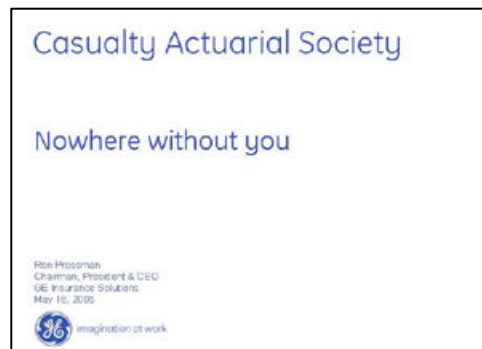


**“Nowhere Without You”
SPEECH TO CASUALTY ACTUARIAL SOCIETY
Ron Pressman
May 16, 2005
Final**



I have an enormous amount of respect for the talent and intellect of the people in this room today... more than you know. And I really am honored that you think that I...a relative newcomer to this industry... might have something of interest to say to you today.

Steve D'Arcy and the leadership team have told me that the keynote at this convention has traditionally been someone outside the actuarial community... George Will or Stuart Varney from CNN... to name two...noted authors and personalities.

We all owe a debt of gratitude to whomever had the idea that what we *really* need to liven up this crowd and get its juices flowing is a former GE turbine generator guy with a degree in biology and barely five years in the reinsurance business.

My speaker's fee may have played some part in my selection. It's zero...of course...and that number...by coincidence...exceeds the *entire* sum of earnings from underwriting produced by the *entire* US P&C industry during the past quarter century.

Not many outsiders are aware...as we are...that reinsurance underwriting is one of the world's major non-profit activities.

And in years when we set sail toward underwriting profitability...as we did last year...a greater power seems to toss us into choppy waters by serving up three or four hurricanes... European windstorms...or an earthquake.

Today, this is an industry under siege...by critical elected officials and regulators...by skyrocketing tort and health care costs... and suffering...frankly...from a legacy of questionable leadership and practices.

But at the same time I believe that integrity and goodness lie at the core of our industry's mission in world society...and I also believe it is *within our power* to propel this industry to stability...success...even *greatness*...by using the talent...the discipline...and the leadership that you here today represent.

***Without you, we go nowhere* in this industry.**

Actuarial science has perhaps never had a better moment to shine and lead in this industry.

People ask me...on occasion...whether I actually *like* being part of the reinsurance business...and I generally concede...after a pause...that...well...the past five years have not been fun. I generally throw in euphemistic adjectives such as “tough”...and “dicey”.

“Challenging” is another favorite. I steer clear of descriptions such as “torture” and “nightmarish”.

But before the conversation moves on to different subjects...I generally say how *proud* I am to be part of a business that requires not only an intellect as keen as any other industry, but also a *heart* -- a deep sense of *humanity*...to succeed.

This industry *exists* to help people...and entire societies...in their toughest and most tragic moments...in the wake of catastrophes public and personal...comforting and compensating them for loss of life...property...even reputation.

I think we can agree that among the unsung heroes of that September day nearly four years ago were the insurers and reinsurers who got the world's airplanes flying...and the world's economic heart beating again... so quickly...in the aftermath of that awful...awful day.

We are still writing checks and helping people put their lives back together after the trip-hammer attacks of Charles...and Frances...and Ivan...and Jeanne... last year's hurricanes that...combined...amounted to the most expensive disaster in American history.

Most of us were there for our customers...and those who were not, FAILED THEM because of shortcomings of the mind...not the heart. Shortcomings grounded in poor underwriting decisions leading in some cases to the ultimate insurance company nightmare...insolvency...and cat underwriters aren't the only ones who have succumbed to

poor judgment. Many doctors across America today are without cover because of similar poor judgment by their trusted carriers.

Trust and security is after all what we sell...we have a huge joint responsibility to protect the security we offer, and honor the trust placed in us.

GE's former corporate motto...one I grew up with...was "We bring good things to life". In my view there isn't a business in the General Electric Company that deserves to say that with more pride than ours. Bringing good things *back* to life might say it more accurately...in the context of the disasters of the past four years.

