed since 2000, even though many feel uncomfortable with the idea of doing anything else other than the status quo. There will be winners in this new and more dangerous world, and there will be losers. The good news is that many more companies and a few governments have started to become much more strategic about this. They will be the ones to thrive. The others still think of risk as an old-fashioned two dimensional diagram where catastrophe risks have to be low probability. For anyone who watches TV, this assumption is clearly outdated, if not amusing.

I like to think I've helped some countries, firms and organizations to be among those who now thrive.

It has been a pleasure talking to you.

USING CATASTROPHE RISK MODELS TO QUANTIFY, MITIGATE, AND MANAGE THE “TRUE RISK” TO PROPERTY

ESTIMATING LOSSES FROM CATASTROPHES IS A CHALLENGE THAT RISK MODELS MAY HELP OVERCOME.

BY AKSHAY GUPTA PH.D., P.E.

Losses from natural catastrophes have steadily mounted in the past three decades as businesses operate on an ever more global scale, resulting in both their physical locations and their supply chain networks being at risk from multiple hazards. Natural catastrophes—earthquakes, hurricanes, tornadoes, and floods—and terrorism can have a significant and sudden adverse effect on the financial well-being of an otherwise stable, profitable company. Prudent risk management involves proactively assessing and managing an organization’s catastrophe risk. As a result, the use of catastrophe risk modeling has gained widespread acceptance across corporate risk managers, brokers, and underwriters. But is the industry deriving the maximum benefit from the use of the models? Or are there better ways of using these tools that allow for improved catastrophe risk management?

While the issues associated with the use of catastrophe risk modeling tools are relevant to stakeholders throughout the property insurance value chain (corporate risk managers, brokers, underwriters), this article discusses the issues primarily from the broker perspective. Brokers must understand their clients’ exposures and operations, communicating what they learn about the risk to insurance underwriters, and then fashion risk management strategies and solutions that meet the risk tolerance and budgets of their clients. Catastrophe risk models are instrumental in assisting brokers with these tasks.

Catastrophe Risk Model Components

Catastrophe risk models are sophisticated computer programs that mathematically represent the physical characteristics of natural catastrophes, exposures, and the engineering interface between the two. The catastrophe risk modeling framework is shown in Figure 1.

The hazard component of catastrophe risk models answers the questions: Where are future events likely to occur? How large or severe are they likely to be? And how frequently are they likely to occur? Large catalogs comprising hundreds of thousands of realistic but simulated catastrophes are generated, representing the broad spectrum of plausible events. For each simulated event, the model then calculates the intensity at each exposure location within the affected area.

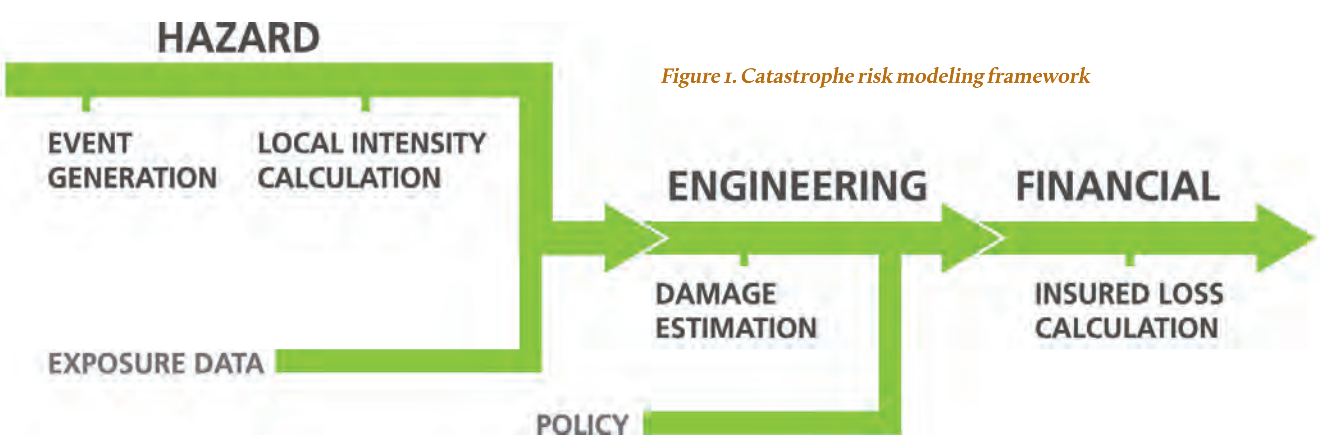


Figure 1. Catastrophe risk modeling framework

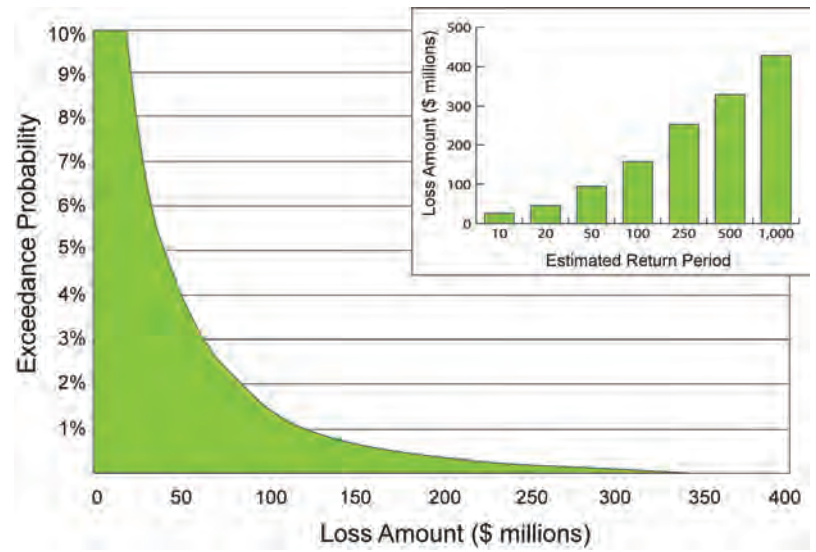


Figure 2. Example of a loss exceedance probability curve

In the engineering component, the measures of intensity (for example, wind speed, ground shaking or peak ground acceleration, or flood depth) are then applied to highly detailed information about the properties (commonly referred to as the primary and secondary characteristics of the exposure) that are exposed to them. Equations called damage functions are developed and used to compute the level of damage that is expected to occur to assets (e.g., buildings, facilities, contents) of different types of construction and occupancies, or usages, for various levels of the hazard intensity.

In the financial component of the model, estimates of the physical damage to the assets are translated into estimates of monetary loss. Probabilities are assigned to each level of loss. An example of such a result, called the exceedance probability or EP curve, is shown in Figure 2 (the result could be developed for a single building or a portfolio of hundreds of thousands of buildings). The likelihood of experiencing different levels of loss can be directly obtained from such results. (Note that the inverse of the annual exceedance probability can be read as the return period.) For brevity, only this result is being shown; however, catastrophe risk models can generate much more detailed information that can be leveraged to manage and mitigate the risk, including evaluation of “what-if” scenarios, such as the impact of hurricane shutter installation on hurricane losses.

The mark of any good model is not only the science and engineering that goes into building the models, but also the validation of same. Every component of a model is carefully verified against data obtained from historical events and, where possible, through independent peer reviews. In addition, when all the components work together, the final model output is expected to be consistent with basic physical expectations of the underlying hazard and unbiased when tested against both historical and real-time information.

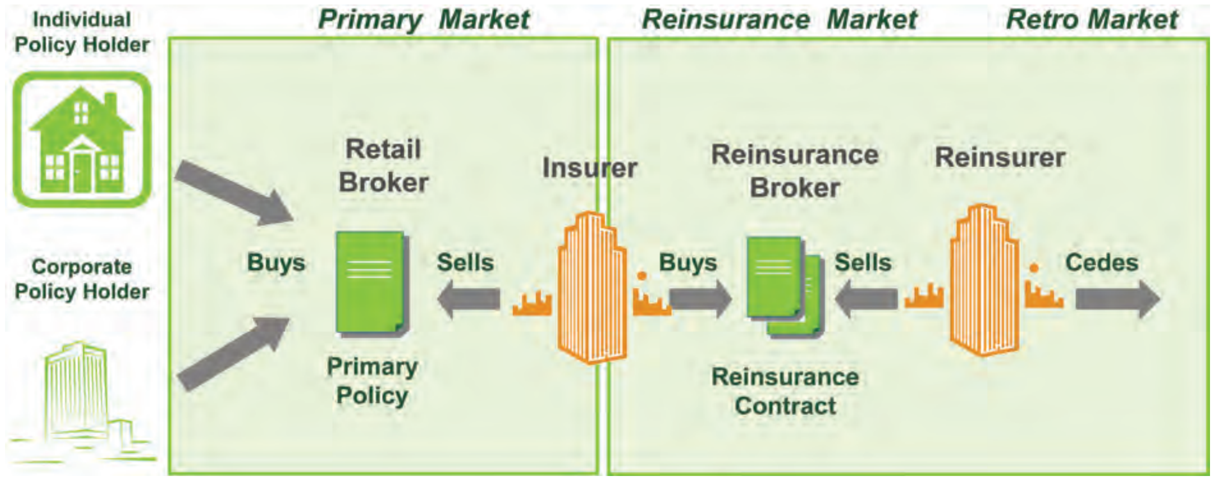
Why Use Catastrophe Risk Models?

Catastrophes are rare, but it is exactly their rarity that makes estimating losses from—and preparing for—future catastrophes so difficult. Standard actuarial techniques are insufficient because historical loss data are scarce. The loss data that are available offer a limited view of insured properties, as the number and value of properties change—along with construction materials, building practices, and the costs of repair. This is one of the reasons why (re)insurance companies have made using catastrophe risk models standard practice.

The purpose of catastrophe risk modeling is to help businesses and companies anticipate the likelihood and severity of potential future catastrophes before they occur so that they can adequately prepare for their financial impact. By combining mathematical representations of the natural occurrence patterns and characteristics of hurricanes, tornadoes, earthquakes, severe winter storms, and other catastrophes with information on property values, construction types,

AKSHAY GUPTA, PH.D., P.E.
VICE PRESIDENT & DIRECTOR – CATASTROPHE RISK ENGINEERING (CRE)

Dr. Akshay Gupta leads AIR’s San Francisco office and the company’s Catastrophe Risk Engineering practice, which focuses on providing corporate risk managers, brokers, and insurers with engineering-based, site-specific risk assessment services for high-value and complex facilities and operations. The San Francisco office also focuses on projects that support disaster risk financing programs for sovereign states. Dr. Gupta has more than 15 years’ experience in natural hazard risk analysis, mitigation, and modeling. He holds a Ph.D. in Structural Engineering from Stanford University. He is a member of various professional organizations and the author of numerous technical papers. Dr. Gupta is a licensed professional engineer and is certified in the practice of structural engineering.



occupancy classes, and vulnerability of such construction, these simulation models provide information concerning the potential for large losses.

