

**General Session**

*Tuesday, October 10, 9 a.m.–noon*

***FORECASTS AND CHALLENGES FOR THE  
INSURANCE INDUSTRY***

**Keynote Address Presented by**



**Joe Plumeri**  
**Chairman and Chief Executive Officer**  
**Willis Group Holdings Limited**

The Conference kicks off with keynote presentations outlining trends, challenges, opportunities, and forecasts for both the construction and insurance industries. Joe Plumeri of Willis will share his insights on current trends, developments, and challenges in the insurance industry and the obligations brokers and underwriters have to their construction clients.

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A keynote speaker, Mr. Plumeri will be discussing insurance during Tuesday morning's General Session, "Forecasts and Challenges for the Construction and Insurance Industries." Mr. Plumeri joined Willis in October 2000 and by instilling common purpose, passion, and pride throughout the organization, he has energized the oldest global insurance broker from a company that rests on corporate and industry traditions to one that challenges convention and strives toward greatness defined by excellence, integrity, and value.

Some of the changes Mr. Plumeri has instituted—including building a powerful and differentiating business model focused exclusively on being the greatest insurance broker in the world, articulating in a clear and consistent manner a set of priorities for every Willis associate to follow, and fostering an environment mixing entrepreneurial spirit with great discipline—not only have led Willis to new heights, but are proving him to be an industry leader bringing innovative business and client-focused changes to a sector that has otherwise lived by traditions rather than built on them.

Unified under One Flag, committed to a *glocal* team approach (delivering global resources to clients locally) regardless of geography and guided by the Client Bill of Rights defining the fundamental underpinnings of Client Advocacy, Willis's 15,800 Associates in more than 100 countries, under the direction of Mr. Plumeri, are charting a new path in the global insurance broking industry. Client service levels are unparalleled, pride in their mission as insurance brokers has been restored, and the company's financial performance is consistently best-in-class by all measures.

The strategy Mr. Plumeri developed and instituted has increased revenues and margins, reduced debt, and is clearly reflected in the performance of Willis's stock (NYSE: WSH). As an additional reflection of Mr. Plumeri's leadership and the common feeling of purpose among Willis Associates, employee stock ownership has grown to over 70 percent from just 3 percent in 1998.

Prior to joining Willis, Mr. Plumeri enjoyed a 32-year career at Citigroup and its predecessor companies, including the offices of Chairman and CEO of Travelers Primerica Financial Services division.

Directorships/Corporate Boards he has served include Board of Visitors of the College of William and Mary and The National Center on Addiction and Substance Abuse, and he is former Commissioner of the New Jersey Sports and Exposition Authority. He has served on the Board of Trustees of the American Institute for Chartered Property Casualty Underwriters.

His awards include The T.C. and Elizabeth Clarke Business Medallion from the College of William and Mary School of Business Administration; 2004 Good Scout Award, Great New York Council, Boy Scouts of America; and the 2004 National Italian American Foundation Award for Special Achievement in Business.

Mr. Plumeri holds a BA in History and Education (1966) from the College of William and Mary (Williamsburg, VA) and he attended New York Law School.

Good morning.

If you'll take a look at your conference programs, you'll see that I am supposed to share my insights on current trends, developments and challenges in the insurance industry and the obligations brokers and underwriters have to their construction clients. The problem with that write-up is that we offered that six months ago and I had no idea what I was going to talk about this morning. So please indulge me – but I am going to go in a slightly different direction.

Let me start by telling you a few things I am passionate about.

- You've got construction projects that last three or four years, but often you can only get coverage one year at a time
- Post-Katrina, there are some challenges as to the availability and cost of builders' risk insurance in hazardous areas
- TRIA is a band-aid and we need a permanent solution
- The Federal Flood Insurance Program – do I really have to say anything about this one?
- Safety thinking needs to be imbedded – it is not enough to implement training or programs
- You don't get your policy until it's time to reschedule the renewal meeting
- Underwriting intent and claims payment are out of sync so there is a fundamental deterioration of coverage
- Getting a claim paid is no longer about contract language and policy interpretation but about successful litigation
- Talk of contingents and transparency has focused on government investigations, but it is much more than that.
- Regulation is on the rise – Sarbanes-Oxley, corporate governance, differences in the state-by-state systems. Don't try to fight it, accept it and channel it to build a better business.
- Most importantly, service, value, creativity and imagination have to be our hallmark; we can't be defined by the transaction

I'm not going to stand up here and simply fill the time slot on the agenda. You came here – 15 hundred strong – which by the way says a lot about IRMI – to talk about industry issues and how we solve them. We might not be able to solve them before I sit down, but I sure am going to talk about them and some of them are pretty uncomfortable.

