

# INSURANCE RESEARCH LETTER

*“Covering the World of Insurance since 1966”*

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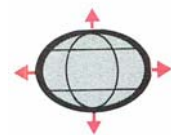
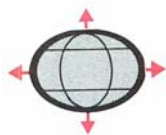
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***Insurance Services Network, Inc.***

***www.isn-inc.com***



# ***Editorial – Opinion***

## **Why Insurers are Faring Better than Banks**

I was impressed by Bob Hartwig's (President, Insurance Information Institute) presentation to the Association of General Contractors Surety Bonding & Construction Risk Management Conference in Naples, FL on February 10. Here's my take-away:

There are important differences between insurers and banks. During this global economic crisis insurers around the world are operating pretty normally, unlike banks.

Why? For two reasons: 1) Insurers have a superior risk management model; and, 2) insurers have low leverage (i.e., they don't rely on borrowed money to underwrite or pay claims).

The reason insurers are faring better than their financial brethren on the bank side according to Dr. Hartwig is that insurers have a superior risk management model:

- *Emphasis on Underwriting*
  - Matching of risk to price (via experience and modeling)
  - Limiting of potential loss exposure
  - Some banks sought to maximize volume and fees and disregarded risk
- *Strong Relationship Between Underwriting and Risk Bearing*
  - Insurers always maintain a stake in the business they underwrite, keeping "skin in the game" at all times
  - Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences—straightforward moral hazard problem from Econ 101
- *Low Leverage*
  - Insurers do not rely on borrowed money to underwrite insurance or pay claims. There is no credit or liquidity crisis in the insurance industry
- *Conservative Investment Philosophy*
  - High quality portfolio that is relatively less volatile and more liquid
- *Comprehensive Regulation of Insurance Operations*
  - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives—CDS's)
- *Greater Transparency*
  - Insurance companies are an open book to regulators and the public

## **And now in further support.....**

Guest Editorial – By Daniel M. Hofmann and Axel R Lehmann (1)

### **Dedicated Insurers Are Not a Systemic Risk**

*An assessment after the first year of the global credit crisis*

Since the U.S. Government came to the rescue of American International Group (AIG), the question has arisen as to whether insurers too constitute systemic risk. However, an objective analysis reveals that there are essential differences between the business models of insurance companies and banks. These differences also need to be considered by regulatory and supervisory authorities.

While in the first year of the credit crisis it has been primarily investment banks that have been deemed to constitute systemic risk, the situation appears to have changed with the case of AIG.

The U.S. Treasury would hardly have stepped in if the imminent collapse of one of the world's largest insurance and financial services groups had not threatened to drag down other institutions – including some outside the USA. Nevertheless, it would be wrong to draw the conclusion that insurers constitute systemic risk in the same manner as banks do. The core business of AIG is considered healthy and the insurance company appears to be solvent. The systemic risk was rather attributable to the fact that AIG is a large, complex financial institution that offered financial derivatives, which had nothing to do with the actual business of insurance.

#### **Minimal liquidity and stability risks**

Consequently, insurers hardly constitute systemic risk. This statement can be substantiated with reference to the business models of banks and insurance companies, where major differences can indeed be found. While banks are always exposed to the risk that customer withdrawals can exceed available liquidity, the risk of a liquidity shortfall is minimal for insurance companies.

One main reason for this is the difference in financing models. Insurance companies are essentially financed by premiums paid in advance and payments are subject to the occurrence of insured events. Such payments are generally unaffected by other insured events. As long as the insurance company has built up reserves and investments are calibrated to match the statistically anticipated claims payments, there is no liquidity risk. Furthermore, insurance companies do not use leverage to enhance expected investment returns, a fact that makes them less vulnerable when financial markets collapse. For these reasons alone, the banking system's perennial moral hazard of being "too big to fail" has no equivalent in the insurance industry.

The differences also include the fact that many insurance companies have not been forced to dump assets in order to maintain solvency. This is in contrast to the events after 2000 following

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(1) Both authors work for the Zurich Financial Services Group. Daniel M. Hofmann is the Chief Economist; Axel P. Lehmann is the Chief Risk Officer and a member of the Group Executive Committee.

the bursting of the dot-com bubble. Insurers have obviously learned some lessons and reduced the proportion of equities in their investment portfolios from levels deemed previously to be too high. In this way, insurers may actually have dampened market swings in recent months and thus stabilized the global financial markets overall.