Catastrophe risk models are tools, albeit sophisticated ones that require careful thought about how they can be used to derive the maximum benefit. Consider the full extent of usage of these tools, as shown in Figure 3; clearly, the details required in the model input and output are going to be different depending on whether the tool is being used for a large portfolio of properties for insurance rate-making or reinsurance, or by a corporate risk manager evaluating the risk profile across a handful of locations and perhaps an integrated supply chain network. This is when the skill in identifying the right input, appropriate application, and understanding of the limitations and possible enhancements of these tools comes into play to derive maximum benefit.

"True Risk" for Large Portfolios

Every exposure has a "true risk." The true risk is the single quantifiable

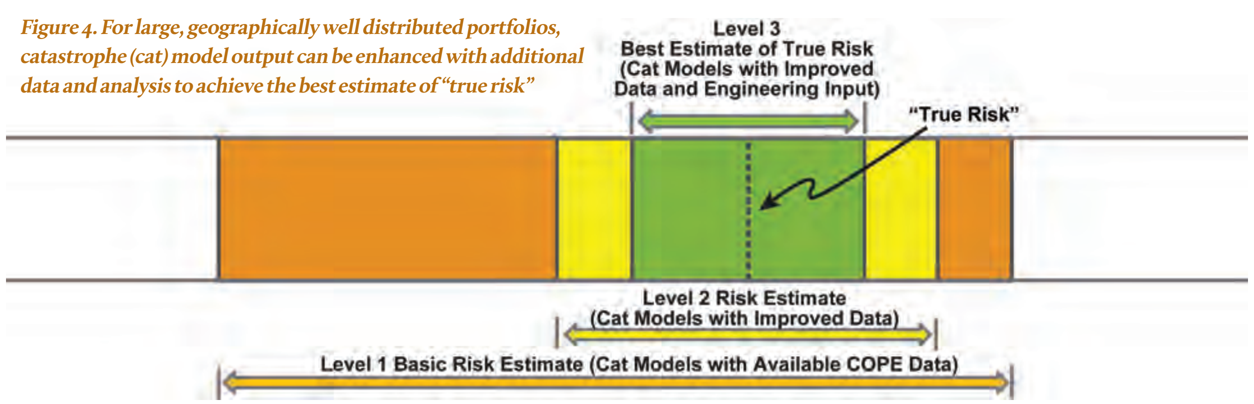
Figure 3. The insurance value chain

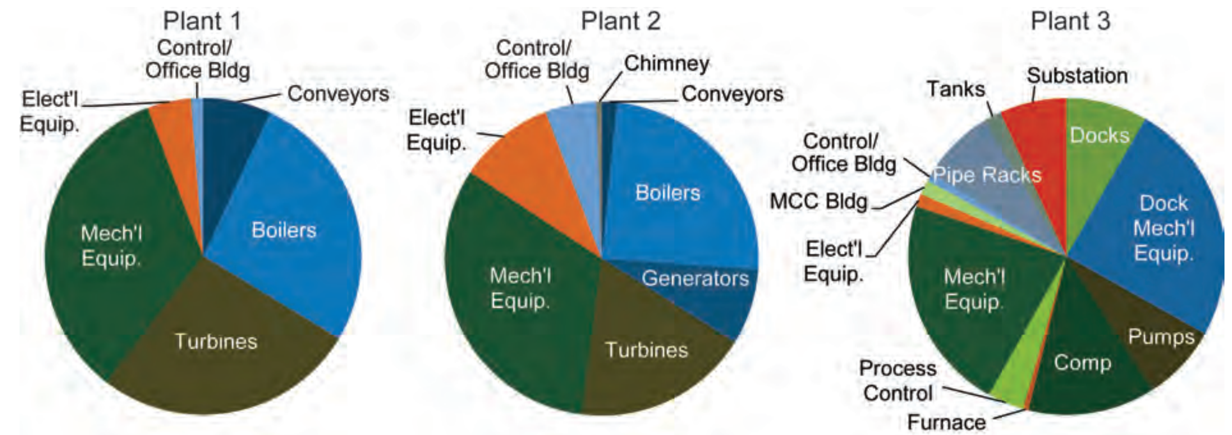
measure of risk that could be arrived at if one were able to eliminate all sources of uncertainty, which, of course, is not possible. The objective of any risk evaluation is, therefore, to obtain the best estimate of the true risk along with a quantification of the uncertainty associated with the estimate. Three levels of evaluation can be utilized for large portfolios that vary according to the degree of detail in the exposure and engineering modules of the models (see Figure 4).

For a large portfolio (in terms of number of assets) comprising a variety of asset classes and spread out over a large geographical area, it may not be necessary (or valuable) to have a good risk estimate for each and every asset; for such large portfolios of properties, the standard level of evaluation is widely used by the industry. This level of evaluation entails using the appropriate probabilistic catastrophe risk models with the available COPE [construction, occupancy, public and private fire protection, and exposure] data and taking a standard risk evaluation approach that involves using the default engineering information within the model to develop risk estimates. For large portfolios, this is an appropriate level of evaluation because the objective is to obtain the overall risk metrics for insurance or (re)insurance purposes.

However, if the large portfolio (in terms of value) comprises a similar set of buildings (for example, a hotel chain, or large retailer) that have strong physical similarities in the characteristics of the assets at risk, or the assets are geographically concentrated (for example, hotels in California, a theme park, or a large industrial complex), the "average" or "default" vulnerability view within the model can be enhanced by improving the exposure data to better characterize the primary and secondary characteristics of assets (input to the catastrophe risk model). Primary characteristics include COPE data as well as height and year built; secondary characteristics include more detailed information, such as roof covering, glazing type, and roof-to-wall

Figure 4. For large, geographically well distributed portfolios, catastrophe (cat) model output can be enhanced with additional data and analysis to achieve the best estimate of "true risk"





connection, among numerous other characteristics. Making explicit, discrete selections for these characteristics not only improves the risk estimate but also reduces the uncertainty in the estimate of risk.

The evaluation can be further enhanced by making improvements in the engineering representation of portfolio-specific characteristics resulting in an asset-specific evaluation of the risk aggregated to the portfolio level. For example, when considering structures that are standardized to some extent, such as hotels or stores in a retail chain, the analysis can take into account specific design details and other characteristics and incorporate them into the tool. The more clarity in the risk estimate, the better the applicability across the entire insurance value chain.

"True Risk" for Small Portfolios

For small portfolios (in terms of number of assets), brokers can begin at the standard level using catastrophe models with available or improved COPE data to obtain a loss estimate. However, this loss estimate could have significant uncertainty. This by no means implies that the standard level of evaluation isn't recommended for small portfolios; it is, but it should be used for specific applications, such as the preliminary risk ranking of the assets within the small portfolio to identify the primary risk drivers and then, as appropriate, subject these primary risk drivers to an advanced catastrophe risk modeling process.

An advanced risk evaluation of a small portfolio can significantly improve the estimate of the "true risk" with site-specific evaluations of the

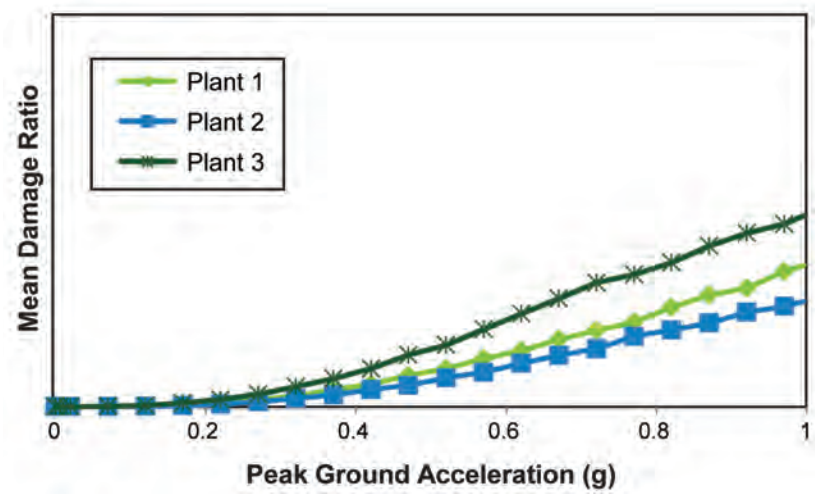


Figure 5. Example of loss profiles for three "similar" power plants

assets—something that is not required nor, in fact, feasible from either a cost or time standpoint for a large portfolio. The advanced evaluation entails gathering exposure-specific data and conducting an engineering evaluation involving: site-specific hazard assessment; better disaggregation of exposure values (in terms of component valuations and damageability); site investigations to capture site-specific characteristics; an engineering damageability assessment; detailed process/network/supply chain evaluation for business interruption loss evaluation; and the disaggregation of risk into constituent components—essentially, customizing the various modules of the catastrophe risk model for business- and site-specific data and characteristics. As an example, Figure 5 shows the component make-up for three power plants in close proximity to one another. The standard application of the catastrophe risk model would result in the loss profiles being essentially identical for the three power plants. An advanced evaluation, however, will distinguish between them, as evidenced by Figure 5. This can translate into significant advantages from a risk management and mitigation standpoint.

Such extensions of the catastrophe risk models are also very applicable when the business wants to achieve a deep understanding of the risk associated with complex, high-value assets that do not lend themselves to standard, portfolio risk modeling techniques—as there is a paucity of historical information on the loss sustained by such assets—or when the asset/hazard falls outside the conventional modeling domain (for example, renewable energy assets, supply chains, theme parks, and perils not conventionally modeled).

The results from these advanced assessments offer a distinct competitive advantage, particularly to brokers who

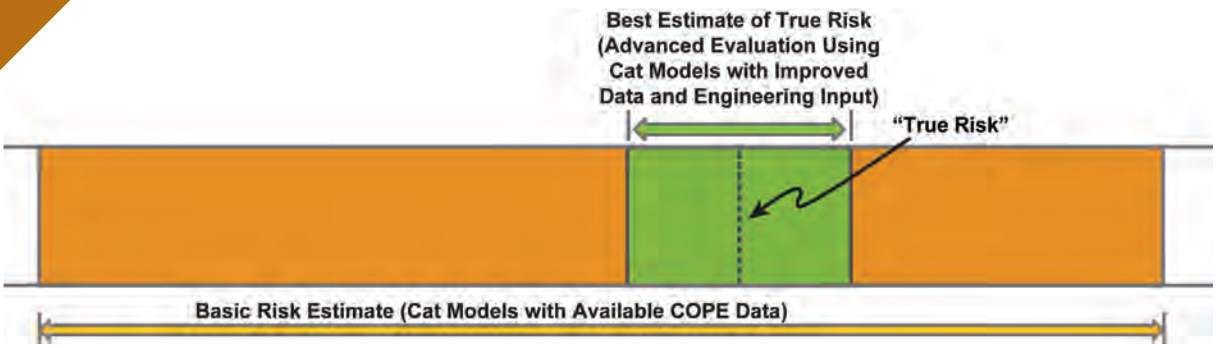


Figure 6. For small, geographically concentrated portfolios with unique or highly protected risks, an advanced risk evaluation is necessary to achieve the best estimate of "true risk"

serve clients with unique or highly protected risks. Brokers can leverage the advanced catastrophe risk assessments to increase their own value, as they can provide better risk mitigation and management solutions, and corporate risk managers can develop a deeper understanding of the drivers of loss. These assessments also provide a strong basis for communication with the decision makers within the organizations and the insurance market.