Anyone who whines about natural or unnatural disasters...doesn't belong in insurance. Our industry motto should be "stuff happens"...because if "stuff" didn't happen there'd be no reason for us to exist...professionally anyway.

Rather than whine about what we don't control, I prefer to whine...or maybe the better word is challenge...my colleagues and all of you to focus on what we DO control.

GE...which is a profoundly *good* company... as well as a *great* company...no doubt has a soft spot somewhere in its heart for this business. I just haven't been able to locate it during the past five years.

Jeff Immelt's view of our business may be similar to that of Karl Marx's mother...who was reputed to have said, "I wish Karl would stop writing about money and start *making* some".

Jeff has stated on the record that this business...as well as other GE insurance businesses...do not fit "the GE business model." In his letter to share owners this year he said: "Insurance generated only about 3% of GE earnings in 2004...and we will continue to reduce our exposure in this industry". How's that for a ringing endorsement? But it's nothing personal.

Why do you think Jeff and GE feel this way?

Most of you are associated with insurance in some form. Did you ever try to sell reinsurance...or insurance...as a rational business concept to a hard-nosed... analytical business leader...like Immelt ...who...like many of you...is a mathematician by training...and...like me... is a member of the generation of GE senior leadership who grew up comfortable with rigorous Six-Sigma quantitative analysis and discipline.

As part of your sales pitch you would have to mention that your core activity...underwriting...had gone a quarter century with no profit...with sometimes grievous losses.



You'd have to mention...in passing...the four hurricanes...two earthquakes and the tsunami of the past six months. And while you could mention that investment income has been solid...and at times, spectacular, it still is not able to hide hefty underwriting losses, especially today.



You'd have to confess that the return on equity for the industry has been in the single digits for more than a decade, much lower AND much more volatile than our diversified financial services cousins...



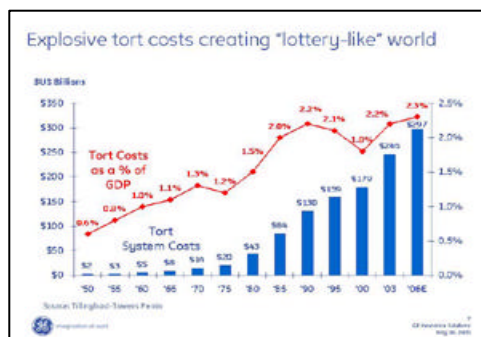
And then you'd have to lay out...as I do... an ambitious plan to get to a 12 percent or 13 percent ROE...all the while keeping in mind that... if your audience is Jeff Immelt of GE... you are talking to someone with a 20 percent to 21 percent ROE target and a consistent growth agenda. I like to dream as much as any business leader...but I can't even *dream* my way to those numbers...not quite yet anyway.

You'd have to allude to the industry's loss costs...which—rose at a faster pace than underlying premium growth for more than a decade--until we reached some equilibrium this past year.



At this point in your pitch you could probably throw in a couple of charts describing double-digit medical cost increases...class action suits...treasure chest jury awards and swashbuckling-pirate lawyers.


You could mention...as I did to the NAIC commissioners a few months ago...some heartening data such as the fact that...as we approach 300 million people in this country...we are also approaching the 300 billion dollar level in tort costs.



Or you could make your pitch more personal and anecdotal...as I did...by pointing out that the best orthopedic surgery practice I know of...perhaps the best *in the world*...has 120 lawsuits currently pending against it.

But why stop there? Tell your audience that there are three quarters of a million asbestos related claims settled or pending ...litigation that has bankrupted 73 companies and annihilated tens of thousands of jobs. Oh...and of those claims...only 10% involve people who are actually ailing from asbestos exposure.

Asbestos



730,000 Claimants
~70,000 Ailing

8600 Defendants
73 Companies bankrupt
60,000 Jobs lost

Time to find the right answer
for consumers

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I've said the tort system in this country sometimes resembles a national lottery, with a few big winners and the rest of us big losers. At the same time, we must provide fair, even generous, civil awards for people injured by others' errors. This taxation without representation needs to be replaced with fair treatment for those truly in need.