That entire list I just offered is all about one thing – change. It goes way beyond insurance. Construction is one of those sectors that make up the fabric of our communities – it is a leading indicator of the health of our national economy. It's the culmination of vision, planning, spirit, innovation and what the future is about and none of that can happen without you. Did anyone ever envision nothing? Did anyone ever dream of a place that's the exact same as where they are today?

Ronald Reagan talked about a city on the hill. And to show that I can be bipartisan, Bill Clinton talked about a place called Hope. Do you think either of the places they were talking about just magically appeared out of thin air? Not a chance, it takes hard work, creativity, imagination and perseverance. Those places had buildings and schools and

community centers and offices and houses where people work and play and live – all the things you build every day. It takes a willingness to question what you're doing today, challenge assumptions and have the courage – the fortitude – to change.

Now I know what you're thinking – Joe Plumeri, insurance broker, what does this guy know about construction? Definitely not as much as you, but I'm learning fast. We're building a new building over in London and while I may not be on the job site every day, I am getting a real education about what you're up against. With every progress report, I develop a deeper appreciation for the construction managers, the site engineers and the crane operators – it's hard work and it's important work.

So allow me – before I get into some of the issues above, I want to expand on the importance of construction and the insurance professionals who serve the industry. I want you to realize just how important you are.

Construction represents about nine percent of the national economy. So if I am doing my numbers right, the GDP is about \$11.7 trillion – give or take a few million. That means the construction sector is worth a little over \$1 trillion. While this has a lot of moving parts – residential, governmental and private building – the total is astounding.

\$1 trillion – think about that for a minute – and consider the run-on effect of a trillion dollars on the economy. Employment bolstering the tax rolls, new commercial space generating rental income, housing starts helping to expand communities. That's quite a contribution and it's our collective job to protect all that. That's some responsibility and if that's not an important job, then I don't know what is.

You should be proud of what you do. For too long, people in the insurance business have suffered from a self-imposed inferiority complex and I cannot understand why. Consider this – nothing happens without insurance. I call it the DNA of capitalism and for our purposes today, it's the DNA of construction.

Let's say you get hired on a job – whatever it is, doesn't matter:

If you're the contractor, you can't get supplies, subs or workers without insurance.

If you're the owner, you can't get financing without insurance.

If you're the designer, you can't expect to stay in business without insurance.

You getting my point?

It might not be a hard-and-fast rule, but if construction is good, then the rest of the country is going to be doing at least pretty well. So if you think about it, we are enablers of a critical element of our financial well-being. We make insurance work for the construction industry. How can you not feel great about that? So please, take pride in your work.

But let me warn you, I'm not here to say everything is great and that we can put ourselves up on a pedestal and admire how terrific we are. An element of taking pride in your work requires that you administer a self-examination every once in a while. If we're going to accept the responsibility that comes with our collective role, then it's incumbent

upon us to embrace the accountability that goes along with it – to do the very best we can. And this is where the change comes in.

Let me give you an example of what happens when you take the easy route – when you stick with the comforts of the familiar rather than pursuing big ideas. We could follow the course of action suggested by Martin Van Buren, who is said to have written the following letter as the Governor of New York in 1829 to Andrew Jackson, President of the United States.

Dear Mr. President,

The canal system of this country is being threatened by the spread of a new form of transportation known as “railroads.” The federal government must preserve the canals for the following reasons:

--If canal boats are supplanted by railroads, serious unemployment will result, Captains, cooks, drivers, repairmen, boat builders and lock tenders will be left without means of livelihood, not to mention the numerous farmers now employed growing hay for horses.

--Canal boats are absolutely essential to the defense of the United States. In the event of the expected trouble with England, the Erie Canal would be the only means by which we could ever move the supplies so vital to waging modern war.

As you know, Mr. President, railroad carriages are pulled at an enormous speed of 15 miles per hour by engines which, in addition to endangering life and limb of passengers, roar and snort their way through the countryside, setting fire to crops, scaring the livestock and frightening women and children. The Almighty certainly never intended that people should travel at such breakneck speed.

Sincerely  
Martin Van Buren

His letter is about a lack of imagination; an unwillingness to think differently; a denial that the world is different today than it was yesterday and that it's going to be even more different tomorrow.

Anybody here think the world is the same today as it was yesterday?