There is no guarantee that an advanced risk assessment will result in a lower loss value—only that it will result in a more accurate value with less uncertainty and much more detailed information that can be used for risk management and mitigation.

Quantifying Supply Chain Risk

Up until this point, the discussion about advanced assessments has revolved around studying the physical exposures and their vulnerability to various catastrophes. But there is another aspect to quantifying, mitigating, and managing catastrophe risk through advanced assessments that leverage the catastrophe risk models and enhance them through explicit network modeling: quantifying supply chain risk.

A supply chain is in essence a collection of operational points, or nodes, linked based on functional and revenue stream relationships. Simple examples of nodes include a production facility, a supplier, or a distribution center. When all the nodes in a network are identified and appropriately characterized, quantifying the physical damage potential associated with each node is relatively straightforward—as would be done by using the catastrophe risk models. However, traditional methods for quantifying overall supply chain risk have considerable limitations because they are often based on worst-case scenarios and do not include the likelihood or frequency of shutdown, nor do they consider the partial shutdown of a single node or the simultaneous disruption of multiple nodes, within a fully probabilistic framework.

Catastrophe risk models enhanced with detailed network analysis provide the solution because the framework is fully probabilistic. As a result, partial damage and downtime states for all nodes can be simultaneously and explicitly considered. Furthermore, the level of disruption at each location from multiple perils can be accounted for, thus providing a more realistic and reliable view of downtime and loss. In addition, node level reserves, redundancy, and resiliency concepts can be explicitly incorporated into the evaluation to provide the best estimate of the "true risk" to the supply chain (from a catastrophe standpoint).

Closing Thoughts

Facilities are unique. Businesses are unique. Risk tolerances, availability of capital for risk management, C-suite preferences are all unique, too. The way catastrophe risk modeling tools are used for quantifying, managing, and mitigating the risk should also be unique; characteristics unique to the portfolios should be input to result in the maximum benefit being derived from the tools. The tools are universally accepted but with carefully researched input can provide a level of reliability, transparency, and defensibility that can make the difference between ill-informed and well-informed decision making. Brokers are in positions that call for them to understand the applicability of the tools, their limitations, and their potential in protecting their clients' interests—both from a physical risk mitigation perspective as well as financial risk management. Armed with reliable quantitative information, the broker will stand to gain in a crowded field where preserving clients' best interests and retaining their business are paramount.

Dr. Akshay Gupta is vice president and director of Catastrophe Risk Engineering (CRE) at catastrophe modeling firm AIR Worldwide. For more information contact: agupta@air-worldwide.com

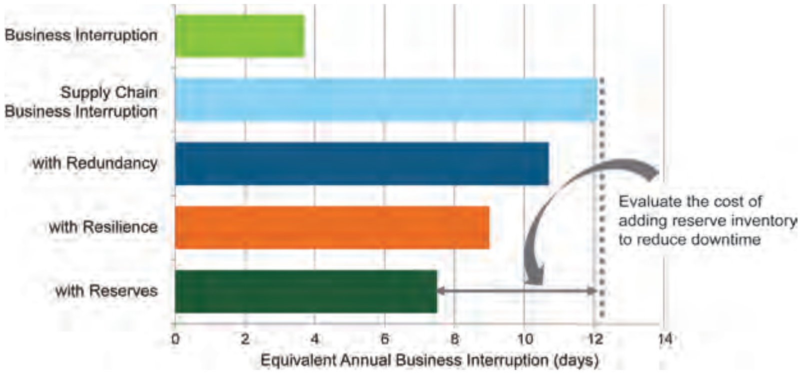


Fig 7. Advanced risk evaluations can be used for assessing and managing supply chain risk

BROKERSLINK HISTORY

LEARN MORE ABOUT THE PAST OF ONE OF THE WORLD'S GREATEST EMERGING NETWORKS.

It should come as no surprise that BrokersLink, today one of the world's most active and diverse international independent broker alliances, has had a lengthy and challenging climb to the top. In a market once dominated by giants, BrokersLink has helped to redefine and revitalize value within the field of risk management and related services, thanks to the network's truly global perspective and quality-drive approach.

The very first BrokersLink meeting took place in 2004, where major founder MDS was joined by Artai, Pérouse, FirstAssur, and Lazam-MDS. Meeting in Porto and focusing on European markets, BrokersLink slowly began to expand and welcome new members throughout the continent, holding frequent meetings to refine the network's vision and reach short-term goals.

Meanwhile, two other regional networks were working towards uniting insurance professionals and offering clients a more optimal and flexible risk management experience. The PanAsian Alliance in the Asia Pacific region, along with Alinter which focused its activity in Latin America grew in size and diversity, holding important summits and conferences at which BrokersLink members were able to make meaningful connections.

In 2007, partnership protocols were signed among the three networks, and a closer relationship began. In November of that year, the BrokersLink Association was formed, and collaboration between the three networks increased. The following year, BrokersLink and Alinter attended the PanAsian Alliance's annual meeting in the Philippines, where the potential of consolidation into a single group was first discussed. This idea finally culminated in the merge into the BrokersLink global alliance in November of 2008.

With the union of these capable networks, an alliance with truly global representation and know-how was formed. The member roster experienced an incredible rise, and the very first BrokersLink Global Conference took place in Hong Kong in 2009. Significant new members such as Frank Crystal & Co. in North America helped the network achieve greater presence, while the work of prominent executives such as Hei Wong, Gregory Allard, Steve Jackson, Jamie Crystal and José Manuel Fonseca strengthened BrokersLink and helped it move forward despite difficult economic conditions and fierce competition.

At the core of this well-established yet still-growing network is the harmony between specialized local knowledge and a broad, global standard for quality. BrokersLink continues to prove its worth to members, partners, and clients, however complex their expectations and needs are. In 2011, following the discontinuation of Alinter organization, BrokersLink re-structured its Latin American presence around two major poles, Brazil and Mexico. Today's BrokersLink is stronger than ever thanks to the dedicated work and vision of those who have helped it emerge from its humble beginnings.

> "BrokersLink continues to prove its worth to members, partners, and clients, however complex their expectations and needs are.

2004

9th July

BrokersLink is born - 1st Meeting at Porto

The "Big Bang" happened at a meeting in Porto! It all started with MDS (Portugal), Artai (Spain), Pérousse and First Assur (France) and Lazam-MDS (Brazil). The vision for BrokersLink arise out of a reality statement and need to provide outstanding service to clients worldwide responding to the demands of an increasingly competitive and global market. BrokersLink was forged as a horizontally structured alliance with a strong focus on the human relationships between all members. Each member broker is not seemed as a branch, but rather as an independent, and entrepreneurial company, with a mission to deliver outstanding client service.

At the time BrokersLink had the honor in counting with the presence of Cooper Gay, one of the leading reinsurance and specialist retail insurance broker and a member to be...

October

2nd BrokersLink Meeting - Paris

New members: *MDS (Portugal), Artai (Spain), Pérousse and FirstAssur (France), Lazam-MDS (Brazil*

2005

February

3rd BrokersLink Meeting - London

All of BrokersLink members from the very beginning were supported by Cooper Gay, that hosted the London Meeting revealing an increasing presence and the importance of a business relationship with BrokersLink. At this meeting BrokersLink welcomed an important member from Germany: Junge.

9th June

4th BrokersLink Meeting - Lyon

The Lyon Meeting was the crib for the BrokersLink brand presentation. Under the theme "Turning the Partnership Tangible" the board presented the image and communication strategy for the network. An important step to increase its capability to operate in different environments on a true link basis and to achieve the expansion of the network through new partners on a global basis.

October

FERMA Forum - Lisbon

The first participation of BrokersLink in FERMA Forum (the bi-annual Risk Management Forum and one of the major European conference designed for the sector) held in 2005 was a great opportunity to make known the activity of the network recently formed as well as to establish contacts with some of the biggest purchasers of insurance and the main international insurance companies and brokers.

17-18 November

5th BrokersLink Meeting - Vigo

New members: *Junge (Germany); Cooper Gay (UK);*

At the core of this well-established yet still-growing network is the harmony between specialized local knowledge and a broad, global standard for quality.

2006

10 February

6th BrokersLink Meeting - Hamburg

2-3 March

1st PanAsian Alliance Conference - Hong Kong - Official formation

Official formation of PanAsian Alliance (PAA) during the first Conference held in Hong Kong, that would be merged to BrokersLink network in 2009. There were 10 members from various countries in Asia attending. New World Insurance (now Nova Insurance) was one of the key drivers.

12-14 May

7th BrokersLink Meeting - S. Paulo

BrokersLink introduction to the Latin America market

September

FERMA Forum - Lisbon

Meeting between the leaders of PanAsian Alliance, Hei Wong, BrokersLink, José Manuel Fonseca and Cooper Gay, Toby Esser, for mutual acknowledgement and brainstorming on a possible cooperation between the networks pursuing a common goal: to expand and to develop new partners on a global basis.

7 December

8th BrokersLink Meeting - Porto

José Manuel Fonseca was formally elected President of the recently created BrokersLink Executive Committee. The Porto Meeting was also highlighted by the expansion of the network to the Asian and Eastern Europe market. First time that Hei Wong was present in a Meeting.

New members: Renomia (Czech Republic; Hungary; Bulgaria); Artai Argentina; Sidarsa (Morocco); Bridge (UK); Karavias (Greece);

2007

January

Alinter Meeting - Mexico

BrokersLink was introduced to Alinter, a Latin American based network with operations throughout the region. The idea of an upgrade through a merge of the three distinct networks - BrokersLink, PanAsian Alliance and Alinter - into a single global entity began to take shape.

17-19 May

PanAsian Alliance Summit - Shanghai

During the PanAsian Alliance Summit 2007 held in Shanghai, China, Partnership Protocols with PAA on behalf of BrokersLink were signed.

15-16 June

9th BrokersLink Meeting - Athens

The Athens meeting was crucial to the future of the BrokersLink in its actual concept of a true global network of independent brokers. With the increasingly powerful force in world affairs, driving towards the growing integration of economies and financial markets, BrokersLinks signed, separately with PanAsian Alliance and Alinter Partnership Protocols. These associations established a close and intense relationship among the brokers' networks and its leading brokers in their individual territories.