But enough...

I didn't come here today to complain...well, maybe just a little.

Why I *have* come is to tell you that...in my view...the worst days of this industry *could* nearly be over...and its brightest days *could* be just ahead. We have a view to daylight in reinsurance...a plan...a vision that involves higher profitability...faithful customer service...total transparency...unyielding integrity...and YOU...above all...YOU...in the actuarial profession.

We will go nowhere on this path without you.

First of all...the cyclical^{ity} must end...and we know how to end it. There are a lot of industries out there that are cyclical...and I've worked in a few...but insurance is the first one I've seen where we *self-inflict* cyclical^{ity}!

The good news is that because we inflict it on ourselves we know exactly how to alleviate it. And aside from getting more leaders in this industry who are committed to change...there is no role more important than *yours*.

There's an old joke about a man who tells his doctor, "Doctor, you gotta help me. Every time I lift my arm up like this (raise arm) it gives me *horrible* pain."

And the doctor says ... "So stop doing that!"

Stopping "that" means breaking the cycles that are ruining this industry...cycles that are caused by undisciplined underwriting...an absence of actuarial price modeling...optimistic reserving...and lack of self discipline. These are the fixable defects that now have all of us in the doghouse with our investors.

Undisciplined underwriting is at the heart of our woes...and actuaries hold...or could hold...the keys to fixing it.

I can't tell you how often I've heard...during these past four tough—I mean *challenging*—years...phrases such as “naive capital”...or “cash flow underwriting”...phrases that should have been consigned to the ash heap of history...along with a number of companies that were destroyed by these practices.

Pricing is critical to the future of this industry...to the very question of whether this industry *has* a future.

Bad pricing drives out good pricing...

The mountains of poorly priced risks in the late 90s produced billions worth of claims the industry did not expect...and these claims came crashing down on inadequate reserves.

Rather than dwell on the past, let's learn from our mistakes and ensure that we deliver consistency in the future. Let's listen to our actuaries and stay focused on our industry's roots and fundamentals.

I believe those of you in this room—who represent the leaders in your profession in the insurance and reinsurance industry---have a special obligation. I call on you to ensure that this generation of actuaries, and the next, have something worth listening to when you speak...that your views are grounded in facts, and grounded in a broad understanding of our industry and how your business works.

Today this industry has no place to go but to its roots and fundamentals: rigorous, disciplined, actuarially based underwriting and fair, analytically sound... pricing.

Do we...as an industry..."get it"? I can't pretend to speak for the industry...but I believe the answer is "yes". Bad pricing should be seen as what it is...a violation of the rigor and transparency that is demanded of us all.

I do speak for GE Insurance Solutions...and it is my intention to make our company *the premiere risk solutions company of the 21st century*...a company that has assembled an actuarial "dream team"...some of the best and brightest talent in the world...to deliver flawless service to our customers...and consistent results for our investors.

I have this deal with Jeff Immelt...our CEO. My part is to invest capital profitably and at reasonable risk...and return capital we cannot invest wisely to GE...for use by higher ROE GE businesses.

There is so much capital around in this industry...more than there has ever been ...and it's likely to pressure people to do stupid stuff. Stupid stuff...in my mind...means generally what the *actuaries* define as stupid stuff.

Jeff Immelt's part of our agreement is to not *fire* me if I do what I just told you...and provide me and our team capital when it's the right time to grow.

So, as we face into a softening market, our top line may well shrink...it *will* shrink in the near term...a prospect that normally causes horror in a growth-hungry company like GE.

So be it.

No more self-inflicted...grossly exaggerated... cycles...driven by bad risks on the books and bad reserve setting.

This is an endlessly stimulating and rewarding business, and we intend to turn it around.

And you know what? We're beginning to do it!

Our goal to deliver consistency for our customers and investors started with a huge investment in terrific people like those of you in this room.

