

FROM THE WORLD OF GENERAL INSURANCE

Asbestos developments

The challenge to the new asbestos reform legislation in Ohio has been refused (at least temporarily) by the state’s appeal court.

The UK Health and Safety Executive has produced updated statistics on asbestos. These include the facts that the current annual death toll from asbestos-related diseases is around 6,000, and that this expected to rise gradually to approximately 10,000. In addition, it has estimated that there are 500,000 commercial buildings still containing asbestos. Plenty of scope there for further claims, especially with the impact of the new Control of Asbestos at Work Regulations – see *The Actuary* July issue.

World Trade Center (WTC)

In light of the imminent expiry of the Statute of Limitations for WTC litigation, lawyers acting on behalf of a number of the property insurers protecting organisations which suffered the most severe property losses on 11 September 2001 filed lawsuits on 10 September 2004 against those parties which may be held responsible. The plaintiffs include the insurers of WTC itself, Verizon Communications and Port Authority of New York. The defendants include the airlines, the airport security companies, and the aircraft manufacturers and, in a separate action, various Middle Eastern individuals and organisations, including the Saudi Arabian government.

Large losses

Recent notable general insurance incidents/losses include:

■ **Hurricane Frances** (2–5 September). Last month’s comments on the insured cost of this

hurricane (that this cost may be in the range \$2–3bn) now appear unduly sanguine. Latest estimates still vary quite widely, but are mainly in the \$3–6bn range. The increased cost is understood to be significantly affected by the very slow movement of the storm, resulting in heavy rain over a protracted period, leading to substantial flood damage.

■ **Hurricane Ivan** (8–17 September). Ivan, following the devastation in Grenada, caused significant damage in Jamaica (although not quite as much as was initially anticipated, as the eye of the storm passed to the south-west of the island), and ravaged the Cayman Islands, where it scored a direct hit. Early reports suggested that half the homes in Grand Cayman have been destroyed. Following this, the path of destruction continued to move somewhat further west than initially forecast, as a result of which it passed between Cuba and the Yucatan peninsula of Mexico. Nonetheless, it caused significant damage in both countries. It was, however, a case of ‘good news, bad news’, as the lack of landfall had the effect of increasing the energy in the system as it tore across the Gulf of Mexico (with all its offshore oil installations towards the southern US, where it arrived on the Alabama coast, causing further severe damage from the Panhandle of Florida to Louisiana. Initial estimates of the insured losses in Grenada, Jamaica, and the Caymans amount to something of the order of \$1–3bn, with around 70 fatalities. Insured losses in the US are provisionally estimated to be in the range \$2–7bn.

■ **Tropical Storm/Hurricane Jeanne** (16–27 September). This was ‘only’ a tropical storm and initially got lost in the news about Ivan. It hit Puerto Rico before progressing to cause serious

damage (mainly through flooding and mudslides) and enormous loss of life (latest figures are in excess of 1,500 dead, but this is expected to increase to nearer 2,500) in Haiti. It then continued towards the Bahamas and Florida where further death and devastation occurred, although this is not thought likely to be of the same order of magnitude as the earlier hurricanes. Insured losses in Haiti are not expected to be particularly significant, reflecting its status as one of the poorest countries in the Americas.

It is thought that the cumulative effect of Charley, Frances, Ivan, and Jeanne will, at least, arrest the reduction which has been experienced in premium rates for catastrophe business over the past couple of years, and may even cause the start of an increasing trend. The fact of there being such a number of hurricanes occurring in such a short space of time appears to be unprecedented, although the impact on the reinsurance industry is expected to be much less severe than if the total insured losses had arisen from a single storm – by implication direct insurers will be somewhat harder hit!

Current Issues Newsletter

Other recent developments are covered in the *General Insurance Current Issues Newsletter*, which can be accessed via the profession’s website at: www.actuaries.org.uk/files/pdf/general_insurance/gicinews20040928.pdf

The latest edition is dated 28 September, and covers regulatory issues, Irish developments, other international issues, and claims and legal issues.