To commit towards providing clients with the best and most competitive way to manage their risks and protect their investments around the world was the main goal, without losing personalised and local service. Also it was important because of the relevance of knowledge and expertise exchanges that aroused from those partnerships.

It was also at the Athens Meeting that Partnership Protocols were signed between BrokersLink and all its members, which would serve to strengthen the already existing relationship between all the associared brokers.

September

FERMA Forum - Geneva

Premier of the first BrokersLink website - a real communication platform to enhanced proximity with clients, partners and market in general.

2 October

10th BrokersLink Meeting - Geneva

A major step towards the formal constitution of BrokersLink took place at the Geneva Meeting where it was decided and approved the bylaws, regulations and the Declaration of Principles.

21 November

Creation of BrokersLink Association

It was on the 21st November 2007 that Associação Brokers Link (ABL) was born, in Porto, Portugal. The formal constitution of the network was finally on paper. A milestone in its short history and a major step in the insurance and brokerage sector worldwide. At the time BrokersLink was already between the eight major broker networks of the world and the first one with its decision center out of the main financial markets. The aim to be one of the main players in the global insurance market took off that day, with BrokersLink 40 independent brokers in more than 50 countries and with a +4Bi euros premium managed. At the time BrokersLink had already strong partnerships in the US, Canada and Africa.

New members: SRB (Switzerland);

“Today’s BrokersLink is stronger than ever thanks to...those who have helped it emerge from its humble beginnings.

2008

27 April to 1 May

Participation at RIMS 2008 - San Diego

The three networks BrokersLink, Alinter and PanAsian Alliance were together for the first time at RIMS Conference 2008. Later on this month the idea of a global insurance network was discussed on the 2008 PanAsian Alliance Summit that was held in the Philippines.

22-24 May

PanAsian Alliance Summit - Boracay Island - Philippines

2008 PanAsian Alliance Summit at Boracay- Representatives from BrokersLink and Alinter were invited to attend the PanAsian Alliance Conference at Boracay Island, the Philippines. During this meeting, the idea of merging the three networks into a global insurance network emerged.

12-14 June

11th BrokersLink Meeting - Paris

The three networks BrokersLink, Alinter and PanAsian Alliance were together for the first time at RIMS Conference 2008. Later on this month the idea of a global insurance network was discussed on the 2008 PanAsian Alliance Summit that was held in the Philippines.

14-16 November

BrokersLink: the global network (the merge)

In 2008, at the PAA Excom Meeting held in Bangkok, the leaders of BrokersLink, PanAsian Alliance and Alinter finally decided that they should all operate under a single brand. And there was a 100% consensus that BrokersLink was the best choice in name and brand. It was at that time that it was decided to find and establish a very strong partnership in the US, with Frank Crystal Co. as the best possible choice for BrokersLink. It was also agreed that first Global Conference of the new BrokersLink was to be held in Hong Kong in June 2009.

New members: Toren (Israel);

2009

19-23 April

RIMS 2009 - Orlando

At RIMS Conference at Orlando, BrokersLink was officially launched after the merger. New brand logo, new brochure, the first stand. All ready to set off towards the new expansion phase with already over USD3 billion of premium annually to manage. Board Members: Steve Jackson (Cooper Gay, London), Hei Wong (Nova Insurance, Hong Kong/Beijing), José Manuel Fonseca (MDS, Portugal), Mauricio Esquino (Alinter, Mexico City) and James Crystal (Frank Crystal & Co., New York).

18-20 June

1st BrokersLink Meeting Global Conference - Hong Kong

“Linking Clients, Markets and Knowledge”: that was the theme for the first ever global conference of the newly unified network of independent insurance brokers around the world - BrokersLink. The event was attended by its members from all over the world, as well as important speakers within the international insurance sector. It was a key moment that symbolized the harmonious gathering of independent brokers coming together based on mutual trust and respect.

October

FERMA Forum - Prague

BrokersLink was present at this major event on Risk Management with a booth at the exhibition visited by more than 1000 professional all over the worl.

New members: EIB (Poland); Léons (The Netherlands); Nart (Turkey); PCA (Italy); Frank Crystal (USA); Birla Insurance (India); Trinity Insurance Brokers (Philippines); Labuan Insurance (Malaysia); Beijing New World Insurance (China); Shangai Asian Insurance (China); Robert Masterman Insurance (Australia); New World Insurance (Hong Kong); Acclaim Insurance (Singapore); Tri-W Insurance (Taiwan); Aisa-Pacific Risk Consultants (Thailand); Aegis Consultants (Vietnam); Alinter (Mexico); Interseguros (Costa Rica); MSTC (Chile); Coorecol (Colombia); ROS (Dominican Republic); Seguros AAA (El Salvador); ZHN (Ecuador); Agencia Independiente de Seguros e Finanzas (Guatemala); Conaseg (Honduras); Interprotección (Mexico); Mayorgay Asociados (Nicaragua); Corporación Continental (Panama); Rehder & Asociados (Peru); Carrion, Laffitte & Casellas (Puerto Rico) (Latin America & Caribbean); Coaseguro (Venezuela)

2010

4-6 February
BrokersLink Asia-Pacific Conference - Saigon Vietnam (HoChiMinh)

25-29 April
RIMS 2010 - Boston

17-19 June
2nd BrokersLink Meeting Global Conference - Lisbon

The BrokersLink Global Conference in Lisbon confirmed the network development.

Presence, Expertise & Communication was the theme for this year event attended by 150 delegates from all over the world, joined by top executives from national and international insurance companies of the insurance and brokerage sector.

Some major developments were announced during the Lisbon Conference: Len Battifarano was appointed CEO of BrokersLink and the admission of a new member category: Specialized Resources Services. This was obviously relevant to the insurance industry, since it allows BrokersLink members to serve their customers in an increasingly comprehensive, integrated manner, bringing to all members expertise across a diverse number of insurance and risk related disciplines.

June
The new BrokersLink website was launched

Len Battifarano as the 1st CEO of BrokersLink

1 October
Paul Bitner strengthens BrokersLink as COO for Latin America

New members: Van Dessel (Belgium, Luxembourg); CH Toro (USA); Rainmaker Group (Mexico); Paragon (UK); RSI; (USA); BDO (USA); Contacto (Peru); Orbital (Chile);

2011

January
Rebuilding Latin America

Restructuration of our Latin America operations to strengthen our presence in the region. A new company was created, BrokersLink de México, which integrates five outstanding insurance brokerage and risk consulting firms in into a virtual single entity to handle BrokersLink related business.

24-26 February
BrokersLink Asia-Pacific Conference - Singapore

1-5 May
RIMS 2011 - Vancouver

27-29 October
3rd BrokersLink Meeting Global Conference - Miami

The annual conference is always the year's key event for BrokersLink. In 2011 the motto was "Global Synergy to Fuel Local Wins". Attended by around 200 people coming for all over the world the main issues for the insurance industry were discussed at high levels: from risk trends, to economic outlooks, to the discussion on the best way to cover specific risks.

New members: Herco (Brazil); CG&B Group (Canada); Cornes & Co. (Japan); Anzen Insurance (Israel); In2Matrix (UK); Safeonline (UK); Hertz &Co. (Denmark); IBS (Indonesia); CIC (Trinidad & Tobago); Star General (Bahamas); Derek Bogle (Cayman Islands); Daewoo Ins Korea (South Korea); AIR Worlwide (USA); Filhet Allard (France); AFTA (Panama);

October
Filhet Allard as the newst BrokersLink member

Gregory Allard, from Filhet Allard, to be confirmed as the new Board member

Official membership from Filhet Allard, the 6th largest corporate broker in France headquartered in Bordeaux.

> **"BrokersLink has helped to redefine and revitalize value within the field of risk management and related services.**

2012

8-10 March
BrokersLink Asia-Pacific Conference - Taipei

July
Len Battifarano leaves BrokersLink

18-20 October
4th BrokersLink Meeting Global Conference - Madrid

New members: Alpha Insurance (Morocco); Arab Commercial Entreprise (Saudi Arabia); BrokersLink Mexico (Mexico); CINCo (Russia); GIB (South Africa); Hadbrok (Egypt);HighDome (Malta); Kindlon (Ireland); Montealto (Chile); PSC (Australia); RSA (Ecuador); Sterling Insurance (Malaysia); Unity Group Holdings (Central America)

BROKERSLINK THIRD GLOBAL CONFERENCE, MIAMI

AN EXCITING SETTING AND BROAD ATTENDANCE HELPED TO MAKE MIAMI'S BASH OUR BEST YET.

"Global Synergy to Fuel Local Wins" was the motto for BrokersLink's annual conference in 2011. This conference was the alliance's biggest event all year and opened admission to the insurance market at large during its second day.

The strong and international range of speakers delivered a focus on risk management knowledge and technology in the insurance industry, including the US Ambassador Frank Wisner, who explored the Arab awakening and future developments in the region, Ernest Legrand, CEO of WEBCBG who offered a keen perspective on the evolution of technology in the industry and Dr. Erwann Michel-Kerjan, Managing Director of the Risk Management and Decision Processes Center at Wharton School and Chairman of the OECD Secretary-General Board on Financial Management of Catastrophes. Dr. Michel-Kerjan brought a new perspective on emerging global risks and discussed the catastrophic crises that will materialize in the coming years.

These were just a couple of the themes that contributed to the fulfillment of audience expectations, leading to great gains in credibility for the BrokersLink Global Conference as an event.

With over 200 delegates arriving from around the world, this was once more an opportunity to show BrokersLink's vitality and the recognition of the relevance of such an event. Support and interest were also shown by the list of renowned sponsors, as well as a variety of media notices.

José Manuel Fonseca, Chairman of BrokersLink, said at the time: "This is only our third global event, but we believe it is already becoming an important fixture in the international calendar. The relevance of the event and the network's strength is also clearly demonstrated by our ability to attract the support of key players within the insurance market."

During the Conference, the BrokersLink Annual General Meeting took place, during which the admission of Gregory Allard Executive Manager at Filhet-Allard to the Board of Directors was granted as part of the network's strategy for growth across Europe.

Filhet-Allard is the 6th largest corporate broker in France, and is headquartered in Bordeaux with 700 staff based in eight locations.

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> "...the network's strength is...clearly demonstrated by our ability to attract the support of key players."

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BROKERSLINK ASIA-PACIFIC CONFERENCE 2012, TAIPEI

“ ...another excellent opportunity to catch up on the alliance’s most recent development.

NEW MEMBERS, ENLIGHTENING TALKS, AND ENGAGING OUTINGS: TAIPEI HAD IT ALL.

Under the theme “Synergize Strength, Optimize Opportunities,” this year’s Asia-Pacific Conference was hosted by a BrokersLink member in Taiwan: Tri-W Insurance Brokers Ltd. The event was another excellent opportunity to catch up on the alliance’s most recent developments and to reinforce the announcement of the changes of its internal structure, all while welcoming new members.