### **What's left of convergence?**

Now that AIG has become a systemic risk in its role as a major financial services provider and not as an insurer, the sustainability of the convergence of capital and insurance markets has become an issue. In recent years, insurance companies have actually stepped up their capital market activities by offering insurance-linked securities. However, unlike in the banking industry, insurance securitization has remained firmly anchored within the scope of risk and capital management. Catastrophe bonds, to cite the best-known product, tend to cover only peak losses. Because part of the risk remains on the insurance company's balance sheet, the securities are attractive to investors. Consequently, it is not surprising that they have successfully withstood the acid test applied by the credit crisis, in contrast to other financial products. The significance of insurance-linked securities will undoubtedly increase over time.

The answer is likely to be different when we ask whether individual insurance companies will continue to offer financial derivatives such as Credit Default Swaps (CDS). This is a tricky issue because a CDS looks like an insurance transaction. Buyers pay premiums and receive compensation when a loss (a company default) occurs. But as a financial derivative, a CDS does not constitute insurance and it also violates important technical underwriting requirements that would make it an insurance product. Recent events should have made it clear that CDS and transactions involving financial guarantees are not necessarily part of an insurer's core competency. Hence, it remains to be seen whether the convergence of insurance and capital markets will continue to progress on this course.

### **Need for supervisory differentiation**

The business landscape is now dominated by huge, global financial services corporations. In recent years, many central banks and the International Monetary Fund have dedicated in their stability reports considerable space to Large Complex Financial Institutions (LCFI).

Nevertheless, many transactions have remained under the radar screen of supervisors, with some LCFI having even become systemic risks. But while the problems have surfaced, many issues are still to be resolved. Who is responsible for monitoring LCFI? Is it an integrated supervisory authority with global jurisdiction? What happens in the case of instruments (such as CDS) that have yet to be regulated? And who is to be the "lender of last resort" in the event of a crisis?

While the discussion on these matters will continue for some time, it is already obvious that insurance companies and banks should not be lumped together in one basket. Their operating models are too different. Banks and insurance companies should be treated the same where they use the same instruments with the same risks. But different risks must be treated differently also in future.

Insurance companies are not banks and banks are not insurance companies. Anyone who ignores this fails to appreciate the economic role of insurance companies and ultimately impairs the performance of the entire financial industry.

Text box: Comparatively good showing

More than USD 700 billion in financial assets have been wiped out since the outbreak of the credit crisis. The lion's share, or roughly USD 520 billion, involves banks. In contrast, insurers have come away comparatively unscathed, although they constitute some of the largest investors in the global financial marketplace. When considering insurance companies, it is important to differentiate between the product and investment sides. At around USD 160 billion (at the end of the second quarter), half of the write-downs fell on products offered by specialized insurers (above all the 'monoliners' in the USA) and structured products (such as CDS). This leaves USD 80 billion for write-downs on capital investments, corresponding to less than 0.5% of the USD 18.5 trillion in assets invested by insurance companies. In comparison, global insurers had to bear more than USD 100 billion in natural catastrophe losses in 2005.

Alexander B. Hodges  
Editor-in-Chief, *Insurance Research Letter*  
<http://www.isn-inc.com>

## *Synopsis*

### *Companies*

#### [Access Replay of AIG Client Call](#)

**Aon** Situation Room taped **AIG client call** – dial in for this interesting discussion

Chicago, March 3, 2009 – For those unable to attend this morning's AIG client call, a replay is now available, using the following dial-in and passcode:

United States: +1-800-475-6701  
International: +1-320-365-3844  
Access Code: 991021

### *NewsBriefs*

**IPC Holdings, Ltd.** and **Max Capital Group Ltd.** announced that the boards of directors of both IPC and Max have unanimously approved a definitive amalgamation agreement. W. Marston (Marty) Becker, Chairman and Chief Executive Officer of Max, and James P. Bryce, President and Chief Executive Officer of IPC, issued a joint statement. "We believe the combination of our companies will create a stronger, more diversified global underwriting franchise. IPC and Max have complementary businesses with very little overlap. The new platform will increase the global scale of each company and further enhance our collective ability to capitalize on attractive opportunities in the property-casualty marketplace, and thereby build long-term value for all our shareholders. From a financial perspective, based on results at December 31, 2008, this transaction creates a stronger capitalized company, with shareholders' equity of over \$3 billion and total assets of approximately \$10 billion. We expect that the combined entity will have less volatile underwriting results than either of its individual components, as well as more flexibility to efficiently manage capital."

