FROM THE WORLD OF GENERAL INSURANCE

Asbestos developments

Initial attempts are being made to refloat the Fairness in Asbestos Injury Resolution act in the US Senate. This legislation, which has failed several times over the past couple of years, would set up a trust fund from which future asbestos claimants would be compensated. The trust fund would be paid for by a combination of asbestos producers and insurers, and previous attempts have foundered on the amounts to be provided by the various parties, and on the issue of finality.

Meanwhile the new legislation in Ohio (see *The Actuary*, June) has been challenged by a plaintiff group on the grounds that it is unconstitutional. Watch this space!

The Center for Disease Control and Prevention has reported that the number of asbestos-related deaths in US has continued to rise. The numbers have increased steadily from 77 in 1968, when the study began and was up to 1,493 in 2000 (the latest available figure).

Compensation culture

The Conservative Party has obviously taken note of the GIRO working party report on the compensation culture, as it has now decided to set up a commission to investigate the European Human Rights Act, which it appears to hold responsible to some extent for the increased propensity to sue in UK. Unsurprisingly, the Association of Personal Injury Lawyers does not believe that the compensation culture is more than a myth, which the Tory proposal is liable to exacerbate.

Aviation rates

According to a report by Aon, aviation premium rates for both hull and liability risks dropped quite significantly in the second quarter of 2004, and quote reductions in the range 15–20%. Not too much should, however, be read into this, as the April to June period is not one during which a great proportion of aviation business is renewed – the vast majority of premium has renewal dates in the fourth quarter.

Climate change

The European Environment Agency has warned of the dangers of climate change in a recent report. This claims that the national governments across Europe are ill-prepared for the impact of such a change. The report states that global warming is now at a level of 2 degrees Celsius per century, and likely to exceed this figure during the 21st century. Their report was well timed, virtually coinciding with the spectacular flash floods at Boscastle in Cornwall and the mudslides in Scotland, as well as the more significant storms across the globe (see below).

Large losses

Recent notable general insurance incidents/ losses include:

- Floods in Japan caused by heavy persistent rain in mid-July are estimated to have led to 15 deaths and cost around $200m.
- Typhoon Rananim (1214 August). The impact of this typhoon on Jiangxi and Zhejiang provinces in China resulted in a death toll approaching 200, the majority through collapsing houses, 13m people affected by the resulting floods, and economic loss estimated at over $2bn. However, a significant proportion of this is understood to be uninsured, although some compensation is likely to be provided by the local and national governments.
- Hurricane Charley (13–15 August). This hurricane, having already caused damage in Jamaica, Cayman Islands, and Cuba, cut a narrow swathe through Florida, and was projected to hit Tampa on the Gulf of Mexico coast, until a change in the wind direction resulted in the main impact being on a less-populated area. This probably reduced the insured loss by approximately half, with the latest estimates being around $6.8bn range and 27 fatalities, making it the second-largest hurricane loss experienced (after Hurricane Andrew in 1992). The insured losses arise on homes (including mobile homes) with over 30,000 being destroyed or damaged to the point of being uninhabitable, plus an estimated 40% in respect of commercial property, including business interruption. A number of individual insurers and reinsurers have estimated losses to their account in excess of $100m, with comfortably the largest involvements appearing to be on Citizens Property Insurance Corporation, a not-for-profit high-risk insurer which has braced itself for losses totalling $1.2bn, and the Florida Hurricane Catastrophe Fund. Early indications are that this hurricane, by itself, is unlikely to cause insurer or reinsurer failures, or a material change in premium rates – it is, however, of concern that the hurricane season is still in its infancy, and there is significant potential for further similar events over the next couple of months – see below.
- Typhoon Megi (18–19 August). This typhoon was a particular blow to parts of Northern Japan, which had barely recovered from the floods a month earlier (see above). The main areas affected by Megi were Taiwan and Japan, with several deaths in each. Estimated insured losses are not yet available.
- Typhoon Aere (24–27 August). This also affected parts of Japan, Taiwan, and China, resulting in significant flooding and landslides. Rainfall in Taiwan reached up to almost 5 feet in places in the central mountains.
- Hurricane Frances (2–5 September). This hurricane initially caused significant damage in the Bahamas, but fortunately lost considerable strength before hitting the Atlantic coast of Florida. Thus, initial fears of a possible insured loss in excess of $20m now seem overstated by a factor of around 10, although it is premature to provide authoritative estimates. What is certain is that it has claimed at least 24 lives, produced very high rainfall, and was accompanied by some tornado activity on the fringes of the storm area.
- Typhoon Songda (5–7 September). This was the seventh typhoon to hit Japan this year, more than double the normal average. Songda has resulted in a foot of rainfall in some areas of western Japan and 24 lives are reported as lost. Again insured losses are not yet to hand.
- Hurricane Ivan (8 September, ongoing). Hot on the heels of Frances, Ivan is now tearing through the Caribbean, headed towards Jamaica, Cuba, and Florida (again). So far it has caused fatalities and damage to the northern parts of South America, Barbados, and St Vincent, and at the time of going to press had just devastated Grenada, leaving at least 15 deaths and reportedly causing damage to 90% of residential property on the island. Watch this space for further information next month!
- An explosion of a natural gas pipeline near Ghislenghien in Belgium on 30 July killed 17 workers and caused significant damage to industrial buildings in the surrounding area. No indication of the size of the insured loss is currently to hand.
- An accident at a nuclear plant in Japan on 9 August resulted in four deaths from the effects of super-heated steam. Insured losses are not expected to be significant as it is claimed that there was no release of radioactive material.
- A fire in the Ycua Bolanos shopping centre near Asuncion, the capital of Paraguay, on 1 August claimed approximately 400 lives. Nevertheless, the insured loss is likely to be modest, as the liability cover purchased with a local company appears to have a very low sum insured. The majority of the insured cost is, therefore, likely to be in respect of the property, which was destroyed.
- 'The Scream', the famous Edvard Munch painting, was stolen from an Oslo art gallery towards the end of August in an armed robbery. It is understood that there is no relevant insurance cover.
- The terminal collapse at Charles de Gaulle airport, Paris on May 23 this year (see *The Actuary*, June) was likely to have been caused by deterioration of the concrete used in the building, according to the French authorities investigating the accident. Liability has not yet been confirmed.
- Lockerbie air crash 1988. A consortium of insurers is suing the Libyan government, the two men tried as terrorists in respect of the crash, and a Libyan airline for $32m plus interest in respect of losses they have incurred from the crash. The hearing is due to start in November.

Support for Solvency 2

European insurers are becoming more focused on the industry's financial strength when making business decisions, according to the findings of a survey, *Facing the Future: Challenges for European P&C Insurers*, commissioned by the Insurance Leadership Institute of GE Insurance Solutions and independently conducted by Tillinghast.

All survey respondents indicated that financial security and top-level ratings highly influence their reinsurance-buying decisions. In addition, 87 per cent of these insurers also agreed that the importance of insurers' own financial strength ratings would increase dramatically.

Despite their belief that consolidation in the reinsurance market has reduced choice and made prices less competitive, 100 per cent of respondents agreed that consolidation has improved security. But 75 per cent of respondents are more worried now than in the past about the potential insolvency of their reinsurers. Claims reserves in property-casualty insurance will come under increasing pressure, according to 79 per cent of respondents.

In addition to financial security and strong ratings, two other important qualities that insurers seek in a reinsurer are competitive pricing, cited by 93 per cent of respondents, and the ability to maintain long-term business relationships, cited by 89 per cent of respondents.

Other key survey findings indicated that insurers' concern over a reinsurer's ability to pay claims is matched by their concern over a reinsurer's timeliness in paying claims. Four out of five respondents agreed that fast and competent claims settlement is a vital quality for a reinsurer. But 37 per cent are concerned that reinsurers will or may pay claims recoveries much slower than in the past.

The survey also revealed support for Solvency 2, the proposed European directive that is due to become effective in 2007. When questioned about Solvency 2, 71 per cent of the respondents agreed that Solvency 2 is an effective regulatory instrument to prevent insolvencies. However, 68 per cent felt that Solvency 2 puts small insurers at a disadvantage because some lack the resources to develop sophisticated individual risk models.

The vast majority of respondents (84 per cent) agreed that Solvency 2 would lead to increased transparency in an insurer's financial strength/weakness. Effective and competent risk management is an important way to reduce the solvency capital requirements and the potential burdens of Solvency 2, according to 95 per cent of insurers surveyed.