Delegates form three new alliance members were present for the first time: IBS Group from Indonesia, Daewoo INS Korea Corp from Korea, and Sterling from Malaysia.

Once again, BrokersLink secured some of the most experienced speakers in the Taiwanese market, each of whom explored themes of great relevance to the region. BrokersLink was pleased to present Dr. Jan-Juy Lin, Commissioner Financial Supervisory Commission, Taiwan as the keynote speaker; his talk took the audience through the new era of financial consumer protection in Taiwan. Dr. Cheng-Mount Cheng, Director & Chief Economist, Asia Pacific Economic & Market Analysis for Citibank Taiwan, presented his professional views on the 2012 global economic outlook and financial strategy. Tony McHarg, Asia Pacific Regional Manager of Chartis, and Stephen Britten, Regional MD of Cooper Gay Asia, also gave us valuable insights.

With the presence of our Chairman Jose Manuel Fonseca, full support from Chartis, and dinners sponsored by Zurich and ACE, our annual Regional Conference was another great success this year.

The next Asia Conference will be held in Bali, Indonesia, around the end of February 2013, and will be hosted by IBS.

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“ ...our annual Regional Conference was another great success this year.

MEETUP AT RIMS

OUR MEETUP PUT THE FINISHING TOUCH ON ONE OF THE INDUSTRY'S MOST IMPORTANT EVENTS.

BrokersLink was also present at one of the biggest annual events in Risk Management --RIMS 2012--, held in Philadelphia between the 15th and 18th of April.

As usual, BrokersLink organized its Board of Directors meeting during RIMS, which was held at the Chart House.

At the Pyramid Club, on April 16th, over 15 members from different countries were represented at the "Meet the Leadership" event where senior executives from several large insurers were also present. This was after the traditional Member Breakfast.

The Cocktail Reception is also a traditional gathering of BrokersLink during RIMS. This year's Cocktail was co-hosted with Frank Crystal. Over 300 invitees -including clients and prospects-- enjoyed a very pleasant evening at the Downtown Courtyard Marriott, a beautiful historic building across from City Hall. Over 300 invitees attended the event. It was a major networking success.

In addition to these BrokersLink activities, the RIMS organization invited our chairman, José Manuel Fonseca, to be a speaker in the sessions, where he delivered a well-received talk on emerging markets and risks.

"Over 300 invitees... enjoyed a very pleasant evening.

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José Manuel Fonseca...delivered a well-received talk on emerging markets and risks.

MANUEL PADILLA

INTERVIEWED BY JACQUELINE LEGRAND, COO AT MDS HOLDING.

A RISK MANAGEMENT EXECUTIVE TALKS ABOUT HIS BIGGEST CHALLENGES AND WHAT'S AHEAD.

Tell us a little bit about your background.
I was born in Brooklyn, New York, and was raised primarily by my grandparents who migrated to the United States from Puerto Rico in the 1950s. I graduated from East New York Vocational High School in 1982 with a concentration in Engineering Mechanical Design and Construction. I enlisted in the United States Navy and served between 1982 and 1988. My primary professional duties were shipboard engineering, and I served for a brief time as an Assistant Master at Arms on a military airbase in California. I attended the College of Insurance (now St. John's School of Risk Management) and graduated in 1992 with a Bachelor's Degree in Business (Cum Laude) and a Certificate in Multi-Lines Underwriting. I was a student involvement program participant at the Risk and Insurance Management Society Conference (RIMS) in 1991. As a result of this experience I focused my career towards the risk management discipline. In early 1992 I accepted a position as an Insurance Analyst with my current employer and have now been on their team for over 20 years.

What is your role at MAFCO?
I serve as the Director of Risk Management. My primary responsibilities include all facets of the risk management process and any ancillary activities related to this function. I am actively engaged in risk analysis, claims administration, engineering loss control and health and safety initiatives on a global basis.

What are the key challenges that keep you up at night?
That is an intriguing question. Challenges present themselves every day. An important point is to recognize that there is a challenge that needs to be dealt with in the first place. Challenges can be created through internal change of risk appetite or change in our physical risk profile. Other challenges can be created through external means and are beyond our immediate control. For instance, a change in the legal or regulatory landscape may force us to reconsider how we manage risk entirely. That same change may negate the need for risk transfer entirely or force us to completely re-evaluate our risk appetite. For me, the primary key is in the identification of the challenge before it becomes one. I confront this on a daily basis.

What are the benefits you expect while using a network such as Brokerslink?
I expect broad expertise and quality service. I am a big believer in local market knowledge and in developing personal relationships with the markets and intermediaries. The Brokerslink business model suits the way we operate our businesses. It allows us the ability to identify key issues quickly. I have had the pleasure of dealing with a number of your members and have always been impressed with their professionalism and knowledge of the industry. The management team is very proactive and very keen on providing good customer service. Some of the alternatives to the Brokerslink model try very hard to standardize processes in an attempt to make things simple to handle from an administrative perspective. I am of the opinion that standardization is not a key value benefit. I recognize that the organization of a process is critical, but it should not discard the important differences in how insurance issues are handled throughout the world. In contrast, the single broker entity model, in my opinion, stifles critical thinking and the development of new ideas.

> "Challenges can be created through internal change of risk appetite or change in our physical risk profile.

Could you share with us your view on supply chain management?
This is a very important topic and has always been practiced to some degree in business. The issue is so critical that there are professional certifications and recognized standards that have been developed in the discipline. My view on supply chain management is that it needs focus by the procurement, distribution, operations, and risk management departments in a group setting. Each member of this group should add value to the risk analysis portion of the process. As risk managers we tend to respond to the direct financial impact of an interruption in the supply chain. The other groups react to everyday issues which may have nothing to do with physical damage. Everyone in the group is at a disadvantage if there is no clear understanding of the direct and indirect impact of a supply chain problem to the organization. There are a number of risk transfer products that address an interruption in the supply chain. For me, the key is to first identify the supply chain exposure and then properly design a risk transfer mechanism or loss control approach to address that exposure. For some, the analysis may identify that there are alternative sources or even a replacement process that can effectively deal with the exposure. In my opinion a company cannot put together a program to deal with the supply chain issue without first identifying the supply chain exposures.

What is your perspective on cyber security?
This is one of the most challenging topics I face. We engage a lot of financial and physical resources on this topic. We hold fairly detailed conversations with our underwriters on the security issues we have implemented or those that we manage. It is the type of function where you try to stay one step ahead of the people or groups trying to do you harm. The level of sophistication by third parties is increasing and the impact is significant. For some organizations, cyber security issues are a part of the supply chain topic. In addition to our internal risk analysis, we are subject to audits by customers and industry group representatives. This is a topic that will continue to develop and change just as quickly as technology changes.

How do you see the future of risk management and risks managers in the next few years?
The practice of risk management has become more of a standard operating requirement and in some cases is required under statutes. In the past, only mature organizations maintained formal risk management programs. There was no clear standard as to how broad a program needed to be. The Sarbanes-Oxley Act now requires an internal control framework which includes risk assessment. The Securities and Exchange Commission requires that a company address fraud risk assessments. The New York Stock Exchange governance rules require an audit committee to assess and manage the company's exposure to risk. Standard & Poor's has initiated a requirement for companies to discuss their risk management plans in their rating evaluation process. ISO 3100 and ISO 31010 identify international standards for risk management programs and processes. These are a few of many requirements –-there are more internationally that are similar. I expect that these requirements will continue to be refined over the next few years.

I see that the future is bright for the risk manager. There is the current pressure of the economy and how it affects career momentum, however there will be a need for a professional to continue to perform the function at major organizations. The challenge I see for risk managers is in demonstrating their direct and indirect value to the organization. The job description is also becoming more defined and there is a movement to mature into the next role which is an Enterprise Risk Manager (ERM). I think most risk managers are engaged in the activities required by ERM. Those who are not need to expand their horizons and become more involved in their organizations. A key note is to be visual to management and to make yourself a recognized resource within the organization. This is best done through personal interaction.

> "I have had the pleasure of dealing with a number of [BrokersLink] members and have always been impressed with their professionalism and knowledge of the industry.

JAIME BORRÁS

THE ARTAI CEO SHARES HIS THOUGHTS ON SPAIN, THE BROKERSLINK NETWORK, AND WHAT LIES AHEAD.

1 | What are the key milestones of your career? Please tell us a little bit about the history of Artai.

My first job was working for Banco Vitalicio, part of the Generali Group. I was based in Galicia for the first four years and later moved to Madrid for another four as an inspector general in Spain's marine industry. This gave me a great opportunity to see how the market worked on a national scale. My time at Banvo Vitalicio spanned the beginning of 1971 to late 1978.

Following my work with that firm, I moved to Gil y Carvajal as Director for the Galician Region. Gil y Carvajal was a highly professional and well respected brokerage firm. It was in this role, influenced by the company's vision of the market, that I became acutely aware of the importance of both customer service and the need to have a complete understanding of business risk. I started out in the London market, working with brokers such as Willis, Hogg, Seascope, and others, and I had the great fortune to get to know some great professionals like Mark Garwaith, John Welleslay, David Southwood, and Nick Taylor. The experience I gained working with these professionals on a day to day basis would prove invaluable to me in the future. I learned the importance and potential of an international network. We began to travel to Argentina to place Spanish ship-owners risks on the local markets.

I was part of the company's executive team, headed by Santiago Gil (one of the best insurance professionals of the last century), and I was also a shareholder in what was then the first Spanish brokerage firm.

In 1993, five people with extensive professional expertise and over 15 years' experience in common decided to start a new project. As a result, Artai was born.

Our objective was to aim for the Spanish middle market by offering good service to the fishing and timber sectors. Our hopes were to capture the largest share possible of the market and to be constantly pushing ourselves professionally.

In 2005 HHC was integrated with Artai. HHC was an independent brokerage firm in Leon, where it had established itself as the leader in road insurance for the passenger transport sector. With this integration came the acquisition of two experienced and reputable professionals, Joaquin Huergo and José Ramon Higon, further strengthening the team at Artai.

This year, we've also introduced the insurance brokerage firm HENNER-ARTAI. The firm specializes in health insurance, a line of business experiencing major growth. Another decisive and important milestone was the creation of Argentina Artai. Esteban and Luis Sanchez, together with their team, have proven reliable and competent throughout their work with us, and we're proud to have them on board. Argentina Artai is our main base in Latin America, where the Artai Group has plans for an ambitious expansion.

> "The value of good business ethics, the value of hard work and committment, and the value of talent are all central to our success.