Let's start with terrorism insurance. Pre-9/11, it was a non-issue. It was an add-on that you got for practically nothing. Today it's a different story. We've got TRIA which was a good short-term solution but because no one stepped up to deliver a long-term answer, the federal government had to extend it. And as recently as a few weeks ago, they were still just holding hearings and talking about the issue rather than putting the time and dedicating the effort to really making it happen. And the need for terrorism cover is not just for disasters. As you well know, having terrorism insurance is a condition for many commercial mortgages. Moody's generally requires terrorism cover in order for a Commercial Mortgage Backed Security to receive the agency's highest rating. And a recent survey of 123,000 loans by the Mortgage Bankers Association found that investors and loan servicers require terrorism insurance on 94% of that debt – and 70% of Fannie Mae and Freddie Mac loans require terrorism insurance.

Moving on – I’m no meteorologist, but there sure were a lot of storms last year; for some reason, the winds are blowing more than they have and the waters are more excitable than ever. The word “tsunami” is not just for scientists and I’ve learned that geologists are predicting that an earthquake could hit the middle of the continental United States some time between now and 2050. We’ve got a choice – we can make believe that these are one-offs and hope for the best, or we can take the responsible route and make sure we are prepared and that our assets are protected.

Now with these two areas, the federal government has to get more involved in a smarter way. You might not like the government and I’m not a fan of everything they do – but those are more political discussions. The reality is, while the insurance industry is more financially secure than it has ever been, there just is not enough capacity in the world for this new era of risk. We’ve been lucky – relatively speaking – so far. The disasters we have faced have come pretty much one at a time. But what happens if we get a couple of hurricanes, an earthquake and a terrorist attack at the same time.

The industry’s aggregate policyholders’ surplus for the United States property and casualty market is currently estimated at \$427 billion.

- The 2005 hurricane season brought about \$83 billion in losses – and according to the National Association of Insurance Commissioners, a Category 3 hurricane hitting the Northeast could cause \$300 billion in damages.
- The American Academy of Actuaries modeled a medium chemical, nuclear, biological or radiological attack on New York City – it would result in \$446.5 billion in losses. Such an event in San Francisco would inflict \$92.2 billion in damage.
- And that earthquake that geologists say is coming - estimates are in the \$275 billion range for economic losses and \$100 billion of insured losses.

These aren’t local issues and they certainly aren’t confined to the construction or insurance industries. 9/11 was not an attack on a few buildings or on New York City – it was an attack on our nation. Cleaning up and rebuilding New Orleans in the aftermath of Katrina is not a local issue – people across the country felt the economic impact of the disruption on the Gulf Coast.

The Federal Flood Insurance program, all due respect, is actuarially unsound. I do not know any business, insurance or otherwise, that can pay out \$23 billion against \$2.2 billion in revenues. If Congress had to keep borrowing money in order to pay the claims, doesn’t that tell you something?

And how many of you were involved in the clean-up of New Orleans? Quite a few I’m sure. While initial fears of getting liability coverage were not as bad as initial predictions, we still haven’t solved the issue of getting property insurance in a form that will allow the recovery to continue. This is not a commercial but a point of fact – one of my colleagues testified before Congress on the need for the federal government to limit the liability of contractors who came to the assistance of the region.

I don’t want to get into a political discussion here, but part of the reason we don’t have a coordinated and long-term approach to the financial repercussions of terrorism or natural

disasters is because there is no single voice speaking for the industry on Capital Hill. Anybody here like the state-by-state system? It had its day and in some areas it still has its merits, but the world is different today and we need a different governmental approach.

I was in Washington DC a few months back and told as many Senators and Representatives as would listen that we need some kind of comprehensive federal program that will help us through a range of catastrophes. Maybe it takes the form of Pool Re in the United Kingdom where carriers pay into a fund; maybe it's a tax situation where carriers set aside a certain amount of revenue on their balance sheet for emergency situations and get preferential tax treatment for those amounts. There are a lot of "maybe" solutions out there, but so far, we have found what to argue about but not what to agree on. This has to change because it's truly a matter of our national economic security and not just to strengthen the industry, but we have to do it for our own well-being.

Let's take a look at my two favorites – policy issuance and claims payments.

When I first got to Willis, I went around the world and asked a lot of people a lot of questions. I didn't know much about the insurance business and I figured if I was going to be the Chairman and CEO of a global insurance broker, I'd better ask a few questions. So after a couple of trips, I started getting the hang of it. I sort of figured, when a client buys insurance, they basically have two questions – what did I buy? and God-forbid if have a claim, when I am going to get paid?

