

From the world of general insurance

Asbestos developments

No further progress has been made in Congress on federal reform of US asbestos liability legislation, and it appears that any such move will now have to await the next Congress, as time has run out before the recess and then the elections.

ABB Asea Brown Boveri Ltd has settled asbestos-related claims against its US subsidiary Lummus Global Inc for approximately \$40m, under a Chapter 11 reorganisation plan.

Asbestos claimants against Turner & Newall have voted overwhelmingly for the settlement proposal that was put to them by the parent company Federal Mogul (see these columns last month), and it is anticipated that they will now start to receive their compensation.

ALSTOM, the power generator and train manufacturer, has become the first company to be convicted by a French criminal court of endangering employees by exposing them to asbestos. The court awarded €10,000 to each of the 150 ex-employees (none of whom currently exhibits symptoms of asbestos-related disease) at the company's site near Roubaix in northern France and also sentenced the site manager Bernard Gomez to a suspended prison term. The decisions are being appealed by both the company and M Gomez.

Terrorism

The extension of federal terrorism insurance is another issue which will have to await the new session of the US Congress. Meanwhile Hiscox, the Lloyd's managing agent, is offering terrorism coverage through its US subsidiary to small and medium-sized US companies who will, in 2007, be required to retain higher deductibles under the government scheme.

Finite risk reinsurance

The Fairfax Financial Holdings Ltd earnings restatement (see last

month's article) reduced its shareholders' equity by C\$235.3m as at 31 March 2006.

The Financial Services Authority (FSA) has produced guidelines on the reporting of financial reinsurance contracts, under which the existence and effect of such arrangements would need to be disclosed for financial years ending on or after 31 December 2006.

Three senior ex-employees of RenaissanceRe Holdings Ltd (RenRe) have been charged by the Securities & Exchange Commission (SEC) with securities fraud in relation to two finite reinsurance contracts between Inter-Ocean Reinsurance Co and RenRe. The three are James Stanard, formerly chairman and chief executive, Martin Merritt, and Michael Cash.

Solvency II

The International Underwriting Association has launched a website relating to the Solvency II regime for non-life insurers. This includes the history and background to European solvency regulation and the main changes under the new regime, a glossary of definitions, a timetable for the introduction of the new rules, and a topical issues page with signposts where further consultations are expected to take place.

Lloyd's

Two new syndicates have commenced business at Lloyd's, both involved in the aviation market. QBE syndicate 5555 with Emilio Di Silvio as active underwriter, will operate as a sub-syndicate of QBE 2999, and will concentrate on general aviation business. Syndicate 1919 is managed by Marlborough Underwriting Agency Ltd, and capitalised to a capacity of £50m by CV Starr & Co Inc. The active underwriter, Chris Hancock, leads a team writing aviation, marine, and energy business. These developments are particularly interesting in light of the generally held view that aviation premium rates are currently depressed.

Troubled companies

Alea, which went into run-off last year, has announced a \$10.7m loss for the first six months of 2006. In addition, the new chief executive noted considerable improvements in reduced staff costs, organisational restructuring, expense and cash-flow management, and the establishment of claims and commutation strategies. The company has also completed the sale of its Alea North American Specialty Insurance Co subsidiary to Insurance Corporation of Hannover for \$34.6m.

Goshawk Insurance Holdings is attempting to raise £19.8m, net of fees, by means of a rights issue, in an attempt to avoid insolvency. The rights issue, which is underwritten by Phoenix (owner of 30% of Goshawk) is needed to pay off debt and fund projected future growth over the next two or three years, by

which time the company hopes to be able to gain some benefit from its Bermudian subsidiary Rosemont Re, which is in run-off.

Creditors of UIC Insurance Company, which went into provisional liquidation in 1996, have voted in favour of a scheme of arrangement under which they could expect payments of between 120% and 145% of their claims. If this is approved by the court, it is thought to be the first time that creditors will have received more than 100% of their claims.

Job losses

Norwich Union (NU) has provided details of the 4000 job losses in UK announced in the summer. These are part of a major restructuring exercise, and fall across many locations, with the largest numbers being in Norwich (850) and York (450).

Louise Pryor

"Nearly all large spreadsheets are wrong"
Professor Roy Parker

Do you know how many spreadsheets there are in your department? Which of them are business critical? How do you know that they are right? The FSA says that the same standards of control and documentation should apply to spreadsheets as to other systems development. Are your systems and controls effective?