Finally, I was lucky to come into contact with José Manuel Fonseca 6 years ago. He informed me of his idea to create an international network --BrokersLink, which was launched on the 20th anniversary of MDS in Porto. Mr. Fonesca, myself, Thierry Perrouse, and Donald Begg of Cooper Gay were present at this important event --one which distinguished my career through my role as a founding member. Today, we continue to develop and practice the original vision of collaboration and diligence.

2 | What is Artai today?

Artai aspires to be the leading independent private professional brokerage firm in Spain and Latin America. To achieve this, the team must be very clear in its objectives. The value of good business ethics, the value of hard work and commitment, and the value of talent are all central to our success. These values help strengthen our foundation.

Our motto is that success can only result from a job well done; it's never an end in itself. Artai employees, a team of more than 100 people managing the risk and insurance of our clients, look to this motto throughout their work. We aim to achieve notoriety and trust as specialists and as a reference point in certain sectors such as Maritime (Fishing and P+I), Transport of Passengers by Road, Public Administration, and the general market via the manufacturing of timber, textiles, and so on. In 2011 we humbly began to introduce ourselves to the world of high exposures through Eduardo Llinas, and at the moment, Artai's client portfolio boasts more than three companies listed on the IBEX.

2012 has been an exciting year for the development of Artai. We acquired the brokerage firm CNA in Navarra, one of the most stable areas for midsize businesses in Spain, adding 800,000 EURO to our annual revenue. We also acquired the consulting firm Asur Credito that provides advice and services to our credit clients.

We created our own risk management consulting firm, James Steel Services, to operate as surveyor and adjuster, complementing our current risk management activity. The company will be involved in assessments, suppliers control and claims management platforms.

Going forward, we plan to acquire 33% shares of a Moroccan brokerage firm, then increase our participation in full to integrate the company into Artai's Group in a one year timeframe. It is an important strategic decision that will position Artai as the first Spanish broker in North Africa. We believe North Africa is the market of the future for both Spanish and European investments.

Artai Argentina also created their own enterprise risk management consulting firm to monitor the services delivered by suppliers to our clients. This service is in high demand in Latin America and I believe Esteban

“We believe BrokersLink should continue to be involved in management leadership and professional development.

Sanchez, President of Artai Argentina, will have the opportunity to share with the BrokersLink community his experience in this activity.

Through Artai Argentina, we plan to complete the expansion of our footprint in Uruguay and Chile this year.

3| What should be the role of BrokersLink in regards to Artai?

We're a founding member of BrokersLink, and believe this network's foundation and success has been vital for us and for other medium-sized independent brokers determined to offer global service to their clients. We've enjoyed being a part of BrokersLink's international team, and we've certainly benefitted from its capabilities in information and skill exchange. The strength of BrokersLink is directly linked to the strength of its members. We believe BrokersLink should continue to be involved in management leadership and professional development. The network should also analyze and act upon the potential for greater collaboration between members.

4| As the chairman of the event, how do you see this 4th BrokersLink Global Conference and what are your expected outcomes?

For Artai it is an honor to have Spain chosen as the host country, and this means something very special to me personally. I still remember the beginning of BrokersLink in Porto, when we only had three members, and after just a few years, more than 65 countries will be represented at our conference-something which is absolutely incredible. As far as the results, I expect them to be exciting and plentiful. Having more than 200 professional members together, along with leading figures in the world of international insurance, discussing the most burning issues related to our business while networking and collaborating is sure to spark great things. I hope a prominent outcome is a shared feeling among our members that they're part of the same team.

All BrokersLink staff are actively working in the preparation of our conference. Jacqueline Legrand, Liliana Baptista, Elisa Vázquez, Javier Huergo, and of course José Manuel Fonseca and myself are working diligently to assure the success of the conference.

There are three main components to this success, as I see it. First there's the pre-conference phase, where communication will play a leading role in preparing and advertising the conference between our members, as well as in the sector itself. After this, of course, the conference itself will occur, and the visibility and strength of our network will be displayed in all its glory.

Finally, the important post-conference stage will help us to properly understand and use the advantages and synergies arising from the conference. This will help us to continue to generate visibility, ensuring our media reach --and our future-- is strong.

5 | What are the trends in Spanish insurance brokerages?

Without doubt there are profound changes taking place in the intermediation and insurance assessment sectors in Spain at the moment. The Spanish market consists of nearly 3,000 brokerage firms, as well as close to 2,000 independent insurance brokers. No matter how you look at it, these numbers are very large, and in the end this means that offering competitive prices requires a compromise in quality for many service providers.

Many of these providers find themselves in a very difficult situation economically. As a result of falling premiums and related factors, several companies have been forced to close. This will, without doubt, cause a major streamlining within the brokerage sector. Clients of struggling brokerage firms may well be better served by wholesalers.

“ I think video conferences will be a vital part of the [insurance business worldwide.

Already, many insurance agents are working simultaneously through three or more insurance companies. The Spanish branches of the mega-brokers have begun exploring this line of business, and we in Artai are also investigating this potential as well. Before success can be achieved in this area, however, all parties involved must work to rebuild trust and mutual understanding.

Meanwhile, an exciting growing trend is the increase in services related to management risks.

6 | How does the current economic situation in Spain impact the insurance market and the brokerage industry?

The impact is direct due to the fact that tens of thousands of companies have closed in recent years in Spain. Primarily, businesses related to the construction sector, such as the timber industry, the textile industry, the household appliances industry and so on were the hardest hit. Many others have seen a reduction in both their turnover and business activity.

The excessive increase in construction debt, the collapse of the financial sector, and the excessive over-reliance on the housing sector has provoked a substantial fall in consumer demand. All of this naturally results in less activity, less capital insured, less transport, and less credit.

Our work is focused on serving companies, so if business suffers, we suffer as well.

7 | How do you see the future of the insurance brokerage activity, in Spain and in general?

In my opinion, Artai needs to amplify services and to work towards being pioneers in risk management for our clients to stay competitive in the Spanish market and beyond. Information systems over the next few years are going to be vitally important, and I think our field as a whole will be better equipped to take on coming challenges.

Communication will also be essential, and I think video conferences will be a vital part of the business worldwide. To continue to offer value, we need to be more efficient and to optimize our resources, and our service must improve every step of the way.

8 | What are your favorite places in Madrid and/or Spain? Do you have any recommendation for our BrokersLink members?

As the Spanish son of Argentinian parents and Portuguese grandparents, it's a luxury to me to live in this great city, from which hundreds of thousands of immigrants set off to Latin America, to later be welcomed back again at the beginning of the last century. Madrid has one of the most pleasant climates of Spain, and its beauty and culinary excellence are unequalled.

Madrid is also the city with the highest rate of growth in what is now the European Union over the last hundred years, increasing from 10,000 inhabitants to nearly 400,000 today. The people are very entrepreneurial and the city boasts a pioneering role in the world's fishing industry.

I've travelled throughout Spain over a long period of time, and this country is easily one of the most diverse I've ever experienced. Places such as Andalucía, Levante, País Vasco, Asturias y Santander, and Cataluña, which hosts Barcelona, one of the most beautiful cities in the Mediterranean region, all have much to offer visitors.

Overall, Madrid is a city that believes in itself and which has tremendously advanced in recent years. All of Spain is special to me, and I'm sure conference attendees will find many special venues of their own.

ARE MULTINATIONAL CORPORATIONS UNDERESTIMATING EVOLVING TERRORIST THREATS?

MANY MULTINATIONALS REALIZE THAT TERRORISM THREATS CONSTITUTE REAL RISK -BUT ARE THEY RESPONDING EFFECTIVELY?

BY GREGORY RANC

A decade after the attacks of September 11, 2001, terrorism remains a significant risk for corporations throughout the world. To address the financial and operational fallout from an attack, multinational corporations can mitigate loss through insurance, reinsurance, and risk management tools. Over the years since the 9/11 attacks the terrorist threat has evolved, leaving many multinational firms unaware of new or changing exposures. These firms need to ensure that adequate procedures and resources are in place while securing the insurance and reinsurance solutions that are appropriate for their specific risk profile.

There are three categories of risk to be considered when managing these threats; political risk, terrorism, and political violence. Consequences and losses due to these risks can arise following a single catastrophic event or through a chain of events that build slowly.

Political Risk

It is important to note the distinction between political risks specific to business and the political risks regarding operations specific to the business's host country1. Political risks specific to business are those risks that target a business's operations based on discriminatory political differences and agendas. For example, the risk of a host county's government cancelling its contract with a business as opposed to a terrorist group that targets the physical operations of the company.

There can be political risks specific to a country that, while not directed against a particular company in the private sector, target the whole country and can, thus, affect the functioning of the business operating there. Examples include a government's decision to forbid the transfer of currencies or the outbreak of civil war.

Government instability can be identified as political risk when governmental authority is exercised legally or illegally. Many government risks, notably those that are specific to business, contain an ambiguous mixture of legal and illegal elements. Actions ranging from a legitimately enacted tax hike to an extortion ring that is authorized to operate (e.g. directed and supported by a corrupt local police force) can be considered as risks linked to government. The dangers of government instability can result in political unrest, for example when conflicts arise between distinct members of a government fighting for succession or from responses to the deterioration of social conditions, such as massive and wide scale riots. Political violence is therefore part of political risk. In addition to strikes, urban riots, and civil wars, the following events can be included when defining political violence exposures: wars, social disorders, insurrections, rebellions, and revolutions.

> " Due to international interpretations and complex characteristics, there is no unique or unif ied def inition of terrorism.

Terrorism

Terrorist risk can generally be defined in four categories; Islamic extremist terrorism (Al-Qaeda);

Separatist terrorism (ETA – Euskadi Ta Askatasuna/Basque Fatherland and Liberty in Spain); Anarchist terrorism described as "left" (A Exarhia in Greece); Terrorism described as "right" (Anders Behring Breivik in Norway)2.

Due to international interpretations and complex characteristics, there is no unique or unified definition of terrorism. For companies buying insurance, its meaning depends on the country in which a business is based. For example, the governments of Canada or Switzerland do not have the same experience addressing terrorism as does Spain or the United Kingdom. The United Nations attempted to develop a common definition but were unsuccessful. The different interpretations that exist throughout the world converge towards describing an act of terrorism as "an action perpetrated by an effective person in the name of or in relation with an organization that exercises coordinated activities towards the overthrow, or the influence of, a sovereign government or on a government's public by force, violence, or fear"3.

Although no comparable attacks to the World Trade Center in 2011 have been repeated, the threat has always been present and has since taken new forms. International terrorism continued after 2001, most notably with the 2002 Bali nightclub bombing, the 2004 train station bombings in Madrid, the 2005 public transportation bombings in London, the 2008 attacks across Mumbai, and the suicide bombing in 2011 at the Domodedovo airport in Moscow. Within the four general definitions of terrorism, the more active and organized group is represented by Al-Qaeda.