As a result of Solvency 2, 32 per cent of respondents expect to increase their purchase of non-proportional reinsurance, although business ceded to reinsurers will remain stable over the next five years.

Long-term care costs to take off

Britain can expect a substantial – possibly fourfold – increase in spending on long-term care for older people by the middle of the century as the number of people living into their late 80s and beyond increases and real care costs rise, according to new projections based on the latest GAD population projections.*

The projections, prepared for the Joseph Rowntree Foundation, suggest that care spending would need to rise by 315 per cent in real terms between 2000 and 2051 to meet demographic pressures and rising costs, assuming that dependency rates, patterns of care, and current funding arrangements remain unchanged.

On this set of assumptions – and allowing for an expanding economy – the proportion of national income (GDP) spent on care for older people would increase from around 1.4 per cent in 2000 to around 1.8 per cent in 2051. However, the researchers emphasise that alternative assumptions yield a wide range of uncertainty around this central, base case projection.

The latest Government Actuary's Department (GAD) population projections have projected higher growth than previously anticipated in the number of older people. The number of people over 65 in the UK is expected to rise by 81 per cent over the next five decades from 9.3m to 16.8m. But growth in the population over 85 – the age group most likely to need nursing, residential, or home care – is now expected to rise by 255 per cent from 1.1m in 2000 to 4m in 2051.

In order to keep pace with demographic change, the number of places taken in residential care homes, nursing homes, and hospitals would have to rise by around 150 per cent, from around 450,000 to 1,130,000, and the time spent by home care services caring for older people in their own homes would increase around 140 per cent, from around 2m to more than 4.8m hours per week.

Meanwhile, across the Atlantic, in their new book, *True Group Long-Term Care*, authors Jonathan Shreve and Jill Van Den Bos of Milliman identify insufficient funding for long-term care as a looming crisis for all Americans, especially the growing millions of elderly citizens who lack the means to pay for the services they will require. The work also examines a variety of innovative solutions, including

NCC tackles exclusion

Almost 10m people in Britain live below the poverty line, paying more or getting less across a wide range of essential goods and services – from credit, banking and health services to food, water, energy, and communication services. Exactly a year since the National Consumer Council (NCC) lifted the lid on a hidden Britain where millions struggle to afford essential household utilities, the independent consumer policy expert is launching a groundbreaking initiative to tackle the injustice that leaves the worst off getting the worst deal.

The dossier *Why do the poor pay more?* points out that many of the essential goods and services we all need to play a full part in today's society are increasingly provided by the private sector – companies and professionals serving consumers directly, or in mixed models of public service provision.

But, says, NCC, 'the market' and competition fail to meet the needs of the most disadvantaged in our society. Deirdre Hutton, NCC chair explains:

'Lack of money isn't the only problem with being poor. They face a double disadvantage. The poor pay more because life on a cash budget is more expensive. You pay more if you can't bulk buy or afford a weekly shop. And if you can't get around because of a disability or limited transport, you can't shop around for the best deal.

Our dossier is a call to action against market exclusion – a call we hope will have a positive impact on the lives of at least half a million disadvantaged consumers over three years.'

To find out more about the NCC study, visit:
www.ncc.org.uk/access/ppm4financial.pdf

plans where employers would provide group long-term care plans as an employee benefit.

Pensions on the edge

The chorus of those questioning the logic of pension scheme investment in equities grew louder again this month.

The collective pension deficit of Britain's top 100 companies fell about 20 per cent or £13bn last year as the stockmarket surged and corporate contributions to retirement plans doubled. However, a lacklustre performance by shares this year is again bringing the deficit issue back into focus.

The proportion of equities in British pension portfolios has fallen back to the level it was 20 years ago after peaking above 80 per cent in the early 1990s, but still remains at just under 70 per cent. There are no guarantees equities will produce the returns of the past or that funds will revisit the halcyon surplus days of the 1990s, when firms took contribution holidays.

'We think the government is going to make sure companies fund these schemes better on a year-on-year basis, so the logical extension is that they're going to have to put more cash in', Alistair McCreadie, credit analyst at ABN AMRO bank, said.

