

## From the world of general insurance

### Asbestos and pollution developments

According to recently published figures, mesothelioma deaths in UK are currently around 3,000 per annum, and still rising. Typical levels of claims compensation per case are £250,000, but there have been recent payments as high as £4.5m. A specialist lawyer has estimated that the peak year for the number of UK asbestos-related claims will not be until about 2030 – this is in contrast to a recent report produced by Standard & Poor's, which suggested that the worst of the problem for insurers was already in the past.

On the 'other side of the pond', the New York Supreme Court has ruled that coverage is available for asbestos claims under the premises and operations provisions of an insulation installer's general liability policy. In the case in question (*Robert Keasbey Co*), as in most others, these provisions do not include an aggregate limit, so will significantly expand the coverage available.

A new model wording drafted by the German insurance association to cover exposures under the European Union's Environmental Liability Directive has been criticised by Deutscher Versicherungs-Schutzverband (DVS), the German commercial insurance buyers' association. Particular areas of criticism relate to the limitation of the cover for sudden and accidental incidents and the apparent exclusion of past pollution and product-development risk. DVS suggested that it is the responsibility of insurers to address the gaps created by this model.

### Terrorism

A deal has been agreed between World Trade Center leaseholder Larry Silverstein and seven of his company's insurers under which the insurers will pay \$2bn. The agreement is in addition to the \$2.55bn already paid, and the total amount of \$4.55bn is near to the \$4.68bn maximum to which Silverstein Properties is entitled according to an

appeal court ruling last year. The negotiations were brokered by the New York governor, Eliot Spitzer. Although this appears to bring to an end the 'upfront' legal disputes on the terrorist events of 11 September 2001, there remains a dispute between one of the seven insurers, Allianz, and one of their reinsurers, SCOR, which disputes the way in which the settlement affects its reinsurance contract.

### Contingent commissions

Two of the largest US insurers (Chubb Corp and Travelers Cos Inc) have proposed supplementary commission payments which would increase brokerage based on the historic volume and profitability of business placed with the insurer. This would replace the contingent commission arrangements outlawed by the previous New York attorney general, Eliot Spitzer. However, the proposals received immediate rejection from two major broking firms (Willis Group and Aon Corp) at the Risk & Insurance Management Society annual conference in New Orleans in early May. The brokers thought the proposals were too similar to the banned arrangements and did not want any possibility of further adverse reaction from regulators.

### Lloyd's

Standard and Poor's has joined Fitch (see these columns in the June issue) in upgrading the credit rating of the Lloyd's market, in its case from A to A+.

### Solvency II

In a speech to the annual conference of the Association of British Insurers, John Tiner, the retiring chief executive of the Financial Services Authority, has urged the European Commission to introduce a more unified regime of insurance regulation, with a 'lead regulator'. This would reduce duplication, and hence the cost of capital. Mr Tiner

further argued that the introduction of Solvency II (hopefully) 2010 provides a unique opportunity to take this step.

### Insurance reforms in Florida

There have been a series of warnings that January's insurance reforms in Florida could lead to the financial ruin of the state, which does not have the capital to cover claims in the event of a major catastrophe. One of the warnings was contained in a report by actuaries at Milliman, which suggested that a 1-in-250-year event could result in a deficit of as much as \$69bn in the state-controlled insurance and reinsurance funds, and even a 1-in-25-year event could leave a \$26bn shortfall. As a result, talks have taken place between Congress and the Property Casualty Insurance Association of America to develop a risk mitigation plan to prepare for a major hurricane. The intention is that a fund should be established in advance with the US Treasury to boost the state's liquidity in the event of a major catastrophe and that the state insurance fund should purchase more reinsurance in the international commercial market.

### Prosecution for injuries in the UK workplace

The Centre for Corporate Accountability (CCA), a charity which promotes greater safety for workers and the public in UK, has produced a report on an analysis of an internal audit carried out by the Health and Safety Executive (HSE) into 126 investigations involving death or serious injury. The audit identified inconsistencies in the way in which the HSE enforcement action was applied. The audit report concluded that HSE should have started criminal cases in 19 of the incidents in the sample, whereas it did so only in seven. CCA concluded that this would extrapolate to an increase from 700 to nearly 2,000 cases a

year on which HSE should be prosecuting employers.

### Converium

In early May, the European Commission announced that there were no competition implications of the proposed takeover of Converium by SCOR which would require it to withhold its approval of the deal. In addition, the offering period for shares was extended to 25 June by SCOR to allow for the possible litigation in US (see the June issue of *The Actuary*).

However, this was all made irrelevant by the tabling of an increased offer by SCOR on 10 May (as reported in the late news in the June issue) which was accepted by the Converium board. The revised offer increased the cash component from SFr4 to SFr5.5 per share, with the share component unchanged from that previously announced (one SCOR share for every two Converium shares). SCOR has also agreed not to lay off any Converium staff for 12 months after settlement. Converium, for its part, withdrew its threat of legal action in US.