We bind insurance – and clients accept this which is even more baffling to me – without knowing exactly what's covered. When you show up at the bank to get a construction loan, most times, I'll bet, the loan officer makes you sign a piece of paper that spells out all the details – terms, monthly payment, a schedule, the interest rate and so on. Maybe you get one of those books with the coupons in it. What's more, your CFO wouldn't leave the bank with all the details – so why do risk managers accept less? How can you leave the store without knowing what you bought and the receipt to prove it?

Think of the work that you do. Did a client ever say to you, "Go ahead and build that building. I understand exactly how much the material costs. As for your fee, whatever you want." Maybe they said, "Don't worry about it, we'll figure it out at the end of the project." Not a chance. You ever hire a sub without knowing exactly what they were going to do and how much it was going to cost you? I doubt it.

We're getting better with issuing policies in some areas, but it's not fast enough when you have to schedule your renewal meeting before you even get the first policy. This has to change.

Getting a claim paid, perhaps more important than getting the printed policy, is even worse – that takes a month longer. But isn't getting a claim paid in case some thing bad happens the very reason you buy insurance in the first place? The days of the policy being the divining source of the claim interpretation are disappearing – claims aren't being settled by interpretation of the printed word but by litigation.

More than anything, these two items are about the process that we have in place and have kept in place for far too long. We've accepted the embedded frictional time and

costs to the point that it's an absolute weight around our neck that is going to drag us down. Part of how we got here is by turning our backs on technology. Can't put computers in place – no need for enhanced technology – that would threaten my job. Technology has to be embraced as a facilitator to help us do our jobs better – allowing us to spend more time on the human element of the business – not as a replacement to the discourse that is so fundamental to all the relationships that bring us together around one table. We are way too far behind the other sectors of the financial services industry – especially for how important we are.

One of the by-products of this mess we've gotten ourselves into is that we've pushed claims payment, the very reason for insurance, to the backroom – or in some cases outsourced it to someone else – when it has to be a core competency and a differentiator.

At Willis, we view getting policies issued and claims paid as central to our role as Client Advocates and we track our working relationship with carriers very closely through our Quality Index. If we're going to steer – normally a bad word in this business but bear with me – if we are going to steer business to a certain carrier, it is going to be because that carrier takes care of our clients. It's really that simple. It's one of the ways we are trying to drive change.

As to the availability and cost of builders' risk insurance in hazardous areas, we know this is having a significant impact. From the New York Times a few weeks ago:

The National Association of Realtors noted that insurance hikes are impacting sales, and are related to the decline in home prices that have cooled the hot real estate market. Many property owners along the coasts have found it difficult to sell their property, and some note that even real estate investors are being scared off. Investors note that they generally seek condos and other buildings because the incoming rent helps pay for the cost of purchasing the building, but with rising insurance costs, it is less likely to be a profitable investment for many.

The price fluctuations post-Katrina could not have made it easy for you to run your business. It is a tough one, but like many things the industry does, we think the spikes were an over-reaction. Whether or not that's the case, it highlights the need for change – we have to look for better solutions to smooth out the curves so you can run a more predictable business.

With contingents and transparency, you might think I would focus on the New York Attorney General – but the conversation is not about Eliot Spitzer, it's about running a sound business and delivering value.

Contingent commissions allowed insurance brokers – in fact they empowered us – to increase our revenue at what might have been at the expense of the clients' best interests. If you place the business where it suits the client – good rate, acceptable terms and conditions and so on, then there's no problem. But if you place the business as a broker where it might be better for you financially but compromising some of your client's needs, now you've got a little something called a conflict of interest. That is not running a sound business. Our obligation is to our clients and there shouldn't be any question whatsoever about who we serve or who we're looking out for. We are looking out for the client.

But it's more than that. If our intent is to build a strong company, we'd better do it by delivering first-rate value – by being paid for being the best at what we do rather than by taking in revenue through artificial props. Let's see, if we take in as much as we can in contingents, we don't have to be the best at what we do, we don't have to be creative problem-solvers, we don't have to provide great value to clients – we just have to be good enough. I don't have to work as hard as I would if there were no such thing as contingents, and I'll still make my numbers. No good. Not if you're going to assume that mantle of responsibility I talked about. You want such an important role – then accept the accountability that goes along with it.