 DAVID HART

Sex discrimination compromise

A European Union council of ministers gave preliminary approval to an EU directive that would ban the unequal treatment of citizens based on gender – a directive that had raised the ire of insurance industry groups that argued banning the use of sex in certain underwriting decisions would drive up the cost of insurance for all.

But the draft nearly approved by the EU Council for Employment and Social Affairs contained modified language on the insurance aspect of the proposal that insurance groups say is an effective compromise on the sex issue. The Comité Européen des Assurances (CEA), a Paris-

based federation of European insurers and reinsurers, said the compromise in the language of the proposal would give member states of the EU room to allow the use of sex as a pricing factor.

‘We have repeatedly warned that a ban on the use of gender, although laudable at first sight, could result in higher insurance premiums for all consumers’, said CEA director-general Daniel Schante in a statement. ‘The compromise clearly shows that the industry’s arguments have been retained by a number of governments.’

The Council for Employment and Social Affairs said that under the compromise version of the directive, ‘equal treatment is the guiding principle to be

applied’, although ‘a number of exceptions are provided for under specific conditions’. The council said in a statement that member states may permit ‘proportionate differences in individuals’ premiums and benefits’ where the use of sex is a determining factor in the assessment of risk.

‘Any different treatment has to be based on relevant and accurate actuarial and statistical data that has to be made public and regularly updated’, the council said in a summary of its 4 October deliberations on the proposal. ‘The use of these exceptions is subject to review by both the member states and the [European] Commission.’

Go east, young man

Emerging markets will be at the frontier of insurance in the 21st century, according to the latest study from Swiss Re's *sigma* series. Non-life premiums collected in emerging markets are expected to double from \$123bn in 2003 to around \$250bn by 2014, at constant prices. Life premiums will increase even faster from \$188bn to \$450bn over the same period. The *sigma* study identifies China and India as the most promising insurance markets.

Over the past ten years life and non-life insurance premiums in emerging markets have risen annually by 10.4% and 7.3% respectively in real terms, compared with an average 3.4% and 2.6% for industrialised nations. Premium growth is expected to remain strong at 7.5% per year in the next decade, owing to robust economic growth, increased stability, and favourable regulatory developments, as well as new product offerings and distribution channels.

Find out more at www.swissre.com.

After Myners

Pension fund trustees remain committed to the use of external advice but are more focused on gaining value from advisory relationships, according to research sponsored by Instinet Europe.

Entitled 'Taking the temperature of the UK pension fund industry', the research is the second in an annual series first published by Instinet in 2003. The survey was conducted by Richard Davies Investor Relations (RD:IR) and examines the rate and direction of change in the UK pensions industry with regard to the recommendations set out in the Myners Review of Institutional Investment published in 2001. RD:IR interviewed 101 UK pension funds, representing funds under management of £312bn and 48% of the assets held by National Association of Pension Fund members in the UK. A full copy of the research report is available from Weber Shandwick.

External advice

The survey shows that the amount of external consulting advice sought by trustees has increased since Myners in the case of 40% of respondents – a slight rise of 3% since 2003. Comments made by respondents show that, in accordance with advice laid out in a recent Department for Work and Pensions post-Myners

Gloomy outlook for SME pension provision

The above was the main conclusion from 'Delivering DC?' a Pensions Institute report by Harrison, Byne and Blake published last month.

Key messages of this report are as follows:

- The government must understand that if no changes are made to the way employer-sponsored DC pension schemes are designed and delivered in the small and medium-sized enterprise (SME) market it will not significantly extend pensions provision and has virtually no chance of achieving its ambition to change the 40:60 private/state benefit dependency ratio to 60:40 by the year 2050.

- The evidence demonstrates that the government has not recognised where the real barriers to participation lie for SMEs, and that it does not consider seriously the views of advisers that work in, and understand, this tough market.

At present a complex and interrelated series of factors denies access to affordable and effective company pension provision to millions of people in the low-to-average earnings bracket in the smaller and medium sized-company market. These factors include:

- The finance director's reluctance to pay a company contribution to its pension scheme. FDs are not convinced by the traditional rationale for running a pension scheme, namely that it helps to recruit, retain, and motivate high-quality staff. Given this lack of conviction, for FDs the pension scheme does not represent a measurable return on investment.