**Zurich Financial Services** announced that the Board of Directors has decided not to propose the destruction of the 3,750,500 shares bought back under the 2008 share buyback program to the upcoming Annual General Meeting of shareholders on April 2, 2009.

**“Too valuable”... XL Capital’s** CEO Michael McGavick believes the U.S. will see Bermuda’s insurance industry as “too valuable to undermine” when lawmakers consider whether to make tax law changes that could hurt the Island’s major industry. “In the end it’s my belief that the U.S. Government will find it is in its self-interest to continue to benefit from the existence of the Bermuda insurance and reinsurance markets as it so demonstrably has through the existence of the market. So while there’s a lot of rhetoric going on, my own belief is that self-interest will prevail and that the U.S. Congress will come to the conclusion that Bermuda serves not only the economy, but the global economy, in a unique way.” (Source: Royal Gazette; <http://www.berbiz.net>)

Bermuda-based **Catlin Group** announced that **W. Brown & Associates Insurance Services** will underwrite general aviation insurance for U.S. clients nationwide on behalf of Catlin U.S. Irvine, Calif.-based W. Brown & Associates was established in 1987 and is one of the largest underwriting managers in the United States specializing in aviation insurance. Its products are offered through a network of more than 800 independent agents and brokers. Among the types of general aviation coverages to be underwritten by W. Brown & Associates on behalf of Catlin U.S. are hull, liability, aircraft products liability, airport liability, ground-based-liability and non-owned aircraft liability.

**Ironshore Environmental...**, a newly formed division of Ironshore Inc., announced that it had placed its reinsurance treaty and that separately it had entered into an arrangement with a member of the Berkshire Hathaway group of insurance companies for longer term environmental insurance placements. Under the arrangement, Ironshore will market, engineer and underwrite all risks with a term of five years or more. Each insurance policy will be placed with National Fire and Marine Insurance Company. In addition, John O’Brien, President of Ironshore Environmental, noted, “The reinsurance arrangement is completed with National Indemnity as the lead, along with Harbor Point, Arch and others.”

**AIG’s...** consumer lending unit **American General Finance Corp** has had its counterparty credit rating downgraded by Standard & Poor’s to double B plus from triple B, putting it into a sub-investment grade. S&P said that “weakening economic conditions will continue to pressure American General’s subprime consumer base, possibly leading to materially higher credit losses and further quarterly net losses in 2009”.

**Bermudian insurer/reinsurer Validus Holdings...** has opened an Asia/Pacific reinsurance representative office in Singapore that will operate on behalf of the group’s **Validus Re** unit. The group has named **Marc Haushofer** as chief representative and head of the new office, which will focus on short-tail property, marine and other specialty lines. Mr. Haushofer previously served as CEO of **Munich Re’s** Southeast Asia branch office in Singapore and deputy chairman of the **Singapore Reinsurers’ Association**.

**Rating firms Standard & Poor’s and Fitch Ratings...** have downgraded the ratings on **Hartford Financial Services** following the group’s posting of a Q4 loss and its announcement that it will cut its dividend by 84% to 5¢ a share. Fitch lowered the financial strength ratings of Hartford’s life operating units by two notches to single A and cut the ratings on Hartford’s p/c division by one notch to single A plus. S&P dropped the counterparty credit rating of Hartford one level to single A plus.

India's **General Insurance Corporation of India** (GIC Re) plans to expand its international business. GIC Re expects 50% of its business to come from international operations within the next 2-3 years. For the financial year 2007-08, 73% of GIC's business came from domestic operations and the rest from international business.

**FM Global...** has opened an insurance branch office in Amsterdam to meet the growing insurance and loss prevention engineering needs of its clients in the Benelux region.

## **Results**

### **The results are in – some companies are up....**

Rise at **Assurant...** Assurant posted an increase in **net income of 51% at \$182.4mn**, for Q4, mainly due to a lower tax charge of \$9.02mn compared with \$76.1mn. Revenues were up 1.7% at \$2.22bn, reports *Dow Jones*.