We've more than *tripled* the number of actuaries at our



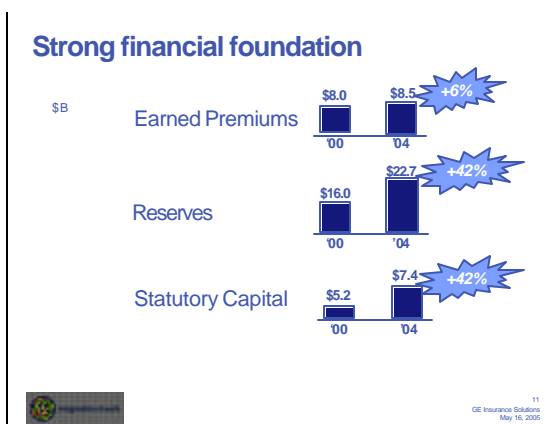
business since 1999 – from 70 to more than 220 today...all led by Tony Hill, currently our pricing actuarial leader and John Narvell, our chief actuary.

We are already seeing better results from teaming our underwriters, actuaries and claims teams. We have also built a 100-member risk management team that is driving transparency and building a balanced, global portfolio. We had no such function in 2000.

It's worth noting that many of the risk management leaders are actuaries.

Today, 95% of our reinsurance contracts are priced through models centrally controlled and created by actuaries. In 2000, most reinsurance contracts were priced solely by underwriters, many with no actuarial review.

We are excited to have on our team some of the best and brightest among you...and you are a group that *defines* best and brightest.

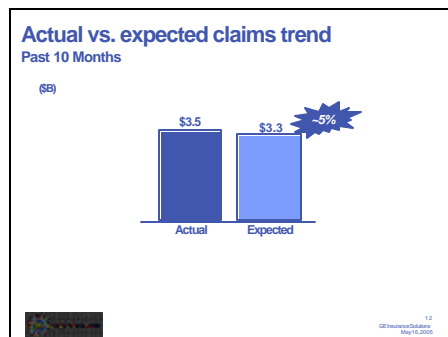


And they are making a difference in our turnaround.

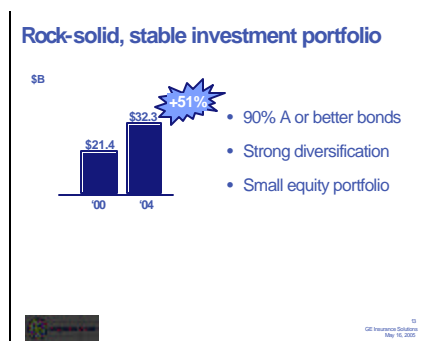
Our premiums are flat compared with 2000, a story of grounding and rebuilding for another speech. We've paid a dear price for the poor late 90s results with our reserves up 40 percent...but we've booked it based on the weight of strongly improved processes and views of our reserving actuarial team led by Steve Kelner. Perhaps most importantly, our statutory capital did not

**drop but actually has grown 40 percent during
this rebuild period.**

Finally, our claims trends are improving. For the past three quarters, our actual claims are coming in at levels close to expectation.



So we feel better about our underwriting...and we feel great about the underlying financial strength of our business with a \$32 billion investment portfolio that's solid as a rock and up 51 percent over the past 4 years.



To make this happen, we ask our actuaries for leadership in a way we never have before. You're not spectators or scorekeepers. You have skin in the game. You are respected members of our leadership team.

And you are called on to be the conscience of this industry and our business.

You cannot sit on the sidelines and say “I told you so” ex post facto. You must be active, involved and if necessary...*confrontational*...in helping make data-driven business decisions and owning the results.

This company...as much as, or more than...any in the industry...now recognizes the role of actuaries in getting it right...in pricing product correctly...in the ongoing role of our actuarial R&D now led by great industry leaders like Don Mango...and in managing our portfolio

around emerging risks. You have a leadership role to play in helping us understand claims inflation, claims development, changes in market pricing and helping our statistically challenged colleagues make smart business decisions. **And I challenge you as well to make your communications to the non-actuary clear, concise and simple.**

For our part, we are investing in R&D...in actuarial science...in exposure of our actuaries to our customers...so that both our customers and actuaries will never cease their intellectual growth.

