

**FROM THE WORLD OF GENERAL INSURANCE**

**World Trade Center**

Further litigation on this matter has been initiated by Swiss Reinsurance Co which have asked a US federal court to rule by declaratory judgment that its property insurance policy for the Port Authority of New York and New Jersey (PONY) does not cover the losses from the destruction of the World Trade Center, as PONY was named as an additional insured under the separate policy purchased by Silverstein Properties (Silverstein). In addition, it seeks to confirm that the losses arising from the terrorist attacks constitute one occurrence, not two, thus mirroring the findings of an earlier court decision against Silverstein which is being appealed. The latest Swiss Re case follows a similar one filed by Lloyd's underwriters in June which PONY is seeking to dismiss.

**Lloyd's**

Nick Prettejohn has resigned as chief executive of Lloyd's after six years at the helm. He will leave the market at the end of 2005 to join Prudential as chief executive of its UK insurance operations. At that time, Luke Savage, currently finance director at Lloyd's, will assume the additional role of acting chief executive, pending the appointment of a permanent replacement.

**Finite risk reinsurances**

The Securities and Exchange Commission (SEC) have now added Ronald E Ferguson (of Bornhuetter-Ferguson fame) to the list of past and present executives of General Reinsurance Corp who have been served with 'Wells' notices that the SEC is considering civil charges against them in connection with their involvement in finite risk reinsurance transactions. Mr Ferguson retired as CEO of General Re in 2001, but continued to provide consultancy advice to the company for several years thereafter. There is now a period for his response before the SEC decides whether to pursue charges.

A 'Wells' notice has also been received by RenaissanceRe, following its earnings restatement (see October issue, which includes reference to the "Wells' notices already served on two of its senior officials). The underlying issue is the treatment of a finite risk reinsurance with Inter-Ocean Holdings Ltd (now in run-off). It is thought that the company may face downgrades from the rating agencies.

On this side of the pond, the Financial Services Authority has also announced that it is investigating a number of UK insurance companies for improper use of financial reinsurance. This follows general investigations on the subject which started three years ago. It has also issued draft guidelines on what it considers to be appropriate

use and treatment of such reinsurance contracts, including disclosure requirements. Because of difficulties of definition, the guidelines are based on principles involving the economic substance of the transaction. Comments on the proposals are required by **7 December**, so will be extremely urgent by the time this issue reaches your desks.

**Goshawk Syndicate Management Ltd**

Goshawk Syndicate Management Ltd (Goshawk), the Lloyd's managing agency which was responsible for Syndicate 102, has been fined £220,000 by the Financial Services Authority for failing to manage properly certain binding authorities into which the syndicate entered in 2002 and 2003, thus exposing the capital providers to unnecessary risk, leading to significant loss. In addition, the independent review system was not properly implemented in a period in the 2002 and 2003 years. The syndicate went into run-off at the end of 2003.

**Solvent schemes of arrangement**

Following the BAIC decision, reported in these columns in the September and October issues, there have been a number of developments with regard to other proposed schemes. The Scottish Court of Session has approved a solvent scheme for M&G Re – the distinction between known and IBNR creditors which caused the failure of the proposed scheme for BAIC was not so marked in the case of M&G Re, being a reinsurance company. In addition, the proposed schemes for the DAP group, involving 18 Dutch insurers, have been adapted to take into account the reasons for the failure of the BAIC scheme, by excluding direct policyholders – as a consequence, these schemes were approved by the same judge as had refused approval for BAIC. On the other hand, a couple of other proposed schemes are understood to have been delayed while they are being reviewed in light of the BAIC decision.

**Large losses**

It has been the third consecutive bad month for insurers and reinsurers particularly in relation to those with hurricane exposures in the US. Loss updates include:

■ **Hurricane Katrina (25–30 August)** Overall insured loss estimates appear to have stabilised in the \$40bn–60bn range with two-thirds of this cost expected to fall on the reinsurance industry. Further individual insurer loss estimates or updates have been received from Berkshire Hathaway (\$3bn), Munich Re (\$1.3bn), AIG (\$1.1bn), Aspen Insurance (\$840m–925m gross, \$325m–

400m net), St Paul Travelers (\$800m), XL Capital (\$700m), Zurich Financial Services (\$700m), AXIS Capital (\$500m–650m), IPC Holdings (\$350m–600m), and Montpelier Re (\$550m).

■ **Hurricane Rita (24 September)** The insured losses are estimated to be \$5bn–7bn, with very little of this permeating into the reinsurance market. It has been estimated that the offshore energy losses arising from Rita could exceed those from Katrina, because of higher-value platforms being hit, and overall energy sector losses (onshore plus offshore) from Katrina and Rita are estimated at up to \$8bn.