Al-Qaeda Today

Osama Bin Laden's death on May 2nd 2011 raises questions about the future direction of Al-Qaeda. Firstly, after Bin Laden, Al-Qaeda is likely to decentralize itself more, making its threat more diffuse. While still alive, Bin Laden succeeded in unifying his operations as intrinsically anti- American but no foreseeable successor can speak with the same authority as him.

The future of the organization may see Al-Qaeda become a collection of commanders only united by their beliefs while divided up in autonomous territories presided over by a central governing body.

Secondly, the death of Bin Laden does not mean the end of the world-wide terrorist objectives of Al-Qaeda. The declared elevation of Ayman Al Zawahiri as the organization's leader suggests that Bin Laden's insistence

Political Violence

The events of September 11, 2001 had an unprecedented impact by raising global awareness that a terrorist organization could plan attacks of large scale and opt for financial targets as well as political targets. The terrorist threat has since continued to develop on a smaller scale while social and political events shaped by political violence are emerging.

The results of the Global Risk report 20115 illustrates the fact that multinational corporations perceive political violence as a high probable risk. The factors that are of particular concern are political radicalization, religious radicalization, social fragmentation, economic disparity, geopolitical tensions, and the existence of fragile States. Multinational corporations are aware of threats due to social change and wealth disparity, as supported by the following statistic: 63 percent believe that their businesses face political violence due to their relationship with and role in the capitalist system. Additionally, three out of five business leaders predict that the operational risks associated with political violence will increase during the five next years. The Middle East and the United States are considered the two main regions exposed to these threats6.

In 2011, this risk was at the heart of a movement called the "Arab Spring", which unleashed a wave of peaceful demonstrations through Tunisia, resulting in the ousting of president Zine el-Abidine Ben Ali. After the uprising in Tunisia, protests in Egypt in January and February 2011 forced president Hosni Mubarak to resign. Nevertheless, the quick overthrow of the presidents of Tunisia and Egypt did not yield the same results elsewhere in the region. While other small scale demonstrations took place in almost every other Arabic country in the region, the governments of Bahrain, Libya, Syria, and Yemen deployed troops to withstand the call for change. In some countries civil war was declared. In Libya, civil revolt culminated with the capture and death of Colonel Kadhafi. In Yemen, President Ali Saleh stepped down and ceded power to his deputy; and in Syria civil unrest currently rages on presently without an end in sight.

> "The reinforcement of multinational businesses' information on terrorism and political violence risks is a major aspect to ensure proper risk management.

Managing Evolving Risk

Overall, the level of preparedness of multinational corporations to protect themselves from terrorist threats is favorable, but that distinction depends on the criteria that is chosen to measure the level of preparedness. Awareness is growing and these threats seem well integrated in most risk management approaches. Although, as risk awareness is a necessary component of risk management, most firms do not have sufficient safeguards in place.

Establishing performance tools and procedures to assure the continuity of operations and crisis management is essential. On this particular point, many multinational corporations do not have policies in place to avoid delays in recovery if any of these types of events occur.

The reinforcement of multinational businesses' information on terrorism and political violence risks is a major aspect to ensure proper risk management. It requires a deeper understanding of the financial, social, political and humanitarian situations of the respective countries in which they operate. Collaboration with local authorities and other local decision makers help address these factors. In countries with fragile security and political environments, local commitment is a significant advantage for international corporations. Indeed, a multinational business's involvement in the local economic and social life (financial development and humanitarian initiatives) contributes to the strengthening of a positive corporate image of the company.

Solutions

Currently, the definition of "terrorist threats" covers a wider spectrum than ten years ago, and the risks linked to these threats logically follow. Multinational corporations are therefore concerned about insuring several aspects of their operations and the levels of consequence each loss would present. Three specific categories to be considered when insuring against assets targeted by terrorism; human resources (employees); physical resources (buildings, machinery); and intangible resources (the business's reputation and/or its computer data).

Because multinationals operate in several countries, they are more likely to be exposed to terrorist and political violence risks than a business located in one nation. This risk is diverse and can be a destabilizing force for both their financial health and operations, should an act occur.

In the aftermath of September 11, 2001, many countries, starting with the United States and France, established programs with insurance and reinsurance companies to allow coverage against terrorist risks to become readily available. Before the September 11 attack, other countries like Spain and the UK, having already experienced terrorist attacks of their own, had established similar compensation strategies. In 1986, France created a compensation fund for victims of attacks within its borders and for French nationals who are victims of terrorism abroad. In 1990, the compensation for victims of terrorism, previously managed by the State, were reserved to a new fund, the FGTI7. Multinational corporations must rely on the local regulations in the countries where they operate to determine exposures. The terms and conditions that frame these local programs vary from one country to another but it is a non negligible element that must be considered by corporations when creating global terrorism insurance programs.

Today, 12 of the 34 countries that make up the Organization for Economic Cooperation and Development possess insurance and reinsurance programs for the compensation of victims following a terrorist attack. Altogether, 20 different models are in place around the world, as a whole they manage the same risks. Some exceptions, such as France, offer a wider cover.

Various approaches to provide solutions are being created and financed by private insurance companies. Their intervention is fueled by the retention that is imposed on them (or threshold from which the State intervenes), by the financial contribution linked to the reinsurance cost, and to bolster their corporate responsibility by offering this coverage to employees. Regardless of private sector solutions, the total withdrawal of any financial support from the State is not probable, even in the current situation of excessive debt that most of the governments (guarantors of these funds) are experiencing.

Limited Capacity of the National Programs

From an ethical point of view, government intervention is a necessary function. Terrorism affects several public issues such as national security, national interest, compensation for domestic victims, and the overall economy of the country. All forms of political organization (republic, federal, state, monarchy) are concerned about terrorism and are facing its challenges.

Government programs provide limited coverage in terms of value, including such limitations as restrictive conditions on covered perils. As this coverage is usually insufficient, the market has a fundamental role to provide additional coverage or a more appropriate solution for corporations and insurance firms.

The coverages available on the private insurance and reinsurance markets offer the following advantages:

- Ability to extend coverage to include perils otherwise unavailable such as nuclear, biological, chemical, and radiological attacks; war; and civil authority exposures;
- Broader coverage in more territories;
- Certification of an act of terrorism by the government is not required (for example the United States requires governmental certification before compensation is paid);
- No minimal loss requirement to reach the intervention threshold above an agreed deductible;
- Fire damage and loss as a result of a terrorist act is included in the coverage;
- Coverage can be extended beyond the expiration of national programs (2014 for the United States)

Originally, the capacities of the terrorism insurance market offset the exclusion of terrorist risk from property policies added after September 11, 2001. The absorption potential of the losses has increased significantly in the last 10 years, from a few hundred million to over $2 billion today.

This significant increase underscores two major points:

- Demand for terrorism insurance products available in the market is strong growing
- The largest markets with capacity for solutions are Chartis and Lloyd's of London
- Underwriting capabilities and stand-alone terrorism forms have been developed over the past decades as the private market has grown.

Insurance Markets Evolving to Meet New Risks

The risks linked to terrorist threats are increasingly sophisticated and wider in scope. This evolution tends to ensure that the development of the stand-alone market in this space will continue. With regard to insurance products, terrorism and political violence risks are more likely to be covered by a single contract. For example, Hiscox is one of the pioneers on this type of coverage. Recently, Bermuda-Hiscox Ltd. developed an insurance product designed specifically for U.S. hospitals to deal with terrorist threats. This new product offers up to $50 million for full coverage against liability related to terrorism, the risks of nuclear, chemical, and radioactive terrorism, compensation for the security and evacuation of victims, and casualty triage expenses8.

Reaching appropriate levels of protection and optimum preparation to address terrorism and political violence risks lead to substantial financial investments for any company. In today's current period of economic crisis, multinational corporations often decide to cut these expenditures in efforts to post profits and allot funds to expenses deemed more essential for revenue producing operations. The crisis that Europe and other western economies face is becoming a spark for political violence (for example, Greece or Great Britain), which can in turn become a potential generator of terrorist acts.

Moreover, multinational corporations must deal with other catastrophic risks such as natural events like earthquake, flood, tsunami, volcanic eruption, and hurricane exposures. Natural disaster risks are defined and covered separately from terrorism and political violence risks, as the latter are man made catastrophes. These risks can be just as destructive with serious implications for the financial accounts of companies, especially as the frequency of recorded disasters during the last decade has increased compared to previous years. This leads reinsurers to make estimates in terms of insured losses. Today, the black swan theory9 plays an increasingly significant role in risk managers' reflection and strategy.

Multinational corporations are intelligently run organizations that have proven in the past to be appropriately flexible when facing changes in their industries as well as emerging global challenges. They can count on their internal strengths. Crisis Management and Business Continuity plans are efficient tools to reinforce their capacity to proactively respond to Natural Disasters, Terrorism or Political Violence perils. The hypothesis is thus formulated that these businesses will adapt themselves through public, private and internal solutions to meet the challenges of prevention and coverage of terrorism and political violence risks.

> "The crisis that Europe and other western economies face is becoming a spark for political violence.

This Viewpoint was written by Gregory Ranc, a broker in the International Division at Frank Crystal & Co.

EDUARDO ROMERO

A vital legacy to risk managers worldwide.

Regretfully, 2012 saw the disappearance of Eduardo Romero, former president of the Spanish risk management association - AGERS – and former member of the FERMA board.

Eduardo Romero was a prominent personality among risk managers worldwide with a lifetime dedicated to the industry and a career worth noticed at Grupo Dragados (Spain), where he worked for 30 years in several areas, both in Spain and abroad.

Even though he was retired, he was still very active in the insurance and risk sectors. Known for his passionate work, his loss it's felt all over the main institutions and personalities of the insurance and risk sector, mainly in Europe.

In 2004 he was the key note speaker and a guest of honour at the 20th anniversary of MDS (held in Porto). "The memory of Eduardo Romero will remain first of all as a friend but also as a man of respect between his betters and his peers. He was a model of professionalism. We regret such loss but his memory and legacy will go on", says José Manuel da Fonseca, Chairman of MDS Group.

Eduardo Romero presided over AGERS between 1999-2003. Also in 1999 he became a member of the executive committee of FERMA, having been the Barcelona Forum President in the year 2001.

Throughout his career he also collaborated with articles in the specialized press and in different universities within courses and seminars on risk management.

In 1999, Romero received a life time achievement award from Strategic Risk.

Eduardo Romero at the 1st BrokersLink Meeting (2004). At the time MDS was celebrating its 20th anniversary where he was guest of honour.

> " Even though he was retired, he was still very active in the insurance and risk sectors.

