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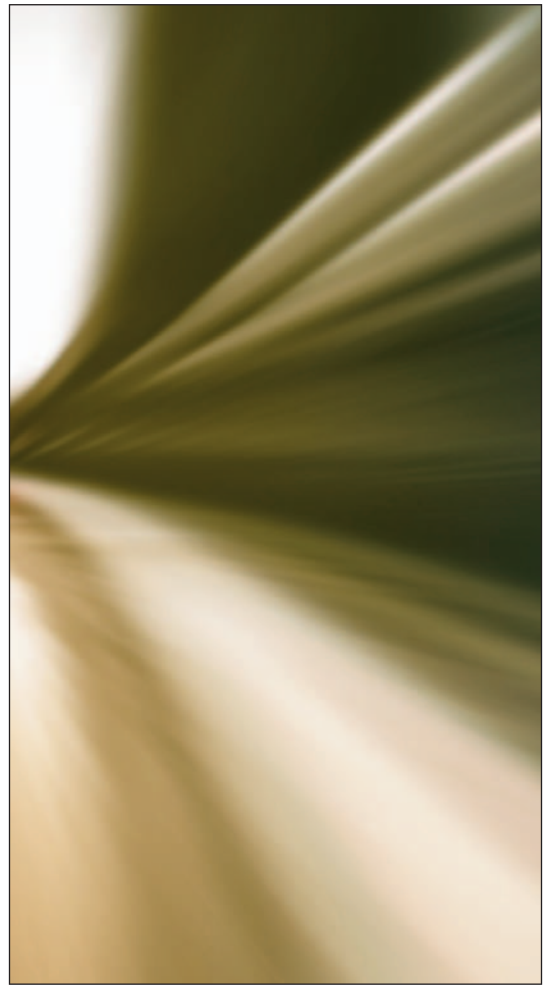
HOW DO WE FACE THE NEW RISKS AHEAD? TRANSPARENCY.

Remarks to TOWN HALL LOS ANGELES December 8, 2009



Thank you for inviting me here today. I'm honored to be addressing one of our nation's most vibrant forums in one of our nation's most vibrant cities.

It's often said that where California goes, America follows. It's the bellwether state that sets the tone for the nation and the world.

In the 20th century, California had a profound impact on culture and communication. You gave us everything from the movies and the microchip to the internet and the Frisbee. And in how we live our lives and conduct ourselves as citizens, many of your state's laws and regulations set the standard for the rest of the country. In the last century California led on social and labor issues. Now it's setting trends in environmental standards to address the increasing challenges of climate change.

As the nation's most populous state – and home to the largest port in the Western Hemisphere – California is also a bellwether of our country's economy. And as everyone is this room knows, the picture is still pretty bleak. California was hit harder and sooner than many states when the housing bubble burst. The governor and legislature are struggling to plug a gaping deficit through difficult and unpopular budget cuts. Californians are hurting – unemployment is above the national average at nearly 12.5%, the highest since World War II.

And, the rest of the country has followed. In 2008, household wealth in the U.S. plunged by $11.2 trillion dollars, the most in any year since recordkeeping began in 1952. Earlier this year, the Asian Development Bank estimated that *$50 trillion* of the world's wealth was destroyed in the financial crisis. Many people question if we will ever return to past levels of prosperity. As we close out a decade that began with such prosperity and promise, many of us believe that things will never be the same.

Things will never be the same. How many times have we all said that to each other since 2000? After 9/11? After Hurricane Katrina? After Lehman Brothers collapsed? After our government bailed out Citibank, AIG and General Motors? These are things that most of us thought could never happen. But they did. *Things will never be the same,* we said. And we were right. *Things are not the same.*

The world has changed dramatically in the past decade – it's a dangerous place full of new and complex risks. Here's the big question: What have we learned? Are we doing anything differently today? I don't think so.

My office looks out over the site of the World Trade Center. I think about security every day. Despite trying to fortify our ports like Long Beach and ratcheting up security in Washington, two gatecrashers can walk into the White House and shake hands with the President. Right now, life insurance settlement contracts are being sliced and diced and sold just like mortgage-backed securities were in the past. And, investment banks are still trading credit default swaps. The latest credit crisis hit Dubai last week. While the world waits for Abu Dhabi to step in, the markets are scrambling to determine the true global impact. And in my own industry, insurance brokerage, there's talk of going back to some bad practices I'll talk about in a few minutes.

So what have we learned from the past decade? Not enough, in my opinion. The risks confronting business today are new, complex and increasing – and the old answers just won't cut it.

What risks am I talking about? I'm no David Letterman – but I've developed my own "Willis Top 10 Risk List" for business today. The specific order is not critical. This list will change depending on what business you're in. But here are 10 things most of us weren't worrying too much about a few years ago.

10. REPUTATION

Companies have always worried about their reputation, but the importance of managing reputational risk has never been higher. Just look at the potential impact on reputation from social media. Anyone can start a Facebook group attacking your company and it can become a tipping point before you know it. How many of your companies are actively monitoring blogs and other social media?