And with it also comes transparency to tell clients exactly how much you earn. Now where some brokers are afraid of this, I think it's great. I don't want to hide behind one number on a bill – I want to embrace that conversation. Because now, while I have to tell the client how much I earn, I also have the platform to tell them what we do – the advise, consultation, modeling and everything else that goes into securing their coverage. How is the client ever going to think that what we charge is consistent with the value we deliver if we never tell them what we do? What it comes down to is, price is only an issue in the absence of value.

And from my perspective, the greatest part of transparency is it forces you to elevate your game. Be imaginative, be creative, be an adventurer. For those of you sitting near a person wearing a Willis pin, ask them and they'll tell you. I drive our people crazy. My favorite question is "what are you doing for our clients that is new and innovative?" If they don't have an answer to that question and they see me walking down the hall, they duck into an office and pretend to be in a meeting. They say to a colleague, "hey, cover me, Plumeri's coming."

The world is changing. Are we offering solutions that are keeping up with the change? Roofs today are different than they were 10 years ago. Basements sure look different. Office buildings are getting more sophisticated. How about the insurance solutions we are offering? Are we keeping pace? Or are we trying to shoe horn today's more complicated risk and insurance needs into yesterday's traditional solutions?

It's our jobs as brokers to marry your risk with someone else's capital. Mitigate it, take it off your balance sheet and put it on someone else's capital base. We've done that for a long time using traditional insurance companies but because of the magnitude and order of how the world is changing, we have to look at it from a different perspective. Now I'm not going to get into all the details, but mutuals, captives, the financial markets – it all has to be a part of the mix of what we are thinking about and what we're delivering.

If no one ever asks you how much you make, then you're never going to push yourself or drive to a higher standard. Transparency forces creativity so we better be good at what we do otherwise the clients are going to go someplace else.

There's a lot more going on and I could talk all morning – but let me offer a few other quick thoughts:

Safety is not about money – it's about attitude. You can't just implement the mechanics of a program – you've got to be deep on this – it has to be your passion.

Construction presents a significant and unique breadth of risks. You have to live it and be around it all the time because your risks are on a continuum from conception and design to financing and completion.

We've got to do a better job of attracting and retaining talent to the insurance industry. We have to get back to building the technical strength of our people.

Don't worry about consolidation – focus on being great at what you do. The companies that worried about being acquired – guess what, they were acquired because they took their eye off the ball. Sure there is going to be more consolidation, but it's because even great brands are slow to change. And if you don't change your thinking or challenge your business model to keep pace with your clients, you're not going to be around.

Keeping up with the changing ways projects are getting delivered has challenged the industry to respond to an evident lack of clarity. You're getting curve balls all the time and never know which way they are going to break so like a great batter adjusting his swing, we all have to adjust through the process.

Construction is a fluid industry with risks and the associated costs changing all the time. So anticipate issues – the legal environment and safety changes for example – and get ahead of them.

Benchmark what you, your clients and your peers are doing so you can achieve mutual success as you grow together. Figure out what you are doing well today and how you can do it better tomorrow.

Let me go back to the hurricane issue for a second. It really burned me that the headlines about insurance in the aftermath of the storm talked about wind vs. flood. Wind as you know is generally covered, flood as a rule is not and the articles got into the technicalities of insurance.

In this kind of extraordinary situation, there are going to be some bumps – we did a good job. Not perfect and we all could have done better and learned some valuable lessons. But, with respect to those areas where we did do well, the headlines should have been about our collective heroism and contribution to the human condition. It's part of the pride issue I talked about earlier.

If you take the sum of all these, our challenges reflect where we need to be. For too long, insurance has been about the transaction rather than service. We have to be about value, intelligence and customized business solutions, not just an insurance policy.

If Mr. Van Buren were in the insurance business today, what would he think of all this? He'd have us resting on our laurels and being prisoners to tradition, rather than using our great heritage as a springboard to a better industry.

Let's not follow that example. Let's not lack for imagination.

The changes we are going through now may seem painful, but at the end of the process, we are going to be better suited to serve our clients as well as our own employees.

Buyers need to challenge brokers, brokers need to challenge underwriters, underwriters need to challenge everyone and so on. It's a collective effort to raise everyone's game – we've got to help each other; otherwise no one gets any better. Listen, be partners, be innovators.

As a result, we'll have stronger companies and a stronger industry – and driving toward that goal is our collective obligation given the importance of insurance to the construction sector and our national economy. If I offended you by talking about some tough issues, sorry, but tough. If I didn't, then join me and let's get started on the solutions.

I appreciate your time and attention and my thanks again to IRMI for giving me a chance to speak with you this morning