

# **The Art of Risk Management During The Global Credit Crisis**

## **The Broker Perspective**

**Stephen McGill**  
**Chairman and CEO**  
**Aon Risk Services**



# Agenda

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- **Perspective - One Year On**
- **Top Client Concerns**
- **Issues facing the industry**
- **Market Update**

# Has it really only been a year?

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## The New York Times

Tuesday, September 16, 2008 Last Update: 7:47 PM ET

### Fed Readies A.I.G. Loan of \$85 Billion for an 80% Stake

By MICHAEL J. de la MERCED  
and ERIC DASH 15 minutes ago

Without help from the Federal Reserve, the insurance giant was expected to be forced to file for bankruptcy protection.

• [Video Analysis: Joe Nocera on the Importance of A.I.G.](#)



Richard Perry/The New York Times

The scene at American International Group's building in Manhattan.

**Sep. 7 – US government seizes control of Fannie Mae and Freddie Mac**

**Sep. 15 – Lehman Brothers files for bankruptcy**

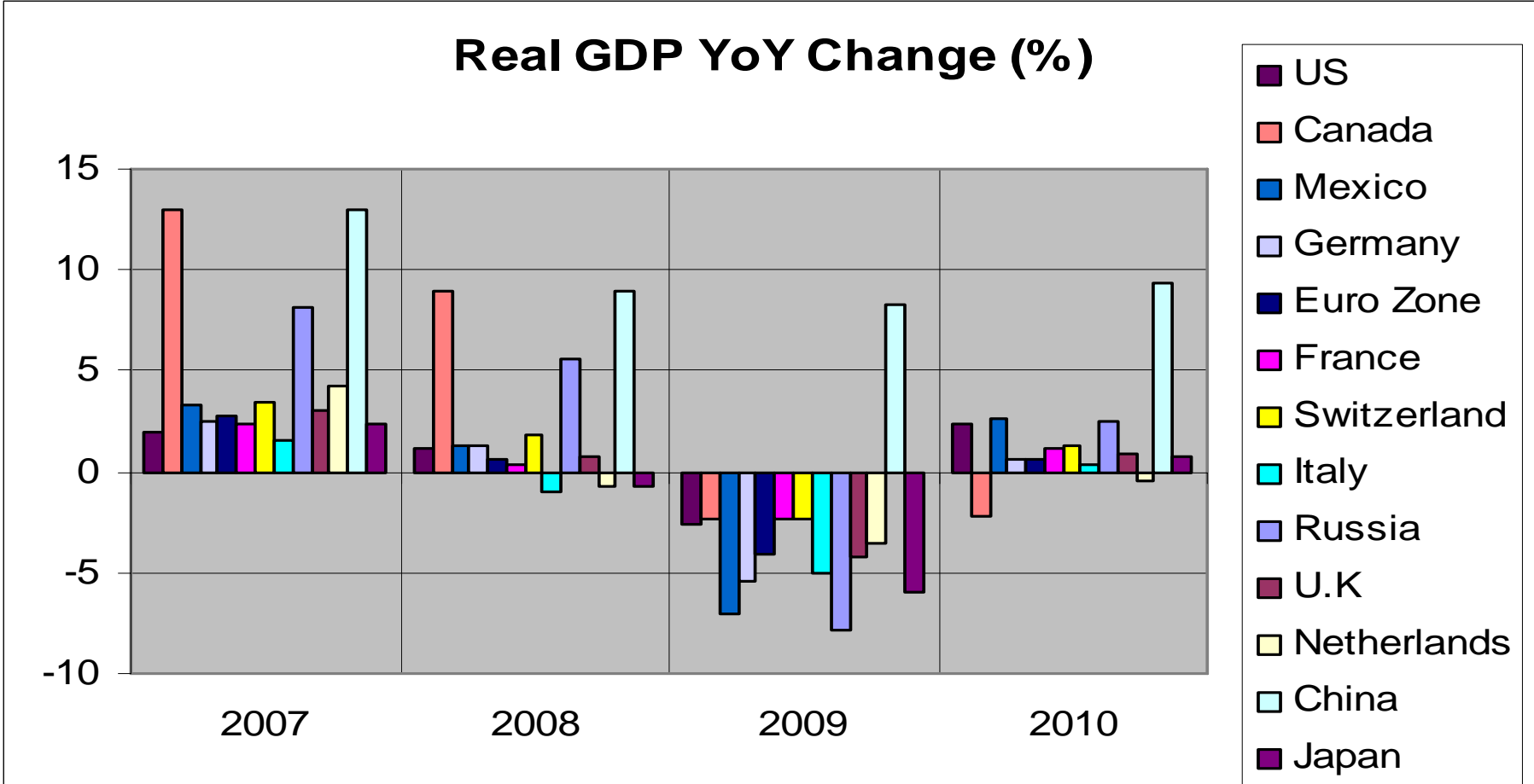
**Bank of America agrees to buy Merrill**