No one has a more important role in this business in getting it right.

We expect your advocacy...and we better have a defensible reason when we disregard it. In short, let's get it right the first time...from pricing to reserving.

Statistical discipline is your rule...your doctrine.

GE is a Six Sigma company...culturally and operationally...and utterly grounded in data-driven decision-making. It's a cultural fit that I believe is a natural for actuaries.

"Winging it" and "doin' deals" on the golf course and over beers...practices that might have been acceptable in the eighties and nineties...are now unacceptable. Six Sigma has shaped the mindset of the team that now leads GE.

I remember very clearly an October day a decade ago...when Jack Welch stood at our Corporate Officers meeting and told us we were going to take the plunge into Six Sigma. His trusted friend...Larry Bossidy...who had left GE to take over Allied Signal—later Honeywell—had told him that he had seen the future—Six Sigma—and that it *worked*. Jack knew that Larry was one of the most cynical and “show me” kind of guys alive...as well as one of the smartest...and that was enough for him.

Welch...who most of us would have followed anywhere...said "We can't wing it any more. This is about data and analysis...and will be the basis of every decision we make."

We all bought into what he said and signed on that day...but in the interest of candor...I must tell you that he also said: "Oh, by the way...40% of your bonus will be based on how enthusiastically and skillfully you embed Six Sigma in your operations..."

Today...at our business... Black Belts—Six Sigma experts—are living with our customers in increasing numbers...improving their processes...helping them with techniques of calculating risk...and sharing with them their own hatred of the ultimate enemy of effective processes...which we call “the evil of variability”.

Our customers *implore* this industry to be more consistent...more predictable.

I would not suggest for a minute that a certified actuary walking into GE today is daunted by Six Sigma theory or practice. It is not nearly as complicated or nuanced as what *you* train for so many years to do. We're not even in your league in that respect...and have no need to be.

But our actuaries are excited by the increasingly analytical culture of what I like to think of as "our new Company".

We no longer like "winging it" any more than you do...and as long as we are in this business we never will.

Actuaries can help our business...and our industry...deliver the consistency that our stakeholders are crying out for.

Consistency for our customers in pricing and underwriting.

Consistency for our investors with stronger and less volatile returns.

And consistency for you and others who work in the industry, so we attract and retain the best and brightest talent.

As an industry, we are going nowhere without you.

I'd like to thank you for listening...and close with a final thought.

Despite all the absurdities in the insurance and... particularly...the reinsurance business...despite its structural and behavioral flaws...and despite the array of adverse factors lined up against it...I keep coming back to the "heart" of it all...the reason many of us explain to our children why mom or dad are away so much.

I have found that this is a noble...important...and endlessly stimulating place to spend part of your life.

Do you remember J.D. Salinger's "The Catcher In The Rye"?... I think almost all of us read in high school?

Near the end of the book...the hero...or antihero... Holden... tells his little sister of his vision of what he'd like to do in life...and he says, "I keep picturing all these little kids playing some game in this big field of rye...thousands of little kids...and nobody's around except me.

And I'm standing on the edge of some crazy cliff. What I have to do, I have to catch everybody if they start to go over the cliff. I mean, if they're running and don't look where they're going I have to come out from somewhere and catch them. That's all I'd do all day. I'd just be the catcher in the rye."

I guess I don't mind playing that role in the reinsurance game...saving people and property before they go over the cliff...or helping them back up once they do.

And I hope all actuaries accept the role of "catchers"...as well...and will keep me...and this industry... from going over some of the cliffs we have been prone to tumble off in the past.

Thanks

I'd be happy to take your questions.

[Q&A]

[After Q&A]

Thank you again for your invitation and your attention. I hope you got some value for the speaker's fee today. I certainly did...because I think we have opened a dialogue about the importance of actuaries as leaders.

For us to deliver the consistency and performance expected by customers, investors, regulators, and our fellow employees, we must have your leadership. I mean it when I say, we will go nowhere without you.

Thank you, again.