Troubleshooting www.louisepryor.com/shoot.htm

As an experienced software developer and actuary, I know the potential problems and how to address them. I review systems and controls; assess spreadsheets; help with documentation; design and deploy development processes; suggest coding standards and techniques; train and coach developers; review, debug and rework spreadsheets; and recommend appropriate tools.

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tPR concerned

Concerns that new ways of managing pension funds could lead to employers abandoning their pension schemes have been voiced by the Pensions Regulator (tPR).

Speaking at European Pensions 2006, chief executive Tony Hobman warned that corporate transactions which transfer pension schemes to new vehicles could result in employers abandoning schemes without fully meeting their obligations to members. He said: 'Trustees should apply a high level of scrutiny to any such transactions which are brought to them. And they must presume from the start that it is unlikely to be in the best interests of their members to break the link with an employer of substance, except by paying the cost of buying out the benefits with a regulated insurance company. Once the link to any employer is removed the trustees will have lost an important backstop to protect scheme members if the pension fund runs into difficulties in the future.'

Mr Hobman added that, while the regulator welcomes innovation in the way pension schemes are managed, it believes that the best way to deliver benefits to members is normally for schemes to have the continued support of a viable employer.

The regulator is now planning to consult on this issue by the early part of 2007. It will also consult on new guidance to help scheme trustees weigh up the proper value of the support given to a fund by an ongoing employer, when considering corporate transactions which would remove that support.

Pensions buyout vehicle Paternoster was quick to welcome the implicit endorsement of buying out liabilities with a regulated insurer.

PPF levy revisions

Aon Consulting welcomed the Pension Protection Fund's (PPF) decision to instruct Dun & Bradstreet (D&B) to review up to 150 large companies with low scores indicating higher relative risk of failure. As a result of this review process, many companies have had their failure scores retrospectively increased, resulting in significant falls to their risk-based levies.

Among Aon Consulting's own client base, the levies of 12 companies have fallen either as part of this process or from separate appeals. Overall, risk-based levies for these companies fell by 74% on average as a consequence of revised failure scores. According to Aon Consulting, it is likely that the PPF has adjusted the levies for these com-

panies for fear of a deluge of appeals from companies where the scores were affected by reasons such as county court judgments (CCJs) or slow payment of invoices. These factors have a substantial impact on the D&B failure scores but do not represent a material insolvency risk for large companies.

However, while this is good news for the organisations that had their levies reviewed automatically as part of this process, Aon Consulting is advising all companies to consider whether they should also be making an appeal when reviewing the invoices issued by the PPF for the 2006/07 levies.

The PPF initially announced that it expected to raise £575m from the 2006/07 levy on defined benefit pension fund sponsoring companies. The levy comprises a scheme-based levy and a risk-based levy. The former will raise 20% of total levies (based on a scheme's proportion of PPF liabilities) and the latter 80% (based on a scheme's underfunding risk and the sponsoring company's insolvency risk as calculated by D&B). However, a combination of favourable investment conditions at 31 March 2006, special contributions by companies, and efforts to increase failure scores have given rise to speculation that the actual amount collected could be significantly lower than this.

From the world of general insurance

- ▶ Swiss Re has also announced 2,000 job cuts, mainly arising out of rationalisation following the company's acquisition of GE Insurance Solutions. The losses are 35% in the Americas, 21% in Switzerland, and 34% in the remainder of Europe, with the balance spread across the rest of the world.

Large losses

Loss updates and related issues include:

- **Tornadoes in Tennessee and adjacent states (6-8 April)** Insured losses are now estimated to be of the order of \$1.1bn, the highest figure of the year for tornado damage and an enormous increase over the \$675m estimate reported in the July issue of *The Actuary*.
- **Fire at steel mill in Krefeld, north Germany (22 June)** Although not reported as a major loss at the time, this claim has increased as the business interruption element has substantially worsened, with the

plant now expected to remain closed until 'at least 2007'. Insured losses are now estimated at €325m, with major involvement from HDI, Allianz, Zurich, and XL.