**Sep. 16 – The US Fed lends AIG \$85 billion**

**Sep. 18 – U.K. takes over Bradford & Bingley**

**Sep. 19 – Belgium, the Netherlands and Luxembourg pump approximately \$11.2 billion into Fortis**

# Global GDP Trends



**All major economies except China are in recession.  
Steep declines in GDP will negatively impact trade on a global scale.**



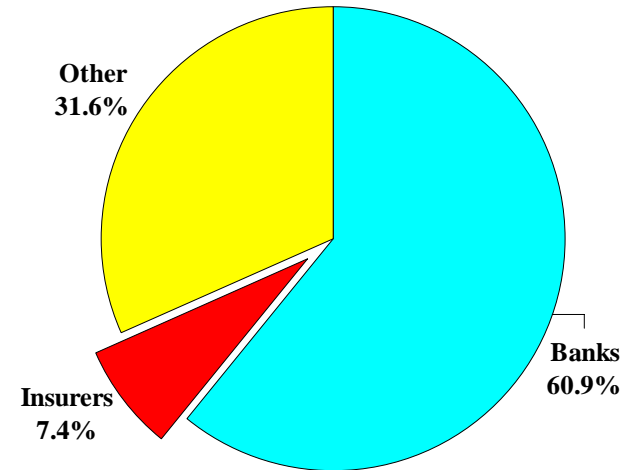
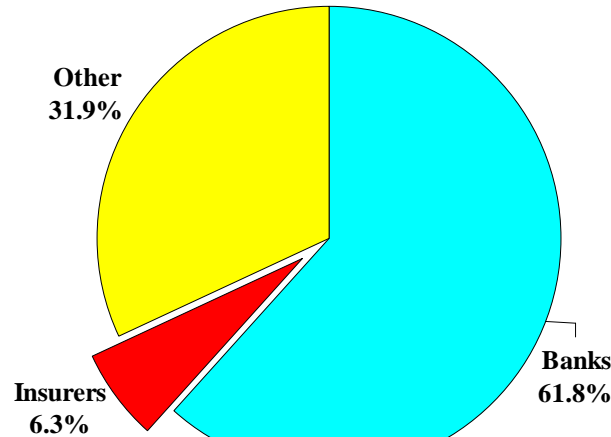
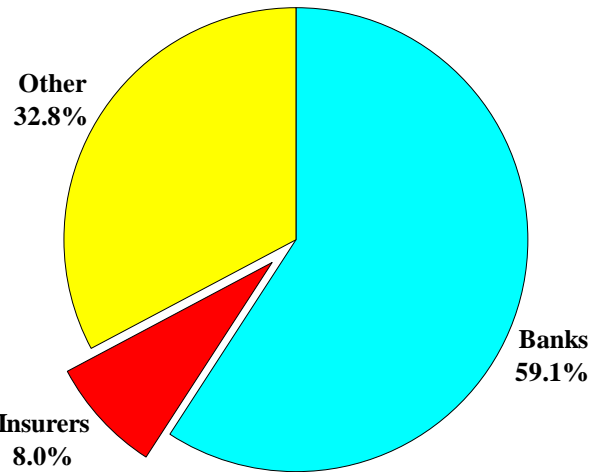
Source: Bloomberg