- The barriers imposed by the govern-

ment's means testing system, which discourages employers, advisers, and providers from promoting membership to low-to-average earners.

- The withdrawal of advisers and providers from companies with fewer than 50–100 employees owing to low profit margins.

- The fact that where providers do sell to 'less attractive' smaller companies with low-to-average earning employees, they impose an above-average annual management charge to compensate for the lack of economies of scale.

- The commission war among pension providers, which started with the introduction of stakeholder schemes in 2001, encourages advisers in the SME market to select only those providers that pay above-average commission rates. Several major pension providers that either do not pay commission, or do not pay sufficiently high rates, are ignored by advisers.

- Companies selected for their commission terms also provide the main default investment option – typically a managed unit linked fund – in which 80%–90% of members invest from the date they join the scheme to the date they retire. These funds do not adhere to clear performance benchmarks, nor do they necessarily provide relevant risk profiles for the long term and the changing requirements of members over the course of their working lives.

- The lack of 'at retirement' services for members, most of whom accept their provider's annuity, which could offer an income 25%–30% lower than the best available rates.

report, many trustees are focused on the importance of asset allocation, are improving their own knowledge, and are more likely to turn to alternative sources of advice.

At the same time, the research found evidence that pension funds are increasingly looking to gain value for their members by negotiating separate actuarial and investment consulting contracts. 24% of the 101 funds interviewed had negotiated separate actuarial and consultancy contracts since Myners, with a significant increase of 13% since last year. The notion of extracting value is further supported by the 15% increase in the number of funds that hold actuarial and investment con-

tracts with separate organisations, delivering a total of 44% of respondents.

62% of the pension funds interviewed claimed that they had no formal way of measuring the quality of advice they were given from investment consultants, a 23% decrease since last year. That said, the survey shows that pension funds do aspire to find accurate methods of measuring the advice they receive from consultants but there is little common industry consensus and approach.

Trustee training

Myners recommended that trustees should become better informed about the investment decision-making process,

specifying that trustees required training to fulfil their responsibilities. One of the key findings of the research is that, while the number of pension funds that have increased trustee training has improved since last year (48% to 63%), the average number of training days offered across the industry compared to last year's figures has little changed at 3.3 days per year.

Transaction costs

This year's research revealed that there has been an increase in pension fund requirements for investment managers to demonstrate that costs are being managed themselves. Over 48% of respondents claimed that they required their investment managers to manage their costs (an increase of 10% since 2003). In addition, the number of pension funds comparing trading costs of different managers has increased to 43%, along with 48% expecting their managers to demonstrate that they were trading at best value.

Soft commissions

In the past year there has been significant

progress in the area of soft commissions. Compared with last year's results, the number of funds that permit their managers to use soft commissions has decreased by 10%, to 42%. Only 3% of respondents thought soft commissions should stay as they are and 97% thought they should either be banned, more highly regulated, or subject to full disclosure.