New business rises @ **Aviva...** Aviva reported an 11% rise in new business for 2008 at £36.3bn on an MCEV basis. European sales were up 8% at £17bn and Asia also saw an 8% rise including 66% growth in China. North America was up 57%.

Premiums up @ **Generali...** Italy's largest insurer, **Assicurazioni Generali S.p.A.**, boosted premiums 4.1% to €67.4 billion (\$87.9 billion) in 2008, reflecting a solid overall performance, offset by a weaker Q4 in life insurance.

**Mapfre...** Mapfre posted a 23.2% increase in net profit to E900.7mn for 2008. Overseas business now accounts for 45% of premiums at E6.8bn, growing 33.9% during the year, reports *Business Insurance*.

**Munich Re...** reports E1.5bn consolidated profit for 2008.

**Qatar Insurance...** Qatar Insurance Company posted an 8% rise in net profits at QAR511mn for 2008 on gross premiums up at QAR1.97bn from QAR1.52bn, reports *Middle East Insurance Review*.

New business up at **Royal London** – Royal London posted a 17% increase in new business for 2008 at £2.23bn, reports *FT Adviser*.

**Samsung...** Samsung Fire & Marine posted net profit up 31.5% at \$316.7mn for the nine months of the fiscal year-net premiums increased by 8.7%, reports *Post Magazine*.

### **And some companies are down....**

**ACE...** ACE reported net income for 2008 at \$1.197bn compared with \$2.578bn and \$20mn from \$572mn for Q4. Net realized investment losses stood at \$1.394bn, including \$604mn from Q4, reports *Post Magazine*.

**AFLAC...** Total revenues at AFLAC benefited from the strengthening of the yen to the dollar in Q4, rising 6.0% to \$4.3bn compared with \$4.0 billion. Net earnings were \$197mn compared

with \$382mn. For the full year of 2008, results also benefited from the stronger yen/dollar exchange rate, compared with 2007. Total revenues were \$16.6bn, an increase of 7.5%. Net earnings were \$1.3bn compared with \$1.6bn. The decline in net earnings for the full year was attributable to realized investment losses. Realized investment losses were \$655mn compared with realized investment gains of \$19mn.

**Aspen...** Aspen Insurance Holdings reported a net profit after tax for 2008 of \$103.8mn and net profit after tax for Q4 of \$21.8mn. This compares to a net profit after tax of \$489.0mn and net profit after tax of \$135.2mn respectively.

Net income down at **Axis Capital...** Axis Capital posted net income of \$131mn for Q4 compared with \$306mn. For 2008, net income was \$351mn compared with \$1.050bn. The combined ratio for 2008 slipped to 89.8 from 75.3, reports *Post Magazine*.

Net income down at **Chubb...** Chubb reported net income of \$407mn compared with \$670mn for Q4 and \$1.8bn compared with \$2.8bn for the full year. The combined ratio for 2008 was 88.7, up from 82.9%.

**CIGNA...** CIGNA posted a net loss of \$209mn for Q4 compared with net income of \$263mn, impacted by a drop in membership and reinsurance businesses it no longer actively markets.

Net losses for Q4 and year **@ CNA...** CNA Financial Corporation announced a net operating loss for Q4 of 2008 of \$21mn and a net loss of \$336mn. Net operating income for the full-year 2008 was \$533mn and net loss for the full-year 2008 was \$299mn. P&C operations combined ratios for Q4 and the full-year were 89.1 and 98.0.

Q4 dip at **The Hanover Group...** The Hanover Group posted net income of \$34.1mn for Q4 which included \$28.5mn of net realized losses on investments. This compared to net income of \$75.8m.

Big net loss at **Hartford...** Hartford Financial Services reported a net loss of \$806mn for Q4 compared with a profit of \$595mn, reports *Business Insurance*.

**irl** note: → During the first week in February, The Hartford said that it asked Connecticut regulators to provide the company with \$1 billion in relief by easing rules related to reserves for variable annuities and the accounting treatment of deferred-tax assets.

Large Q4 net loss from **Lincoln National...** Lincoln National posted a net loss of \$505.6mn compared with net income of \$112.5mn, for Q4 on revenues down 12% at \$2.27bn, reports *Dow Jones*.