■ **Tropical storm Stan (2–4 October)** This storm, which for a short time reached hurricane strength, cut a swathe through Central America, particularly affecting Guatemala, El Salvador, and southern Mexico. It caused serious flooding, landslides, and mudslides, and resulted in an estimated 2,000 deaths, mainly in Guatemala, where at least one village was swept away by a mudslide. It is expected that insured losses will be modest, as most of the area hit was a rural economy in the developing world.

■ **Kashmir earthquake (8 October)** This was the most serious earthquake to hit the region for 100 years, measuring 7.6 on the Richter scale. It is estimated that 80,000 people lost their lives (although this figure is still increasing significantly nearly four weeks after the event, and may eventually reach 100,000), including many children who perished when a considerable number of schools collapsed, trapping the pupils inside. There are additionally estimated to be around 4m people left homeless as the winter sets in. The epicentre was in Pakistan-controlled Kashmir, but serious damage and loss of life was also experienced in India-controlled Kashmir and in Pakistan itself. In spite of the severe human cost and economic cost provisionally estimated at over \$5bn, insured losses are unlikely to be significant as insurance penetration is very low.

■ **Hurricane Wilma (17–24 October)** This was the 21st event of the Atlantic hurricane season equalling the 72-year-old record for the greatest frequency of windstorms in this area. (There have, at the time of writing, been two further events of lesser magnitude, thus creating a new record.) Wilma reached category 5 hurricane strength on 19 October, with a new record low pressure of 882 millibars and 175mph windspeeds. Some impact was felt in various locations including Jamaica, Haiti, Cuba, and Honduras, before it weakened to category 4 hitting the Yucatan peninsula on 22 October, then turned sharply to the left and weakened further to category 3 before it ploughed across southern Florida on 24 October. Overall, it is believed to be responsible for around 50 deaths and early estimates ►►

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► suggest that the total economic damage may be \$15bn–20bn, making it among the ten most expensive hurricanes ever. Of this, \$8bn–12bn may be insured, the majority (\$6bn–9bn) being in Florida.

One additional factor arising from the frequency and size of hurricanes experienced this season is that catastrophe premium rates will inevitably strengthen at the next renewal – to take advantage of this, and to repair the damage to shareholder funds, there has been a surge in the amount of new capital raised by reinsurers (particularly in Bermuda). Around \$5bn has been committed during September and October.

### 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/Display\\_Page.cgi?url=/general\\_insurance/gen\\_ins-curr-issues.html](http://www.actuaries.org.uk/Display_Page.cgi?url=/general_insurance/gen_ins-curr-issues.html)

 DAVID HART

## Avian flu latest

The World Health Organisation convened a major meeting of some 600 animal and human health experts, senior policymakers, economists, and industry representatives in Geneva on 7–9 November to work towards a global consensus to control the virus in domestic animals and prepare for a potential human influenza pandemic.

Full details of the presentations to this meeting are at [www.who.int/mediacentre/events/2005/avian\\_influenza\\_meeting\\_presentations/en/index.html](http://www.who.int/mediacentre/events/2005/avian_influenza_meeting_presentations/en/index.html). (See also feature on p28.)

## Rating agencies are busy

The rating agencies have been busy recently following the quite exceptional impact of hurricane Katrina on the worldwide general insurance industry. A number of specialist catastrophe insurers and reinsurers have been downgraded, and others continue to be on negative watch. Losses in 2005 have exceeded the estimates of the principal modelling agencies both because of the number of hurricanes making landfall in the US and because of the pressure

on insurers to compensate for narrowly drawn US government flood insurance.

Interestingly for actuaries, Standard & Poor's has committed itself to making quality of an insurer's enterprise risk management a significant factor in its rating assessments. This will include assessment of all of:

- ◆ risk management culture;
- ◆ risk policies and controls;
- ◆ extreme event management;
- ◆ economic capital models and similar tools; and
- ◆ strategic risk management.

There is background on this important development at:

[www.erm.standardandpoors.com](http://www.erm.standardandpoors.com)

## Solvency 2

Activity in relation to the forthcoming Solvency 2 regime of insurer prudential supervision throughout the European Union stepped up a gear last month. The Conference of European Insurance and Occupational Pension Supervisors (CEIOPS) published on its website ([www.ceiops.org](http://www.ceiops.org)) both stakeholder feedback to its draft answers to the 'second wave' of ►►

► questions put to it by the European Commission and also its ‘final’ answers (which did not appear to have been greatly influenced by the stakeholder feedback).

This second wave of issues includes the main elements of the future supervisory architecture – the solvency capital requirement (SCR), breach of which will normally be the first trigger for supervisor intervention in an insurer, and the minimum capital requirement (MCR), breach of which will be the trigger for final decisive intervention. Unfortunately neither CEIOPS nor the industry is committing itself to a clear view of how these should be determined, which may depend on the results of quantitative impact studies (QIS) currently in progress all over Europe. The situation is complicated by lack of agreement on a standard approach to technical provisions – such agreement is desirable but not essential as a basis for assessing capital requirements.