The combined pension deficit of the FTSE 100 companies is £42bn, but this masks the very high exposure of some companies with big funds to equity markets such as Rolls Royce, BAE Systems, ICI, and British Airways.

Stephen Cooper, head of valuation and accounting at UBS investment bank, said companies should give up attempting to leverage the supposed superior returns in equity markets to try and reduce the costs of their pension funds and should switch to more predictable and tax-efficient returns from bonds.

These sentiments were echoed by top actuary Lindsay Tomlinson who wrote 'strategic asset allocation work is driving many DB funds to reduce risk by investing to a greater extent in fixed income and index-linked securities. This trend has a lot further to go'.

'Strategic asset allocation has been brought to prominence by a combination of the new accounting standard and changed investment conditions – a deadly cocktail for DB funds. As far as investment conditions go, the major issue is not the bear market in equities; it is the fall in long-term interest rates which has, unusually, accompanied it. Add on improving mortality and the perfect storm has ensued', Tomlinson added.

Actuary banned

The consulting actuary to HIH Insurance, David Slee, has been disqualified by the Australian Prudential Regulation Authority (Apra) from ever acting as a general insurance actuary again. Mr Slee, who was described in the HIH Royal Commission as 'the definitive compliant actuary', was an old friend of HIH chief executive Ray Williams. In 2000, the year before the insurer collapsed, Mr Slee's actuarial consulting company was getting 80 per cent of its work from HIH.

Apra announced this month that Mr Slee did not meet the 'fitness and propriety' requirements set out in Apra's prudential standards under the Insurance Act of 1973, which focus on competence and not honesty. Apra, which came in for significant criticism itself over its failure to keep a close eye on HIH in its last two years of operation, stated that Mr Slee had used 'unrealistic assumptions in his capacity as consulting actuary to HIH to arrive at an unreasonably low estimate of the group's claims liabilities'. It also said that he had allowed his independence to be compromised.

HIH collapsed in March 2001 with an estimated deficiency of A$5.3bn, which was Australia's biggest corporate failure.

Mr Slee did not attract specific negative recommendations from the HIH Royal Commission. Commissioner Neville Owen said it was the board's fault that it never examined his reports, although he was constrained by his position as a consultant from being more proactive.

Mr Slee is now retired after more than 40 years in insurance. His conduct has also been referred to the Institute of Actuaries Australia.

Will your assets run out before you do?

A new retirement calculator _ dubbed 'The Retirement Probability Analyzer' – is available from the Society of Actuaries website for people who want their projections to be a bit more sophisticated than those offered by most online calculators.

Most free, online retirement calculators let you test the durability of your nest egg using basic factors, such as age, life-expectancy, monthly income expectations, and the size of your savings. But the Retirement Probability Analyzer takes it a few steps further, by also accounting for pension assets, expected investment returns, and the effects of an immediate annuity investment.

Unlike many other retirement calculators, the Retirement Probability Analyzer doesn't seek to tell people how much money they might need to retire. Instead, it aims to help the retired and near-retired estimate – based on the amount they have now – how long their funds might last.

The Retirement Probability Analyzer was created by Toronto finance professor Moshe A Milevsky, who has spent much of his career researching issues related to retired people's savings. His latest invention was developed at the behest of the Society of Actuaries, and is available free on its website at *www.soa.org*.

New supervisory regime in Singapore

The Monetary Authority of Singapore (MAS) has announced a new risk-based capital (RBC) framework for insurers in Singapore. In conjunction with the new RBC framework, MAS also issued various regulations, notice and guidelines including Insurance (Actuaries) Regulations 2004 and notices on valuation of both life and general insurance liabilities.

The RBC framework aims to put in place a more transparent and risk-focused capital and valuation basis that reflects all major financial risks of insurers. It was developed in close consultation with insurance practitioners and the actuarial and accounting professions. MAS previously issued two consultations papers to discuss how the RBC framework and regulations will be integrated into the Insurance Act. The last consultation was on 28 November 2003. MAS has considered the feedback received and incorporated them into the framework, where appropriate.

The framework takes into account emerging international standards and good practices in developed countries. The shift from a one-size fits all approach will also encourage insurance companies in Singapore to manage their financial risk more actively and raise overall prudential standards. Find out more at: *www.mas.gov.sg/masmcm/bin/pt1Home.htm*