### Alea Group

During May, Alea, the Bermudian reinsurer which went into run-off following its 2005 hurricane losses, received an offer equivalent to 93p per share from FIN Acquisition, a company backed by the private equity firm Fortress Investment Group. This was accepted. However, within a few days, Alea received a potentially higher offer from an unnamed source. As a consequence, The FIN offer was increased to 96.5p per share, and this was accepted by the Alea board.

### Job losses

Allianz is planning to merge its 26 European IT operations under a scheme starting on 1 July. It is anticipated that this will eventually result in the loss of 'a few hundred' jobs.

## From the world of general insurance

### ► Health problems of mobile phones

At the end of April, a report was published by Dr John Walker, who has analysed cancer-clusters in four different areas of the UK. He believes there is a potential link between the angle of the beam of radiation emission from mobile phone masts and illness in the population in the area. This is the latest of a series of reports on this subject, none of which has produced conclusive evidence of a link, but there is clearly some evidence that mobile phones may not be good for us. A US Food and Drug Administration report acknowledges that large amounts of radio-frequency energy can heat tissue, increase body temperatures, and cause damage – however, it suggests that the amounts of such energy generated by mobile phones are insignificant.

### Large losses

Loss updates and related issues include:

- **€14.3bn collapse of Italian dairy company, Parmalat SpA (2003/4)** This event, which resulted in a number of significant claims against the company's directors and officers and professional indemnity claims against various advisers, has now developed further. Two banking groups (Banca Nazionale Lavoro SpA and Credit Suisse) have each agreed to pay \$50m in an offer to end their involvement in the litigation – this offer will be reviewed by the court in July. Earlier settlements have been agreed with Morgan Stanley and Banca Popolare Italiana, totalling over €210m. The cases continue in New York against Parmalat (whose D&O policies were rescinded some time ago) and a range of other banks, financial institutions, and firms of accountants – watch this space!
- **Dry-cleaners lose US judge's trousers (5 May 2005)** This has resulted in a claim for (wait for it) over \$65m. How does this figure arise? Well – the dry-cleaners had

signs which proclaimed 'Satisfaction Guaranteed' and 'Same Day Service' and consumer protection law in Washington DC provides for damages of \$1,500 per violation per day. Hence, Judge Pearson calculated that there had been 12 violations by each of the three defendants (the owners of the dry-cleaners) over 1,200 days – this took him up to \$64,800,000. He then added a few (relatively trivial) items, including \$15,000 for the hire of a car every weekend to drive to a different dry-cleaner. Even other attorneys in the US think this does not show up the US legal system in the best light!

- **Beaching of container ship *MSC Napoli* off coast of Devon (20 January)** The final containers were removed from the *Napoli* in the middle of May, following which attempts are being made to refloat the ship. It is anticipated that the total cost of the rescue operation will be of the order of \$30m. It is likely that the ship will be irreparable, so it is probable that it will be declared a constructive total loss.
- **Explosion in coal mine, southern Siberia (19 March)** The death toll has now been finalised at 108. The build-up of methane is reported to have been caused by deliberate blocking of the gas detectors, emphasising the need for improved risk management.
- **Tornadoes and storms in eastern and southern US (13–17 April)** These are now estimated to have caused at least nine deaths and caused insured losses amounting to \$975m. This includes the Texas storms which were shown in these columns as a separate item last month.
- **Wildfires in Georgia, US (16 April–end May (at least))** These were started by a tree falling on a power line. At the time of writing (late May), they have burned more than half a million acres of the Okefenokee Swamp and adjacent pine forests near the Georgia/Florida border. This makes them the largest in the state's history. Smoke from the fires has significantly impaired visi-

bility in Mississippi, nearly 900 miles away. The fires have been declared a federal disaster, entitling Georgia to financial aid. No insured loss estimate is to hand, although economic losses are likely to be very significant.

- **Earthquake in Kent, England (28 April)** The number of damaged properties has been revised down to 600, and the insured cost of this event has now been reduced to 'no more than £20m' according to the Association of British Insurers.
  - **Wildfire in Griffith Park, Los Angeles (8–11 May)** This threatened the observatory, the zoo, and the world-famous Hollywood sign – all were, however, saved. Insured losses are not thought to be particularly large.
  - **Wildfire on Catalina Island, off California (10–12 May)** This burned more than 4,000 acres of the island, which is a tourist resort. Insured losses are not thought to be significant.
- These last two events were almost exactly at the same time as Allstate, the largest publicly owned insurer in the US, announced that it was to stop writing new homeowners policies in California, in light of the high catastrophe risk.
- **Air crash in Cameroon (4 May)** This involved a Kenya Airways Boeing 737, which crashed shortly after take-off from Douala, Cameroon en route to Nairobi, with the loss of all 105 passengers and nine crew. The airliner was valued at \$52m. The quantum of the liability element of the claim is very uncertain, as it will depend on the nationalities of those who died, since this determines which international convention will apply. Coverage is understood to be placed under the Air France/KLM insurance programme (Air France being part owner of Kenya Airways) which is led by La Réunion Aérienne. It is thought to be unlikely that this incident is of sufficient magnitude to make material impact on the soft market conditions in the aviation sector.
  - **Tornado in Greensburg, Kansas (4 May)** This has been rated as the

