

SPEECH TO LLOYD'S 360 EVENT ON TERRORISM

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SINGAPORE

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Good morning everyone. I'm delighted to be back in Singapore and to host this event today. It's great to see so many of you.

I'd like to begin by sharing two findings from Lloyd's research with global business leaders last year. One: the majority of the world's CEOs believe that the business community is now as much at risk from terrorism and political violence as government. Two: despite this, only one in three CEOs feel that they really understand the risks their company faces from these threats¹.

For over 300 years, the Lloyd's insurance market has been helping business to prepare for and respond to uncertainty. But I think it's fair to say that global society has never been confronted with a greater number of challenges than we see today. Warren Buffett – who as you may know is a major investor in the Lloyd's market – says, "Risk comes from not knowing what you're doing". Faced, then, with a range of uncertainties – and a global economic fabric which unites us as never before – it is imperative that we are ready – ready to anticipate and adapt.

Two years ago, we established Lloyd's 360 risk project to help us do just that. From climate change, to energy security, and the changing patterns of corporate liability, we do not pretend to have all the answers. But we believe that Lloyd's is in a unique position to help drive the debate on emerging risk and has the depth and breadth of expertise to help in the search for solutions.

As you know, the subject of today's conference is terrorism risk in Southeast Asia. The region is no stranger to terrorism, but this is a risk which is constantly developing and changing, and which impacts all of us. We need to be ready to anticipate and adapt and I'm pleased to say that we have a first-class panel of experts to share their expertise with us this morning. I am extremely grateful to all of

¹ Lloyd's & Economist Intelligence Unit research, 'Under Attack?', May 2007

our speakers for making time to be with us. I must also express our special thanks to Peter Ho Hak Ean, who for the last three years has been Head, Civil Service, and Permanent Secretary in the Prime Minister's Office, concurrent with his many other appointments. Peter, we are delighted that you have made time in your busy schedule to be with us, and we very much look forward to hearing what you have to say.

From our research last year, we know that terrorism and political violence now has a significant impact on how we run and manage our organisations. Most business leaders are spending more time discussing these risks than they were five years ago – and they expect this to increase further. That adds up to a lot of board time. Furthermore, our perception of the risks is increasingly defining business strategy – whether it's a question of where we do and don't invest, where we locate our operations, or who we employ.

Why then, if they are spending more time discussing the issues, do so many companies not have a good understanding of the risks? And, most important of all, how can we begin to close what appears to be a major gap between increased awareness of the risks and a lack of understanding of how we should respond?

Over the past year, Lloyd's has been working with the International Institute of Strategic Studies to look at this question. And today we are pleased to publish a report which focuses specifically on the risks for businesses trading in Southeast Asia, a region of growing importance not just to the global economy and its insurance and reinsurance industry, but to all of us in the room.²

This work concludes that, like most regions around the globe, Southeast Asia is no stranger to terrorism. **However, there is no such thing as a uniform global threat and risk management strategy must reflect local issues.** The immediate threat from Islamist terrorism in Southeast Asia overall appears to have stabilised or even reduced in recent years, but it has certainly not been eradicated, and complacency would be a dangerous mistake. In addition, we face some complex and specific regional issues. Communist insurgent groups remain active in the Philippines. Criminal gangs with political agendas seem to be on the rise, with kidnapping and

² All report references below relate to 'Terrorism in Southeast Asia: What does it mean for Business?', Lloyd's & IISS, February 2008

other forms of violent crime increasingly prevalent in some parts of the region. We need to ensure that our risk management strategy responds to these.

Second, **business needs to get better at gathering high-quality information – from the right sources.** Right now, too many companies lack a co-ordinated approach to risk analysis and information gathering. Here in Southeast Asia, local governments have done a great deal to tackle the terrorist threat, and have a wealth of information and expertise to share. But too many businesses rely on international media as a source of information. The private sector could undoubtedly gain a better understanding of the issues by working more closely with government. Businesses should also draw more effectively upon the wide range of expertise and advice available from specialist consultants, academics or non-governmental organisations who are often well placed to help.

Third, **we can learn key lessons from textbook terrorism.** It would be dangerous to suggest that terrorism risk will ever be predictable. But analysis of key incidents in Southeast Asia identifies a number of common themes. Some industries and companies are more vulnerable than others to terrorism, and certain strategies and tactics are more popular than others. We can and should use this information to make a real, positive difference to our understanding of the risks and to drive a more effective risk management strategy.

However, **the way in which business thinks about the emerging threats needs to change.** Above all, we need a more positive mindset towards security. All too often we see security as a cost and a hindrance, but corporate culture must begin to view security as a business enabler. A well thought-out HR policy which involves and engages employees, and effective business continuity planning which responds specifically to terrorism and political violence risk are good examples of this principle in practice. But it is as much about changing our thinking, as our behaviour.

Finally, **terrorism is a generational challenge for the whole of society.**

Business must start to raise its voice and play its part. Professor Walter Laqueur puts it bluntly when he says that unlike conventional war, “terrorism is relatively cheap and will be with us for as long as anyone can envision.” In the private sector, we must therefore stop viewing ourselves as neither part of the problem nor part of the solution. Lack of responsibility does nothing to reduce our probability as a target. Increasingly, experts suggest that more active engagement can deliver real benefits to organisations. I must make clear – this does not mean trying to solve political problems. Our focus must be on driving economic development in a way that helps deliver a more stable operating environment.

