

This month's *View from the Bridge* features an interview with Ernie Csiszar, insurance industry director with Bridge Strategy Group. In it, he provides his perspective on key issues facing the P&C industry. Prior to joining Bridge, Ernie served as president and CEO of the Property and Casualty Insurers of America (PCI) and, while director of the department of insurance for the state of South Carolina, as president of the National Association of Insurance Commissioners (NAIC). Ernie is also a member of the faculty at the University of South Carolina ("the real USC"), where he is Director of the Risk Center at the Moore School of Business.

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We've seen a lot of speculation recently about whether the Property-Casualty industry is at long last entering a hard market. What is your view?

There's no doubt that capacity has been withdrawn in recent months, and many insurer's balance sheets are under pressure from the horrendous returns in segments of the bond market. But it's not just supply that determines whether or not we're going to have a hard market. Both supply and demand play a role. With unemployment racing upward, debt loads high, and driving habits changed, perhaps permanently, from the experience of \$147/barrel oil, you can expect to see demand headed in the same direction as supply. If I were an insurer, I wouldn't bank on being bailed out by a hard market. You've got to control what you can, and since you can't control whether we'll have a hard or a soft market, that means risk selection and cost. P&C companies have got to maintain a relentless focus on managing costs. My view on rates is that they may not begin to recover in a measurable way until the economy does, the timing of which is anybody's guess.

When you were president of the NAIC, you were known to have strong opinions on regulatory reform. With a new administration and Congress in Washington, what do you see as the prospects for regulatory reform, and what direction might it take?

I think that reform as originally envisioned, with an optional federal charter for companies looking to escape regulation by the states, is a long way off. I won't be surprised if we do see solvency regulation at the federal level, though. The focus, as it was with banks, will be on systemically important institutions like, to pick a random example, AIG. It would probably be supervised by the Federal Reserve rather than the Treasury for reasons of political independence. I don't see the federal government getting involved in product approvals, pricing, or market conduct. Those will remain the sole province of the states.

What opportunities should carriers be positioning themselves to exploit in the years ahead?

Let's focus on the commercial side, since that's the more dynamic. There, half of premium has already moved to the alternative risk markets - captives, self insurance, and securitization. There's no sign this trend has run its course. Once the 'bankruptcy remote' issue ceases to be a barrier to creating truly protected cells in a captive, even smaller companies will start fleeing to the alternative markets. That tells you that the place to differentiate in the future will be Services.

Surely there must be some opportunity for innovation on the product side?

There is, but the problem is that it's too easy to be a fast follower. Product differentiation has a short life expectancy. Accident forgiveness, Allstate's signature idea and one of the more interesting innovations of recent years, is already becoming commonplace. Another barrier to product innovation is regulation. It's awfully tough to get products approved more or less 'as is' in 50 separate states.

One thing I've been waiting for is an all perils policy. It's absurd how complex we make it for customers to protect themselves against events like a hurricane that can impact them in so many different ways.

What else should strategic planners inside insurance companies be thinking about these days?

India and China, like every other industry. Credit may be the lifeblood of an advanced economy, but insurance comes a close second. If I were leading a company with global reach or aspirations, I'd be doing everything possible to learn about the unique needs and regulatory nuances of the Indian and Chinese insurance marketplaces. There's going to be a lot of money made there in the coming decades.