worst single tornado to hit the US in eight years, reaching force 5 on the Enhanced Fujita scale, with maximum wind speeds estimated at 205mph. The death toll was kept down to 11 by the receipt of a 30-minute emergency warning, but it is estimated that 95% of the town was destroyed. Several dozen smaller (but not insignificant) tornadoes occurred in the southern states over the period 4–6 May, resulting in at least three further deaths. Insured losses are likely to be of the order of \$250m.

### 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)

The latest edition contains sections on international, claims and legal issues, market news, Solvency II, and government and regulatory issues.

 DAVID HART

### Watson Wyatt – Heissmann

In furtherance of its European expansion drive, Watson Wyatt has announced it will buy German actuarial, benefits, and human resource consultancy, Heissmann. The acquisition, which is due to be signed off in July, will also include Heissmann's subsidiaries in Ireland, the Netherlands, France, and Austria.

Heissmann, which has total annual revenues of more than €50m, was established in 1955 and is headquartered in Wiesbaden. It employs 360 staff, including 300 people in Germany.

## Personal accounts

Vulnerable groups, including many women, could gain little in retirement from saving into personal accounts, warned new research commissioned by the Equal Opportunities Commission (EOC) and conducted by the Pensions Policy Institute (PPI).

The research has found that middle-income earners will receive a better return from saving into personal accounts than under the current pensions system. But some groups, such as women with small pensions savings and without full state pensions, could lose out financially by saving into personal accounts. This is because their pensions savings would reduce entitlements to the means-tested benefits they could have claimed if they had not saved.

The EOC has identified two key changes to pension rules to help people saving in Personal Accounts get a better rate of return on their savings. These are:

- ◆ increasing the level at which people can take all their pension saving as a lump sum, rather than converting it to an annuity income (the trivial commutation limit) from £15,000 to £30,000;
- ◆ increasing the amount people are able to save when they retire without it affecting eligibility for means-tested benefits (the capital disregard limit) to £10,000, with a further option of introducing a new ten-year annuity product that would not effect entitlement to means-tested benefits.

Minister for pension reform James Purnell said

'There is a broad consensus around the need for automatic enrolment to address the very real problem of around seven million people not saving enough for retirement. Personal accounts will provide a low-cost simple means of saving for retirement and, with a mandatory employer contribution, will offer good incentives to save. But personal accounts will not be compulsory; people will have the choice to opt out if they don't think they're right for them. The government recognises the need to provide clear and simple information to enable individuals to make their own decisions about whether to save in a personal account.'

## Mixed reaction to Thornton review

Minister for pension reform James Purnell recently welcomed the findings of an independent report examining the organisations involved in the regulation and protection of workplace pensions. Paul Thornton, former president of the Institute of Actuaries, was appointed to carry out the review in January 2007.

His report makes three key recommendations:

- ◆ A package of measures to underpin the close co-operation that already exists between the Pension Protection Fund and The Pensions Regulator.
- ◆ Implementing proposals to bolster co-operation and co-ordination between Financial Services Authority and The Pensions Regulator, particularly for defined contribution schemes.
- ◆ Combining the Pensions Ombudsman and Financial Ombudsman Service to create a pensions jurisdiction within the Financial Ombudsman Service.

James Purnell said: 'I would like to thank Paul Thornton for all his hard work. He has conducted the review with determination and focus, and has gained plaudits from the institutions themselves and from wider stakeholders for his open and responsive approach. We intend to fully implement his proposals and are working with the institutions and stakeholders to develop practical proposals to ensure the framework continues to support current and future pensioners.'

However, Stephen Haddrill, the Association of British Insurers' director-general, said: 'Paul Thornton's recommendations, including the establishment of a new Pensions Institutions Forum, will be valuable in helping to achieve greater co-ordination of the pensions institutions.'