- **Tropical storm (briefly hurricane) Ernesto (27-31 August)** Insured losses are estimated to be of the order of \$245m.
- **Hurricane John (29 August to 4 September)** This had weakened significantly by the time it hit the west coast of Mexico, although there was heavy rain which resulted in major power cuts in La Paz. Insured losses are not expected to be significant as the area most affected is one of poor rural communities.
- **Air crash in Mashhad, Iran (1 September)** This involved an Iran Airtour Tupolev 154 passenger jet which blew a tyre, crashed, and burned on landing after a domestic flight, killing 29 of the estimated 150 on board. All hull coverage is believed to be retained in the local insurance market, but some of the

liability coverage is reinsured into London.

- **Air crash in Brazil (29 September)** This was a mid-air collision between a Gol Boeing 737 on a domestic flight from Manaus to Brasilia and an Excel Airlines business jet. The Boeing crashed, resulting in the loss of life of all 155 passengers and crew aboard, although the smaller plane landed safely and escaped with relatively minor damage to its tail and wing. The Boeing hull was insured for \$45m under a joint hull and liability policy in London led by Allianz Marine & Aviation. The business jet, an Embraer Legacy 600, was insured by the United States Aircraft Insurance Group pool.
- **Typhoon Xangsane (25 September to 2 October)** This principally affected the Phillipines and Vietnam. In the Phillipines it produced heavy rainfall and prompted officials to close all schools, government offices, and financial markets

in and around the capital, Manila; it is estimated to have killed around 180, injured a further 88, damaged tens of thousands of homes and affected over a quarter of a million families. In Vietnam, there were a further 68 fatalities and over 500 injuries mostly caused by floods and falling trees and 320,000 homes were destroyed or severely damaged. No insured loss estimates are to hand although officials have estimated that economic losses in Vietnam alone amount to \$624m.

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

 DAVID HART

SAI concern that Irish members of UK pensions schemes not be misled

The Society of Actuaries in Ireland has expressed concern about the treatment of employees resident in Ireland who are members of UK-based defined benefit pension schemes. Under new EU rules (the IORPS Directive), there are stricter funding rules for schemes that have members in more than one EU country. As a result, it appears that the companies are removing employees based in Ireland from UK schemes.

The Society is particularly concerned that in some cases employees are being misled about the reasons for their removal from the pension scheme. 'It appears that they are being told that the new regulations no longer allow them to be included in the UK scheme', said Aisling Kennedy, director of professional affairs, Society of Actuaries. 'This is not true. They can stay in the scheme if the company provides sufficient funding to meet the higher requirements for cross-border schemes and the scheme trustees agree to this.

The new pension arrangements that are being made for such employees are usually on a

defined contribution basis and often less valuable than the benefits that they were entitled to under the UK scheme.'

Unfair competition controversy in India

News reaches us from India of a growing controversy over the competitive implications of a 'government guarantee' of the solvency of Life Insurance Corporation (LIC). Until recently LIC – the result of nationalisation of private insurers – was the only authorised life company. In recent years the government has authorised competition from a variety of joint ventures between foreign insurers and domestic banks and industrial firms.

The new players are criticising the anti-competitive nature of the government guarantee of solvency provided to LIC at the time of nationalisation. The supervisor has recommended that the guarantee be removed, which would require LIC to raise fresh capital. Some commentators have gone further and suggested that the state dispose of its interest in the giant insurer. Others are taking the opposite tack and suggesting that the guarantee remain undisturbed, pointing to

LIC's apparent considerable surplus funds, albeit relative to a very small equity base.

Chinese appointed actuaries?

News also reached us last month that the Chinese insurance regulator is working on the introduction of something called a 'chief actuary system'. At present China has more than 50 actuaries and 269 quasi-actuaries. At the same time, there are more than 100 foreign actuaries working in China. The regulator said: 'actuary is the core technology of insurance, and a booster and stabiliser of the insurance industry, which shall not only apply to traditional insurance items, such as life and property insurance, and reinsurance, and also health and pension insurance, asset management, social security, and other areas of public administration.' It is to be hoped that this development will also draw on the positive lessons from the UK's abolition of the appointed actuary system, which Institute president Nick Dumbreck acknowledged recently had gone much better than he had feared.

News from the industry continues on p19 ➤

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Students enjoying food and drink



SIAS welcome drinks

On Tuesday 26 September a crowd of young fresh-faced new students in their new suits and shiny shoes entered Staple Inn ready to be enlightened and intoxicated.