9. SUPPLY CHAIN INTEGRITY

You just have to think of toys, toothpaste or drywall from China to know what I'm talking about here. When they aren't up to standard because the product safety mechanisms are lacking, the liability may rest with U.S. companies.

8. PIRACY

We're not talking about Errol Flynn and Johnny Depp anymore. At Willis, helping our clients protect and insure themselves against piracy is among our fastest growing businesses. And our experts in this area say that it could get much worse in the waters off Somalia. Piracy could spread to Yemen and choke off access to the Suez Canal. Just think of the risk to global trade and the cost of doing business.

7. CYBER SECURITY

We all know about external threats from hackers and data losses. Yet cyber crime affects every company in ways you might not think about. A recent Ernst & Young survey of senior executives found that *75%* were concerned about possible IT-related reprisals from departing employees. It can do enormous damage, yet only 26% were doing anything about it.

6. GLOBALIZATION

The interconnected nature of business and human interaction brings great benefits but it's also a major new risk underscored by the financial meltdown. Many economists were surprised by what a house of cards the worldwide financial system had become.

5. COST AND AVAILABILITY OF CREDIT

So many businesses – especially small and mid-size enterprises – rely on being able to secure credit at a reasonable cost. That certainty has vanished in this marketplace.

4. REGULATION AND COMPLIANCE

Compliance risk has the potential to damage your reputation, diminish your franchise value and undermine your

competitiveness when it comes to hiring and keeping talent.

3. PANDEMICS

We've had months of warning that the next H1N1 wave would come this fall, but still vaccines were being rationed. I hope you're prepared to protect your business against the impact of a pandemic with a robust continuity plan.

The good news is that many big companies do this. The bad news is that many small and mid-tier businesses don't – and they're the lifeblood of our economy. Former FEMA chief David Paulison said recently that between 40 and 60% of small businesses don't survive a catastrophe.

2. TERRORISM

People like to believe that because we've not been attacked since 9/11, it won't happen again. Unfortunately, we are still vulnerable to an attack in this country.

AND MY #1 RISK OF THE 21ST CENTURY – CLIMATE CHANGE

Anyone who watches the headlines or has lived within sight of a wildfire is aware of the risks from droughts, flood and hurricanes. But who here believes that a lake could form in the Mojave Desert?

In the winter of 1861 and 1862, the worst storms in the recorded history of California struck Northern and Southern California just days apart with devastating force.

Lakes formed in the LA basin and, yes, in the Mojave Desert. Talk about things that you thought were impossible! On the day of his inauguration, Governor Leland Stanford left his home in Sacramento through a second floor window and had to be taken to the ceremony by rowboat. The state capital had to be moved for a while to San Francisco. Could it happen again? You bet it could. "Atmospheric rivers" of warm, moist air that form in the tropics and regularly cause those "Pineapple Express" storms in California are capable of hitting the West Coast with winds of *more than 120 miles an hour*. And scientists say another storm like the one in 1861 and 1862 is inevitable. Is everyone here ready for this? No. In fact, most Californians seem to be unaware of this risk.

But we can't just cross our fingers and hope for the best. That's why at Willis we're working closely with the U.S. Geological Survey on "ARkStorm," a simulation of an 1861-style severe winter storm. That's why we launched the Willis Research Network, the world's largest research partnership between the insurance industry and academia, to examine the impact of extreme climate events. Our Network scientists are at the center of the ARkStorm simulation. While physical damage estimates are not yet complete, Professor Keith Porter at the University of Colorado, a member of the Willis Research Network, says he expects that losses from a severe California storm would exceed $50 billion.

So, whether it's severe weather or pandemics or cyber security that represents the greatest theat to your business, the point is this: the risks of the 21st century are big, and real, and must be faced. How? **Transparency**.

What is transparency? Seeing things for what they are and telling it like is.

As business leaders, we must look at all the risks we face. We have to address them head on. And we have to be honest and open about what we see and what we're doing about it.

This is not about just buying insurance. What I'm talking about is true risk management – what we call enterprise risk management. Today, a lot of companies simply buy insurance without effectively analyzing their company's risk. When that happens, insurance becomes a commodity, like soybeans or lumber – you look for the cheapest price. If you're dealing with risk as an expense – like your T&E budget – you're doing your company a disservice. We need to be hung up less on the price of insurance, and more on the *point* of insurance: protecting what you've built and what you care about.

The way companies and leaders think about risk needs to change. We need to truly educate ourselves about the risks facing our organizations – take full stock of our businesses and how risk impacts every aspect of our organizations. I've given you my top 10 risks, but what's your top 10? Don't use my list. Make your own list and make sure you truly understand how those issues apply to your business.

Then, no matter what size your business, take the right steps to prepare and protect your organization. That may mean changes in your operations, contingency planning, hard conversations with vendors about their own risk management, and tailoring your insurance coverage to meet your specific needs.