Maurizio Castelli Testimonial
Former FERMA President

I had the pleasure and honor to work with Eduardo in the period 1999-2001, in the preparation of the second FERMA Forum of the "new FERMA" era. At that time I was the president of FERMA which had recently moved away from holding the biannual congress in Monte Carlo and started moving in different countries and cities around Europe. Barcelona had been chosen as the second city, after Berlin, to host this event, which had been completely renewed also in its format and contents, starting to make it the wonderful European event that we know today. Eduardo was the perfect choice to be the Chairman of the Forum and he took this role very seriously and professionally, but also with the touch of humanity and good spirit which was one of the many virtues of Eduardo. Therefore it was easy, and a pleasure, to team-up with him, and it was rewarding, for the entire FERMA team to have such a great local person as the central reference in Spain for the organization of the Forum. The great success of FERMA 2001 in Barcelona, was certainly as always a teamwork, but to a large extent it was Eduardo's merit. And for me it was the opportunity to build up a friendship that continued until the sad time of Eduardo's passing away. In the following years I had in fact several further opportunities, as co-chairman of the Forum in Rome, as chairman of IFRIMA and later on in my "new life" at XL, to appreciate Eduardo's professional and personal qualities. I will miss him a lot; I'm sure he's now teaching Risk Management to the angels.

Ignacio Martinez Baroja Testimonial
President of AGERS

SPAIN INSURANCE MARKET (NON-LIFE)

IN TODAY'S TOUGH ECONOMY, SPAIN IS FACING A RANGE OF CHALLENGES. HOW WILL IT EMERGE?

With over 40 years' experience in researching and delivering insurance industry intelligence, Axco provides business-critical compliance and market data on non-life, life and benefits, personal accident, healthcare, and employee benefits markets across the globe.

The following article contains extracts from Axco's Non-Life (P&C) Insurance Market Report for Spain.

General Country Information

Population

The last census was held in 2001 and recorded a population of 40.85 million. According to the National Statistical Institute the population in January 2011 was estimated to be 47.19 million.

In recent years, an influx of economic migrants has changed the population structure, with immigrants arriving from Latin America, North Africa, Eastern Europe, and elsewhere. In 2011, it was estimated that some 5.75 million residents, 12.2% of the total population, were originally from outside Spain.

Largest Cities

Capital

Madrid - population 232,858 (central). Madrid is both the capital of Spain and of the autonomous Community of Madrid. It is the political and cultural heart of the country. It is the highest capital city in Europe, situated 2,165 ft. (660 m) above sea level on an upland plateau almost exactly in the center of the Iberian Peninsula. The city has expanded considerably during the past 40 years as people have migrated there in search of work. The metropolitan population exceeds three million residents.

Other Major Areas/Cities

Population estimates shown below are for the city centers in January 2011.

Barcelona - population 132,870. Barcelona is the capital of the ancient principality and modern autonomous region of Catalonia. It is one of Spain's principal ports and industrial centers, and is also famous for its architecture, art, and fashion. The city hosted the Olympic Games in 1992. Over five million people live in the metropolitan area.

Valencia - population 46,200. Valencia is the capital of the autonomous region of the same name and is Spain's third largest city. It is on the Mediterranean coast a few miles inland from the port of El Grao. The city lies in the midst of a fertile plain, which supports a thriving horticultural industry specializing in the cultivation of oranges and lemons. The metropolitan population is estimated to be over 800,000.

Seville - population 27,701. Seville is the capital of Andalucía. It is an ancient city standing largely on the left bank of the Guadalquivir River. Its cathedral is said to be the largest Gothic church in the world. Spain's first high-speed train line was constructed to link the city with Madrid in 1992. Over 700,000 people live in the metropolitan area.

Economy

Economic Performance

Historically the Spanish economy was based on agriculture, but the services sector is now the main economic force. Retail, banking, and telecommunications contribute considerably to the sector, but tourism is the dominant service industry. Foreign direct investment averaged 3.0% of GDP annually between 2007 and 2011.

The outlook for the next few years is poor, as policymakers face a collapsed housing market and construction sector, a fragile banking sector, consumer indebtedness and one of the most stagnant labor markets in Europe. Consumer demand has dropped significantly as households have reduced spending. Unemployment, which tripled in the four years to 2011, has also depressed domestic confidence. Fiscal constraints have required spending cuts and tax increases, as the government has sought to reduce its budget deficit, estimated at 8.9% of GDP in 2011. Labor mobility was expected to improve somewhat with the approval of temporary contracts for up to four years from 2011.

The economy entered recession in late 2011 and a severe contraction is forecast for 2012, which will keep Spain in recession until the end of that year. Real GDP is expected to shrink 2.2% in 2012 and grow by 0.3% in 2013.

In May 2012 Spain was obliged to rescue Bankia, its fourth-largest bank and then, in June, the government was forced to ask its Euro area partners for help, securing a loan of up to EUR 100bn to bail out the country's banking sector. Rather than feeling reassured, the markets feared Spain would become unable to service its burgeoning debts; these concerns, together with the downgrading of 18 Spanish banks, led to the interest rate on 10-year Spanish bonds being increased to 6.8% shortly afterwards. Inflation is forecast to decline to an average of 1.6% in 2012, as wages are held back and consumer demand remains low. They are then expected to rise to 2.1% in 2013.

Total public debt is much lower than that of Greece, although Spain has high private sector debt, dominated by the banks' exposure to toxic property assets. There are no obvious growth catalysts to revive the economy. Spain's appeal as a business location is expected to improve slightly over the next five years, however, partly due to market opportunities and policies that favor private enterprise, competition, and foreign investment.

> "...a severe contraction is forecast for 2012, which will keep Spain in recession until the end of that year

Standard and Poor's reported in June 2012 that Spain's sovereign debt was rated BBB+ with a negative outlook.

Supervision and Control

A sample of Spanish compulsory insurance is listed below:

- Motor third party liability.
- Workers' compensation (state scheme).
- Passenger liability (personal accident) in respect to public passenger transport.
- Hunters' liability.
- Professional indemnity for insurance and reinsurance intermediaries, ship inspectors, auditors, companies offering investment services, professional companies, and prevention services working in agronomy and occupational health on behalf of some autonomous regions.
- Decennial cover for private dwellings.
- Third party liability for pleasure craft and sports craft owners.
- Third party liability for vehicle testing stations.
- Aircraft third party cover in accordance with EU legislation.

A complete list of compulsory insurance can be found in Axco's Non-Life (P&C) Insurance Market Report for Spain. Please contact axco@axcoinfo.com for further details.

Non-Admitted Insurance Regulatory Position

Definition. Non-admitted insurance refers to the placing of insurance outside the regulatory system of the country in which the risk is located. A non-admitted insurance policy is one that may be issued abroad or the risk(s) may be included in a global master policy by an insurer unauthorized in that country. An authorized insurer is one which is permitted to do business in a country (or region) by the local supervisory authority. Please refer to the text below for the regulations that apply to non-admitted insurance for this country.

Summary

Non-admitted insurance is not permitted in Spain because the law provides that insurance must be purchased from locally authorized insurers with some exceptions.

Insurers from European Economic Area member states (European Union countries plus Norway, Iceland and Liechtenstein) may provide insurance under freedom of services legislation.

Fines/Penalties

In accordance with Article 41 of the Law on the Regulation and Supervision of Private Insurance, the penalty for operating as an insurer or reinsurer without a license comprises the publication of the offence by the General Directorate of Insurance and Pension Funds and a fine corresponding to 1% of the offending company's capital or between EUR 150,000 (USD 189,270) and EUR 300,000 (USD 378,539) if 1% of the capital is less than EUR 150,000.

Article 55 of the Insurance Intermediation Law categorizes as "very serious" the acts of operating as an insurance intermediary without the necessary authorization or placing risks with unauthorized insurers. These may give rise to the cancellation or suspension of the license to operate, a fine of between EUR 15,001 (USD 18,927) and EUR 30,000 (USD 37,854) and the publication of the infraction.

Please note that this is an extract from Axco's available regulatory and tax compliance information. To obtain a comprehensive understanding of the licensing requirements, please refer to the full report.

Insurance Market Overview

The Market Today

Summary and Trends

The key issues now facing insurers and brokers arise from the global recession and the financial problems of the Spanish economy. Business closures and cut-backs have resulted in little new business becoming available in any class.

Meanwhile, good results for insurers over many years up to 2011 led to increased competition: it became market practice to grant wider cover at no additional cost and rate concessions were the norm. Therefore, insured parties now expect a reduction in the price of their policies at renewal. The market is price-driven and all policy terms and conditions are open

AXCO UPDATES - MARCH 2012

It has been reported in the press that the government is preparing to issue a royal decree containing a provision that bankruptcy administrators will be required to carry liability insurance.

***Law No 12/2011* of 23 May 2011 established compulsory liability insurance for operators of nuclear facilities. The entry into force of the law depends on the ratification of the amendments to both the Paris Convention and the Brussels Convention by all signatories.**

Liability insurance for companies that grant credits or act as credit brokers is now compulsory under the terms of *Royal Decree No 106/2011*.

to negotiation, so that prudent underwriting practices have been abandoned and commercial considerations predominate.

Insurers are taking different approaches to this situation. Some are targeting all new business and renewals aggressively so that risks that would once have been rejected are now accepted at competitive terms while others are concentrating on the retention of existing business, reducing rates to do so; few have decided to maintain their standards and accept a reduction in market share as a result. In addition to falling business levels, wider covers, and rate reductions in many classes, insurers are also facing increased difficulty in collecting premiums, as rising unemployment means that many insured parties are simply unable to pay them. There have also been delays in payments from some municipal authorities.

Despite these underwriting problems, cash flow difficulties, and falling investment levels, insurer solvency is not under threat as the market is well capitalized and successive years of good results should enable insurers to weather the crisis.

Insurers and brokers are pessimistic about the immediate future, however, foreseeing a continued reduction in rates and widening of conditions, and also the deterioration of their results, a fear confirmed by initial figures for 2012. No hardening of the market is expected in 2012 or 2013 unless all the major companies begin to experience trading losses.

Market Size

In 2011 the Spanish non-life market was in tenth place in world rankings and in fifth place in Europe.

Premium in USD MM:

Life: **41,401.54**

Non-Life: **31,792.15**

Personal Accident and Health: **11,482.07**

Total: **84,675.76**

Market Participants

Summary and Trends

The majority of insurance companies in Spain are limited liability corporations but mutuals and co-operatives are also common. The market is large enough to justify having specialist insurers such as those which concentrate on professional indemnity business or those writing only funeral expenses. Most of the major foreign insurance groups are present in the market.

In December 2011 the Spanish insurance market comprised 188 limited liability companies, 73 branches of foreign insurers, 34 mutuals and co-operatives, and two domestic reinsurance companies, for a total of 297 companies in the life and non-life market combined, compared with 362 in 2002. In addition, 534 non-life insurers were registered to write business under freedom of services arrangements. Some insurers are part of broader financial services groups.

Market Structure

The Spanish non-life market comprises the major multinational foreign insurers, including ACE, Allianz, AXA, Chartis, Generali Seguros, RSA and Zurich Espana Compania de Seguros y Reaseguros SA, and local insurers including Caser, Catalana Occidente and MAPFRE, which is the largest by far.