

Current issues in general insurance

Richard Winters previews some topics to be addressed at the GIRO Convention at the end of this month.

MANY OF THE ISSUES currently facing actuaries working in general insurance are the same as those faced by most other disciplines within the profession – the impact of new distribution channels and mergers and acquisitions. There have been many recent legal and legislative changes, and there is the prospect of more to come. A new regulatory regime is in the process of being introduced. Margins vary greatly between different product areas, and there is an increasing need to demonstrate that shareholder value is being created and that capital is being used in the most efficient way. All of the above topics will be being addressed at the 27th General Insurance Convention being held in Birmingham at the end of October. Around 400 members of the actuarial profession will be gathering to discuss the work that has been done over the past year.

Channels of distribution

The distribution of products is undergoing a massive change. It is unusual to see a commercial break on television that does not include some advertisement or other relating to the Internet, and over the past few months an increasing number of these have been for insurance services. Opinion differs massively as to how effective this channel of distribution will be. However, increasing numbers of high street retailers and utility companies are marketing general insurance products under their own brands. At the same time, the continuing merger and acquisition process is reducing the choice of insurance providers available.

Public interest issues

Over the past two years there has also been a great deal of debate about the role of the actuarial profession in considering public interest issues. A position statement on making general insurance buyers better informed is available on the profession's website, and there will be many further discussions around how well current insurance products meet consumer needs, whether they are fairly priced, and the effectiveness (and inherent risks) of different methods of remunerating insurance sellers. This will lead to more position statements being developed – watch the website for details!

Taxation

One of the most recent legislative changes deals with taxation. Within the budget, changes were announced to the way that profits will be taxed, the intention being that discounted rather than undiscounted reserves should be used for assessing tax due. There is still a great deal of debate about how the rules will work in practice, and also what effect this will have on the industry as a whole. From a regulatory point of view, the development of the Financial Services Authority

will begin to introduce changes, and the introduction of the General Insurance Standards Council is also likely to have an impact, the extent of which is again open to debate. Representatives from both organisations will be at the conference and will be leading discussions about recent and planned developments.

Compensation

General insurance is massively affected by legal decisions, both on the amount of compensation that is appropriate in various circumstances and on how such payments should be structured. There have been significant developments in both these areas over the past year. This has a heavy impact on both reserving and pricing. The profession clearly also has an important role to play in debates about the most appropriate method of compensating individuals for injuries suffered, both in determining the size of lump-sum payments, and in structuring settlements in other appropriate ways.

Effective business strategy

It is obviously important to select lines of business where adequate levels of profit can be made. Methods for determining the shareholder value being created by different products are developing all the time. Efficient capital allocation is a topic that continues to increase in importance. A key element of determining an effective business strategy is to try and work out the optimum way of managing business through the insurance cycle. To help with this, 'Understanding the insurance/re-insurance cycle' was the subject for the Brian Hey prize, and several papers on the subject have been entered.

Two product lines that have performed relatively poorly in the past few years have been employers' liability and the aviation market. Papers will be presented at the conference looking in some detail at what have been the main changes in these lines, and also giving consideration to how things will develop in future.

Financial strength

A lot of work has been done in the past year on determining the financial strength of insurance companies and looking into the reasons why some insurers have failed in the past, something that the failure of Drake this year has thrown into sharper focus. This also ties in with work being done on financial condition reporting which will result in a sessional paper in March 2001.

The conference in past years has been an excellent forum for discussing such issues and developing the knowledge of the profession, and I hope that many of the topics above will be discussed in greater depth in this magazine. Next year's conference will also need volunteers to do research, so if you are interested in volunteering, please let me know. □



Richard Winters is the general insurance actuary for Prudential Assurance, and is a member of the General Insurance Research Organising Committee. Email richard.winter@prudential.co.uk