For all this to happen, senior executives and boards need to take a far broader and more comprehensive view of risk than they currently do and reflect this in decision making and oversight. Risk assessment and management is beginning to get the attention of the C-suite in many companies – but that needs to be the standard, not the exception. For big companies, that means hiring chief risk officers and establishing risk committees on their boards. For smaller companies, it means elevating the importance of risk managers. They are important to the health of your organizations – and need to play bigger roles in many companies.

For my industry, it means partnering with our clients to provide not only the most appropriate coverage, but also expert consultation and advice. Increasingly, I believe we need to provide our retail clients with the sophisticated analytics and modeling that we've developed for the reinsurance side of our business.

Transparency is critical to the way we communicate with our stakeholders. Our world is too full of doubletalk, rationalization and spin. So, I'm going to be blunt. Talk straight to your customers, employees and the communities in which we operate about the risks you face – or they simply won't trust you.

Americans are going through the pain of our deepest recession since the Great Depression – and mistrust is almost universal. I think the biggest loss in this recession is not financial at all. It's a loss of trust.

The people don't trust their politicians. A recent Gallup survey showed only 51% of Americans trust their state governments to handle state problems, down from 67% in 2008 and the lowest since the Gallup Governance Poll started in 1973. In California, it's 22%.

The people don't trust business either. In the respected Edelman Trust Barometer survey this year, only 38% of respondents in the United States said they trust business to do the right thing – a 20% drop from 2008, and worse than after the Enron scandal and the dot-com bust. Worst of all, only 17% said they trust what a company's CEO says. *Seventeen percent.* That's one out of six people. That means only one in six of you in this room believes what I'm saying!

Mistrust is not new. Neither is greed nor the ability of some people to stretch the truth or delude themselves. Remember when cigarette makers came to Washington to testify that cigarettes didn't cause cancer? At the same time, a guy name Madoff was making unbelievable returns on his investments – by faking account statements.

The only way to restore trust is through transparency. Real transparency. The problem is that even when some leaders say they are being transparent, they don't really mean it.

Take my own industry and the issue of contingent commissions. These are the extra commissions brokers earn from insurance carriers based on the volume or profitability of coverage that a broker

books. So the client may believe that the commission the broker is getting on the business is less than it actually is – and the broker's interests lie both with the insurer and with the client.

Many in our industry believe that simply telling clients you're taking contingents makes it OK. I disagree. With contingents, telling your clients you take them doesn't resolve the conflict. It doesn't change the fact that your true incentive is to act in the interests of someone other than your client – and that when push comes to shove, you may not fight for the best deal in the marketplace or advocate fiercely to recover a claim if you know your compensation from the insurer will suffer.

We stopped taking contingents at Willis because we want to be paid for the value we provide our clients, not the insurance companies. But a time could soon come when Willis and its big competitors will be allowed to take contingent commissions again. It may mean Willis will be the only company not taking them – but that's OK with me. We're happy not to have doubletalk.

So let's look more closely at transparency and what people mean when they talk about it. There are three transparency models, in my view.

The first is the "zero transparency" model. We saw a lot of this at the height of the credit boom. In an age of cheap money and public faith in ever-rising home values and stock prices, accountability was obscured, transparency was eliminated, and, when the bubble burst – trust evaporated.

Then there is "lip-service transparency." This was very popular for most of the last decade.   There was maybe a veneer of integrity and honesty, but what it amounted to was people saying, "I told you I was going to rip you off so now you can't complain if I did." A lot of clever people spent a lot of time studying the rules so they could come up with ways to get around them.

There's another model: true transparency. It means being up-front with our various stakeholders – whether they're shareholders, clients, partners, employees or the communities in which we do business – and explaining what's in it for them and what's in it for us.

This city has given the world a terrific example of someone who understands the power of trust and transparency. Your former police chief, Bill Bratton, helped to transform the LAPD's reputation – in great part by reaching out to LA's diverse communities, listening to their concerns and responding. Along with organizational changes and technological improvements, his commitment to building trust and transparency has helped cut crime in the city to historic lows.

Incredible challenges lie ahead, some of the greatest we've ever faced. To cope with a changing world, we must change ourselves. We must look at difficulty, even impossibility, as opportunity. Change is not easy. But our willingness take on challenges is what made America a place of innovation and achievement. Especially in California.

Many resist change. In 1829, Martin Van Buren, then Governor of New York, wrote to Andrew Jackson, President of the United States, warning of the great evils of a new technology: the railroad. He wrote:

> Dear Mr. President:
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> 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:
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> One. If canal boats are supplanted by 'railroads,' serious unemployment will result. Captains, cooks, drivers, hostlers, repairmen

> and lock tenders will be left without means of livelihood, not to mention the numerous farmers now employed in growing hay for the horses.
>
> Two. Boat builders would suffer, and towline, whip and harness makers would be left destitute.
>
> Three. 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 may well 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.

If Mr. Van Buren were here today, he'd be one of the disbelievers in the audience – a roadblock to the kind of innovation that has made our country great.

Let's look forward. Let's innovate. Let's look our risky world right in the face. Let's make our businesses better, our industries better and let's make our world better.

California – its people and business large and small – have always set the trend for the future, a legacy which I have full confidence will continue into a new decade about to unfold.

Thank you.