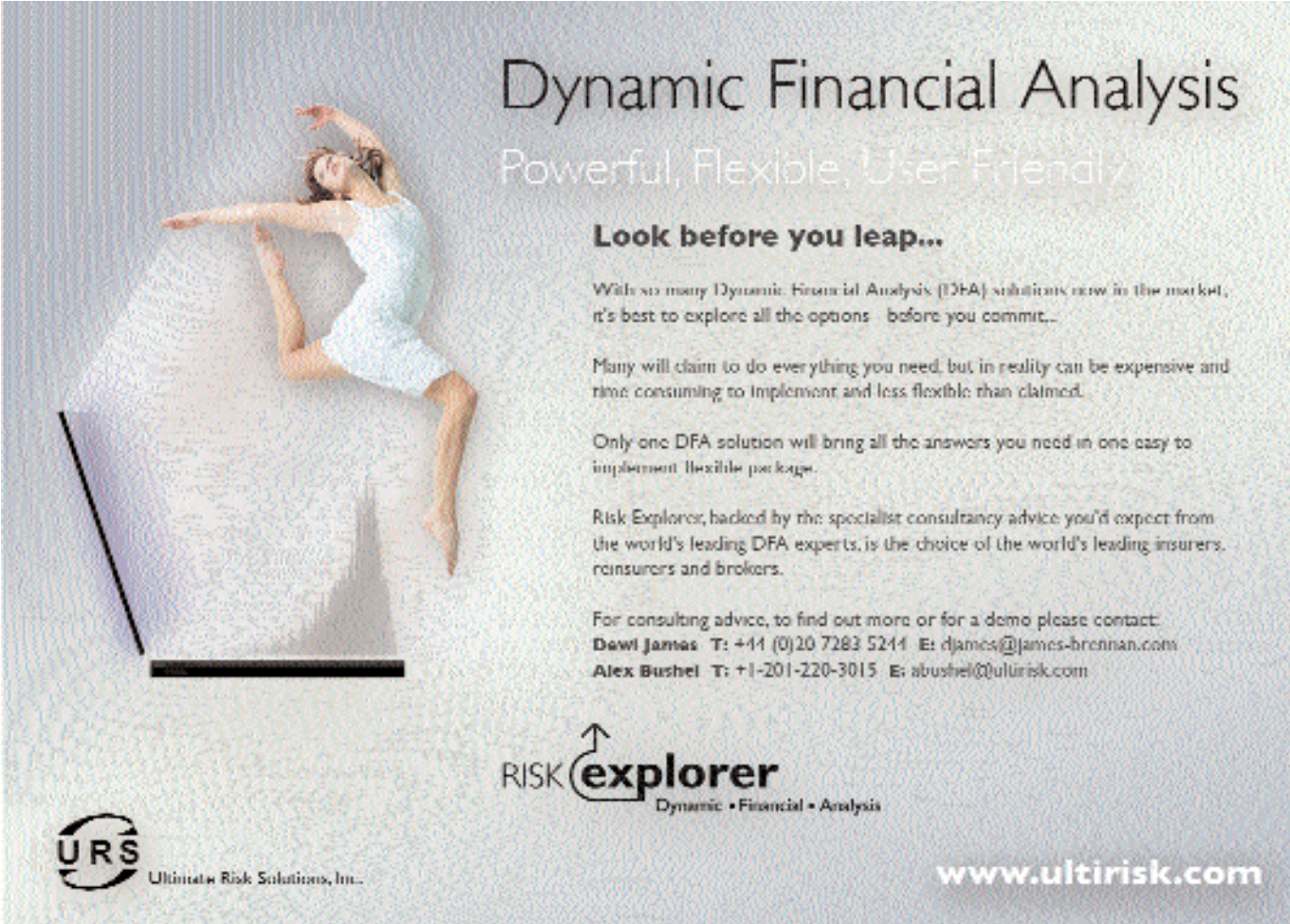
Over 50% of pension funds believe that investment managers should control soft commissions through self-regulation with full disclosure. Having said that, it would seem that in practice information is lacking. 38% of the 42% that permit soft commissions believed that they have never had sufficient knowledge of the way in which the commissions were spent. In addition, of the 42% of funds that permit soft commissions, only 45% require their managers to provide a breakdown of what services they are receiving. There is a strong correlation between the size of the funds and the requirement for disclosure. Large funds are more likely to insist on this disclosure versus smaller funds, as are

private funds in comparison with public-sector funds.

Discrimination backlash

From the United States comes news of a rash of settlements between life insurers and current and former black policyholders who had been litigating alleged discriminatory pricing. The root of the problem is a well-established historic practice of using higher mortality assumptions for burial insurance sold to blacks than for similar coverages sold to whites. Now the majority view is that the poorer observed mortality of blacks is thought to be mainly the result of external factors such as poverty, inferior medical care, and risky jobs, rather than to racial differences as such.

This news did set your editor's idle mind to wondering whether there may yet be scope for male life insureds in the UK to sue for unfair discrimination for very similar reasons (see story on p16). What do readers think?



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Dawn James T: +44 (0)20 7283 5214 E: djames@james-brennan.com
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