Ross Pritchard, SIAS honorary secretary, opened the evening by talking about the different aspects of SIAS and explaining how to get involved. Trevor Watkins then welcomed the students and Georgina followed by explaining the path to qualification and spoke about how the WBS element fitted into creating all-rounded actuaries.

Students were also given the opportunity to ask questions and work out what they have really got themselves into! The bottle of champagne for the best question was won by Sophia Hillard from Punter Southall.

Once the serious stuff was over we broke for some food and drink. Our next stars, Gareth and

Fergal Donal the joker



Mickey, had us all laughing as they endeavoured to find out what actuaries 'actuary do'? It wasn't long before we found some jokers in the pack – in particular Fergal Donal from KPMG was awarded a prize for the best heckle.

Watch out as we definitely have a bright bunch this year, it wasn't long before they found the nearest pub where the party continued...

Good luck to you all as you start your new career, we hope it's everything you expected.

LISA MAHTANI

SIAS pool competition

This year the annual SIAS pool competition was held on 5 October at the Sports Café near Piccadilly Circus, as the old venue was unavailable. We had a record number of teams enter and eventually had to cap it at 42 teams of two.



The winning team

All up we had more than a 100 people at the event, and the competition was fierce. Owing to the large number of teams the format was different from previous years – with progression or knock-out coming down to only one frame per round.

The evening ended around 10.30pm with KPMG8 winning the event. The team from KPMG (Ben McDonald and Mike Smedley) won the best of three frames final, each winning a bottle of champagne for their effort. The runners-up were the Skunk Rockers (Jez Burton and Matt Parish).

We also had a prize for the best team name, which was won by Cue_x. The team with the most tasteless name was also awarded a prize but unfortunately their effort can't be mentioned in a respectable magazine such as *The Actuary*.

LOURENS FOURIE

News from the industry *continued*

Buyouts

The establishment of Synesis Life is evidence of the growing interest in 'buyouts' that is creating new opportunities for actuaries. A combination of changes in regulations, accounting standards, and the awareness of risk by pension-fund sponsors and trustees has led to an increasing interest in buyouts – the full or partial transfer of pension liabilities to an insurance company.

At the same time the development of the financial markets to allow better hedging of long-duration liabilities and the deepening knowledge of longevity trends has led to a narrowing of the cost of a buyout relative to the true economic cost of traditional funding.

Around £25bn–50bn of new insurance buyout capacity is expected to come onto the market. This is very large compared with the £1bn–2bn per annum of transactions in recent years. However, the new capacity may be inadequate with total defined benefit liabilities of between £800bn and £1,000bn.

The growing use of derivatives to match liabilities and enhance returns by both insurers and pension funds has offered new challenges

to actuaries. Similarly, new opportunities have been presented by demand for greater research into the likely future trends in mortality within different population groups broken down by multiple factors including year of birth, age, residence, and socio-economic group.

Synesis Life has been established to accept large Part VII transfers of annuities from insurers and buyouts from pension funds. It is backed by JP Morgan, Royal Bank of Scotland, and Warburg Pincus. Its business model is one of outsourcing wherever possible, retaining only key management skills at its core.

New well-capitalised pension buyout player

Duke Street Capital founder Edmund Truell has secured £1bn of capital to fund his new bulk annuity firm, Pension Insurance Corporation (PIC). PIC estimates this amount of cash will enable it to take on £20bn-worth of final salary scheme liabilities.

Investors in the new business include reinsurance giant Swiss Re, ABN AMRO, HBOS, Royal

Bank of Scotland, and US hedge fund Cycladic Capital. Chairman is Sir Mark Weinberg and Lord Rothschild and Sir Nicholas Montagu are on the board. The news comes just days after Goldman Sachs announced it is planning a move into the bulk annuity market. Paymaster, partly owned by Duke Street, will administer pension payments for PIC and it is understood that Entegria will supply actuarial services.

SEC files charges in relation to 'sham' reinsurance

The US Securities and Exchange Commission announced on 27 September that it was filing charges against actuary James Stanard, former chief executive of Bermuda-based Renaissance Re (RenRe), and two other former senior executives of the company for securities fraud. The detail of the charges is at www.sec.gov/litigation/complaints/2006/comp19847.pdf and alleges that 'sham' reinsurance was used as a 'cookie jar' which could absorb profits in good years and release them in poorer years.