## SIPPs – a regulatory vacuum?

Giving evidence to the Treasury select committee last month, Financial Services Authority (FSA) chairman Callum McCarthy expressed concern that there would be a gap between A-day next year and the date when the FSA could substantively regulate investments within self-invested personal pension schemes (SIPPs). Chief executive John Tiner explained that since most providers and advisers are regulated, the FSA would seek to rely on its general ‘treating customers fairly’ powers and standards until such time – probably a year after A-day – when it could regulate the product.

Meanwhile Standard Life has called for product providers to treat SIPPs as fully-regulated products and adopt a voluntary code of self-regulation. The Edinburgh-based financial services group said only parts of SIPPs are currently regulated and that the Treasury’s consultation on regulating the product could take up to 18 months to produce results. ‘Authorised advisers recommending regulated investment classes are ensuring a good degree of regulation for SIPPs but some investment classes, such as cash and commercial property, are not yet regulated investments’, said a spokesman for Standard Life, adding the changes A-Day would bring to SIPPs investments next April made the issue more pressing.

## Swedish pension model no panacea

In an interview last month Faculty of Actuaries junior vice-president Stewart Ritchie cautioned the Turner Commission on the Swedish model of a national compulsory defined contribution scheme: ‘If we look at the other big systems that the UK government has developed, I think we have to be a bit apprehensive about the risks involved in that. The development risks. Getting it right. The scope for evasion, the scope for fraud, the scope for avoidance. We have to be realistic about the risks that would be involved in the development of a UK equivalent of the Swedish system and there are lots of other concerns about it as well. The Swedish system, as I’ve said, is based on compulsion. Do we want to go down the road of increased compulsion in the UK? Personally I think that’s a can of worms.’

‘I think we want to be very careful that we don’t throw out the baby with the bath water’, he added. ‘The history of UK pensions in the last half century has been one of the law of unintended consequences. I think if we brought in a Swedish model which effectively

undermined the infrastructure that already exists – the private sector infrastructure that already exists – then we could be getting rid of something that’s actually very valuable. This private sector infrastructure that already exists can reach all sizes of workplaces. The key thing in the UK is not whether the private sector infrastructure can reach all sizes of workplaces. It can. The key thing is making sure that the workplaces want it.’

Mr Ritchie responded to the suggestion that the Swedish system is good value: ‘If you’re looking at the Swedish model and you’re saying, well, it’s cheaper than the UK model, the thing you’ve got to remember is that the Swedish model does not include any allowance for advice. It doesn’t need to because the system is compulsory. However, you can see from the way the Swedish model operates that in fact there is very little advice going on because the classic sign of that is that the vast majority of the money in the Swedish system is going into a very small number of funds.’

## Stanard resigns

Actuary and RenaissanceRe Holdings chairman and chief executive James Stanard resigned last month after the reinsurer he founded in 1993 became embroiled in a Securities and Exchange Commission (SEC) investigation. The company’s board of directors named W James MacGinnitie as non-executive chairman to replace Mr Stanard immediately.

RenaissanceRe (RNR) has become entangled in an industry-wide investigation by the SEC and other regulators into finite-risk insurance and reinsurance (see also p18). The probes were partly responsible for the ousting of American International Group (AIG) chief executive and chairman Maurice ‘Hank’ Greenberg earlier this year. Maybe even more than Hank Greenberg, James Stanard was seen as the guiding force behind RenaissanceRe, the company he founded and ran.

A 30-year veteran of the property and casualty insurance industry, Mr Stanard worked in several executive, underwriting, and actuarial positions at companies including USF&G, INA Re, Chubb Corp, and Prudential Re. Considered a mathematical and actuarial whizz-kid, he formed RenaissanceRe to underwrite

catastrophe reinsurance just as prices were soaring after hurricane Andrew ravaged Florida in 1992.

## Prophet™ sold

Deloitte has announced the sale of the Prophet™ system to SunGard. Prophet™ is an integrated suite of actuarial systems providing a range of advanced facilities for profit-testing, valuation, and model office work. It is used by over 500 insurance companies worldwide.

Commenting on the sale, Jan Kamieniecki, head of Deloitte’s actuarial and insurance practice, said: ‘We are very pleased to have found a good home for Prophet in SunGard and are confident that they will continue to enhance the solution and meet the growing needs of its global client base.’

The terms of the transaction are not being disclosed. Approximately 35 Deloitte staff and one partner in the UK will be transferring to SunGard in Chertsey. Deloitte confirmed to us that The Smith Model™ which can be used with Prophet™ and similar systems is being retained as part of its consulting offering.