'We agree that that the Pensions Regulator should be given responsibility for overseeing the Personal Accounts Board. This would help to ensure that there is a level regulatory playing field for personal accounts and the existing

## Insurance Banana Skins 2007

The burden of too much regulation is the greatest risk currently facing the insurance industry, according to *Insurance Banana Skins*, a survey of insurance practitioners and observers. New rules and compliance requirements are eroding the profitability of the industry and distracting management from the task of running an efficient business. Concern about over-regulation is geographically widespread, affecting markets in North America, Europe, and Asia-Pacific. Sectorally it is strongest in the life insurance sector, followed by property and casualty. The sharp rise in natural catastrophes is the No 2 risk in the industry, led by concerns in the property and casualty and reinsurance sectors. The growing incidence of catastrophe in highly populated areas makes this a difficult risk to price. These concerns are closely linked to risks associated with climate change, which came in at No 4. These classes of risk were seen to be ones that were rising fastest. The quality of management (No 3) is a big worry at a time when the

- 1 Too much regulation
- 2 Natural catastrophes
- 3 Quality of management
- 4 Climate change
- 5 Managing the cycle
- 6 Distribution channels
- 7 Long tail liabilities
- 8 Actuarial assumptions
- 9 Longevity assumptions
- 10 New types of competitors
- 11 Investment performance
- 12 Managing technology
- 13 Equity markets
- 14 Risk management techniques
- 15 Back office
- 16 Political shocks and pressures
- 17 Pricing new risks
- 18 Terrorism
- 19 Complex instruments
- 20 Retail sales practices
- 21 Pollution
- 22 Interest rates
- 23 Corporate governance
- 24 Demographic trends
- 25 Contract wording
- 26 Capital availability
- 27 Security of reinsurance
- 28 Availability of reinsurance
- 29 Business continuation
- 30 Fraud
- 31 Merger mania
- 32 Too little regulation
- 33 Asbestos

industry faces huge pressures on the business and regulatory fronts. There is also apprehension that insurance companies may be failing to attract enough new blood to build future management capability. The insurance cycle in the property and casualty sector is in its downward phase (No 5), which will test the industry's ability to handle a soft market. A particular concern is the presence of new competitors such as investment banks and hedge funds (No 10) which are adding capacity to the market and driving down prices, but whose ability to withstand the difficult phase of the cycle has yet to be tested. Concern about cycle management was most marked in the property and casualty and reinsurance sectors. The availability of capital was voted the least of the industry's concerns outside the reinsurance sector.

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private pensions market. However, we do not support proposals to merge the Pensions Ombudsman and the Financial Ombudsman Service. The two bodies have distinct remits and significant differences in their approach. Rather than merging, the two bodies should concentrate on improving the handling of their existing cases.'

### 'Soft skills' gap at graduate level

A new report from KPMG has found that financial services firms in both the UK and India are experiencing difficulties recruiting the right people with the right skills, and that a 'soft skills gap' is making itself increasingly apparent. Graduates are finishing their studies with excellent technical knowledge, but lack the soft business skills that employers are increasingly looking for.

The report (at [www.ukieri.org](http://www.ukieri.org)) highlights the fierce competition for talent in the market in both countries, with 62% of organisations in the UK and over 58% of organisations in India saying that they experience difficulties in recruiting graduates with the right skills.

Organisations in the UK and India are less demanding of technical skills, considering them as trainable, but lay a greater emphasis on soft skills. The report points out that the majority of fresh graduates have exceptional theoretical abilities but lack practical job-related experience. This report attempts to highlight the gaps and provide direction for employers and educators looking to bridge this gap between the expectations of the financial sector and the current talent availability.

Essential soft skills required by graduate employees joining global financial and business services in the UK and India include teamwork, communications, client relationships management, customer services, business awareness, problem-solving, and achievement-orientation skills. Drive, energy, and a 'can do' attitude, the passion to learn, and negotiation skills are considered essential in financial services in India,

while analytical and mathematical skills are considered essential in the UK.

### New AIRMIC chairman in pledge to spread understanding of risk

Colin Campbell, the incoming AIRMIC (Association of Insurance and Risk Managers) chairman, has made 'Communicating risk management' his theme for the year. 'As risk management becomes ever more topical, more and more people want to know what it means in practice, and it's often misused and misunderstood as a result,' he said. 'AIRMIC's job, as a leading European risk management association, is to bring clarity and define standards.' Colin Campbell is head of risk management at fashion retailer, Arcadia Group.

### Black swan sighted

We came across the following review on Amazon: 'The Black Swan is a highly acclaimed piece of work from the writer of the stellar *Foiled by Randomness*. Taleb is a philosopher of randomness, and before becoming a writer he worked on Wall Street as a senior trader. This book explores our inherent yet primarily ignored relationship with Black Swan theory, first conceived by David Hume. I encourage anyone who is remotely interested in society, philosophy, politics, or discussion to pick up this book and they won't regret it.'

We do know that Nassim Nicholas Taleb's views arouse strong sentiments among actuaries – see the discussion at [www.actuarialoutpost.com](http://www.actuarialoutpost.com), for example, (search on 'Taleb') and we are hearing some good things about *The Black Swan* – perhaps one or more readers can share their impressions with readers of *The Actuary*?

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