# Financial Sector Writedowns

## US

## Europe

## Japan



**Insurer writedowns of securities are expected to total 7.5% of all financial institution losses through 2010**

# Top Client Concerns

<b>Concern</b>	<b>Impact</b>
<b>Economic Slowdown</b>	<ul style="list-style-type: none"><li>↳ Growth strategies delayed</li><li>↳ Pressure on prices, margins and costs</li><li>↳ Tighter investment criteria</li><li>↳ Capital not always available</li></ul>
<b>Counterparty Financial Stability</b>	<ul style="list-style-type: none"><li>↳ Risk of insolvency / non payment increasing</li><li>↳ Supply chain vulnerability heightened</li><li>↳ Need to understand aggregate insurer exposures</li><li>↳ Diversify risk at acceptable rating quality</li><li>↳ Search for lead indicators</li><li>↳ Evaluate intermediaries as counterparties</li></ul>



# Aon's Response

Concern	Aon's Solution
Economic Slowdown	<ul style="list-style-type: none"> <li>- Aon Client Promise</li> <li>- Focus on Total Cost of Risk</li> <li>- Risk Finance Decision Platform</li> <li>- ERM advice and expertise</li> <li>- Focus on price to value</li> <li>- Program consolidation efficiencies</li> <li>- Benchmarking</li> </ul>
Counterparty Financial Stability	<ul style="list-style-type: none"> <li>- Trade credit and political risk expertise</li> <li>- Supply chain risk management</li> <li>- Aon Situation Room</li> <li>- Market Security Committee</li> <li>- Client Advisory</li> <li>- Greater Syndication of Carriers</li> <li>- Contingency Planning</li> </ul>

AON SITUATION ROOM

AON SOLUTION ROOM



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# Current Market Conditions

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- Recent “soft” underwriting cycle
  - Intense price competition
  - Relaxed pricing and underwriting terms
- Worst financial crisis since 1930’s
  - Volatility and unpredictability remains
- First time in recent history that both the insurance markets and financial markets have been struggling concurrently
  - During past soft cycles carriers were able to offset underwriting losses with investment income

# Rating Agency Views

## Current Industry Outlooks

Sector	S&P	A.M. Best	Moody's	Fitch
Personal Lines	Negative	Stable	Stable	Negative
Commercial Lines	Negative	Stable	Stable	Negative
Reinsurance	Stable	Stable	Stable	Negative
Health	Negative	Negative	Negative	Negative
Life Insurance	Negative	Negative	Negative	Negative

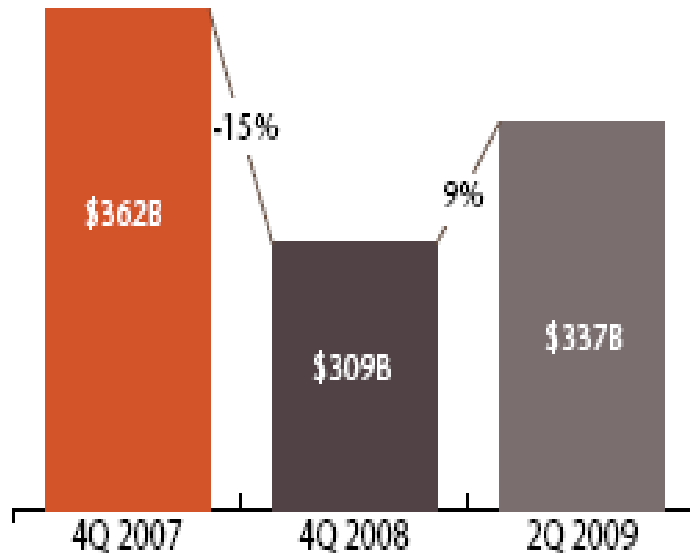
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# Aon Benfield - Market Update

## Change In Capital



Source: Individual Company Reports; Aon Benfield Analytics

- Throughout the credit and liquidity crisis the reinsurance market has remained resilient
- In the first half of 2009, reinsurers' capital bases rebounded well
- Reinsurance capacity increased in 2009
- Credit and liquidity crisis did not cause a hard market

# Aon as your advocate

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Regardless of soft market or hard market  
Aon is your advocate

- Helping you prepare for the unexpected
- Always bringing you solutions and contingency plans
- Always being proactive regardless of pricing trends



AON SITUATION ROOM

AON SOLUTION ROOM



**AON**