Until now, the business community has tended to keep a low profile when it comes to engaging in debates on terrorism, for fear of becoming caught up in political issues. But as business becomes ever more global, we can help with the engagement of communities whose young people are the most vulnerable to extremist ideology. Investment and HR decisions designed to help marginalised and economically disadvantaged communities will not by themselves solve the problem. They will also not provide immunity from attack, but they all have an important part to play in creating a climate which is less receptive to terrorist ideology.

Today, I look forward to hearing from the experts about the specific risks which we face here in the region, and of course how the insurance market can help protect businesses based in Southeast Asia manage them better. At Lloyd’s, the Southeast Asia region is an increasingly important focus for our global business operations, and I would just like to spend a few moments talking about that before handing over to our experts.

Singapore, as most of you will know, is home to our Lloyd’s Asia platform. With both the Lloyd’s market and the regional economy performing strongly of late, Lloyd’s underwriters have been keen to build relationships in the region and get closer to their customers. Following two years of dynamic growth, there are now 13 syndicates participating in the platform, last year transacting over 120 million US dollars of business³.

³ Lloyd’s Asia data, calendar year 2007.

As a result, most key insurance and reinsurance products offered in London are now available locally – and not just for terrorism and political violence. Offshore energy is one area where the Lloyd’s market has increased its presence locally. Many businesses in the region are also seeking increased specialty liability coverage to which a number of syndicates are responding. Construction and power, and transportation risk are two other key areas where Lloyd’s Asia syndicates have been increasing their focus.

We expect the platform to continue to grow over time, but of course we also need to be mindful of current market conditions. At this point, the fact that we are heading in the direction of another soft cycle is already well documented. All the recent signs are that global rates are falling by their fastest rate for a decade – and insurers are reporting rate reductions in almost every line of business. Southeast Asia is certainly no exception. In our 2008 survey of Lloyd’s underwriters⁴, 93 per cent said that the market is currently softening, and they unsurprisingly believe that the top challenge for the global industry right now is to manage the cycle. We completely agree, and Lloyd’s latest Three-Year-Plan spells out clearly that the number one priority for Lloyd’s is to work with managing agents to maintain prudent underwriting discipline during this period of softening market conditions.

Of course, all this must and does not preclude growth in specific areas where economics make sense. Lloyd’s will always be a dynamic marketplace of entrepreneurs, and the admission of new high-quality entrants – whether back in London or here in Singapore – is good for a competitive marketplace.

We are, therefore, optimistic about the growth and opportunities which we see here in Singapore in the medium to long-term, and are currently working on a number of initiatives to support our objective of growth across the insurance cycle.

One of these is to strengthen our local infrastructure in Singapore. Above all, we want to increase efficiency and ease of doing business for our customers. At the moment, a broker working with five different Lloyd’s Asia syndicates on one risk has

⁴ Lloyd’s Annual Underwriter Survey, February 2008

to deal with five different organisations, and our strategy is to move to a 'one stop' shop where the broker pays a single premium to Lloyd's Asia and receives one contract in return. Physical space is another important aspect, and having moved into extended new offices in George Street we are now looking forward to ensure that we will have the right amount of space in two or three years' time. Finally, we are embarking on a new programme of marketing whereby a number of syndicates will join together to travel more widely across the region and educate local markets about what Lloyd's Asia is and how they can work with us – should they wish to.

We also want to continue to contribute to the development of a strong and professional insurance market in Singapore. Lloyd's Asia is now directly responsible for the creation of more than 100 jobs in Singapore, meaning not only that we make a sizeable contribution to the local economy, but we also have a responsibility to support it. We will continue to build our relationship with the Singapore Chartered Institute of Insurance and Singapore College of Insurance, encouraging Lloyd's Asia staff to develop their professional skills and qualifications. We will also work alongside the General Insurance Association of Singapore – the GIA – to develop and contribute to a new graduate internship scheme to encourage fresh new talent into the Singapore insurance industry. We will help by hosting candidates in both London and Singapore during 2008.

Increasingly, we see Lloyd's Asia an important and growing part of the Singapore insurance infrastructure and indeed its wider economy. And the proof of this is that the platform has become a destination, not just for London-based syndicates, but also for Asian investors who wish to take advantage of the Lloyd's brand to build their insurance business in the region.

But it's time to get back to today's subject of terrorism and to hear from the experts. We are delighted to have the support of Lorraine Hahn to chair our discussion today. Right now, Lorraine is busy working on producing her own television show, Earth Factor Asia, for PBS network in the United States.

Lorraine has been called upon to be Chair of various major events that include the APEC Economic Leaders Meeting, APEC CEO Meeting, The Global Leadership Forum, the ADB Journalism Award and many others.

Lorraine attended the University of British Columbia, Vancouver and has lectured at the Hong Kong and Tsing Wah Universities on Journalism and media.

Lorraine, thank you for being with us today and welcome.