**irl** note: → Lincoln National Corp. disclosed its request for regulatory assistance. The company is seeking more favorable treatment of certain tax assets than normally allowed under statutory accounting in order to increase its capital level.

Heavy loss at **Markel...** Markel posted a net loss of \$403mn compared to a net profit of \$337mn, for 2008. Investment losses amounted to \$407.5mn compared with a gain of \$59mn, and the combined ratio rose from 88 to 98, reports *Post Magazine*.

Net income down steeply at **PartnerRe...** PartnerRe posted net income of \$46.6mn compared with \$717mn, for 2008. Net realized and unrealized investment losses came to \$453.6mn and the combined ratio deteriorated from 80.4 to 94.1, reports *Post Magazine*.

Big dip at **Principal Financial...** Principal Financial posted a 98% drop in net income to \$800,000 for Q4 on revenue down 11% at \$2.28bn. Details → <http://www.principal.com>.

**irl** note: → Principal Financial also disclosed its request for regulatory assistance. The company is seeking more favorable treatment of certain tax assets than normally allowed under statutory accounting in order to increase its capital level.

Another quarterly loss at **Prudential Financial...** Prudential Financial posted a \$1.64bn loss for Q4 compared to a profit of \$792mn, which included net realized investment losses and related charges of \$511mn, reports *Business Insurance*.

**Swiss Re...** looks to Warren Buffet for SF3bn boost as SF1bn net loss expected for 2008.

Big drop in net income at **Transatlantic Holdings...** Transatlantic Holdings posted a 79% drop in net income at \$102.3mn for 2008. Net income for Q4 dipped to \$4.4m from \$112.5mn, reports *Post Magazine*.

Big income drop at **Unum...** Unum posted a 74% drop in net income at \$41.8mn for Q4 through investment losses, reports *Dow Jones*.

Q4 loss @ **White Mountains...** White Mountains posted a loss of \$322.7mn for Q4 compared with a profit of \$127mn. The figures take into account \$421.8mn on realized investment losses and \$108.3mn on unrealized investment losses, reports *Forbes*.

Net income down 78% @ **W. R. Berkley...** W. R. Berkley posted a 78% drop in net income for Q4 at \$40.3mn on revenue down 23% at \$1.08bn. Weather-related losses doubled to \$6mn and the combined ratio slid to 92.6 from 88.7, reports *Dow Jones*.

\$2.55bn loss for 2008 @ **XL Capital...** XL Capital posted a loss of \$2.55bn for 2008 compared with net income of \$275.9m (2007). For Q4, the \$1.42bn loss compared with a loss of \$1.21bn. The company is to cut its workforce by about 10% and has revisited other expenses and investments-short term costs will be \$60mn/\$80mn but could bring repeat savings of \$100mn/\$120mn later, reports *Post Magazine*.

**Zurich...** net income down 47% for 2008.

**Japanese assurers Mitsui Life and Asahi Life...** are expected to record losses of ¥100bn (\$1.1bn) for the first nine months of their financial year to December 31, reports *Nikkei*. Both companies raised capital in December, with Mitsui Life boosting its capital by ¥60bn and Asahi Life raising ¥35bn. Both assurers are expected to retain solvency margins well above the minimum 200%.

**Mercury General Corp...** ended 2008 with a net loss of \$242.1mn, swinging from year-earlier net income of \$237.8mn as it posted \$357.8mn in net realized investment losses and saw investment income fall 4.8% to \$151.3mn. The group also swung to an underwriting loss as reflected in the rise in its combined ratio to 101.8% from 95.4%. Earned premiums dropped 6.2% to \$2.75bn, while claim losses and loss adjustment expenses rose 1.1% to \$2.06bn. The group generated a Q4 net loss of \$168.3mn from a year-earlier gain of \$44.6mn, reflecting \$141.6mn in realized investment losses, \$20mn in claims from California wildfires and poor results in its New Jersey operations.

**American Financial Group...** saw 2008 net income fall 49% to \$195.8mn as realized investment losses were seven times higher at \$426.4mn. Underwriting results continued to shine as the combined ratio remained under 90%, rising to 87.3% from the year-earlier 81.3%, on earned premiums of \$2.87bn, up 6.1%. Co-chief executives Craig and Carl Lindner said that the group has shown a “consistent focus on pricing discipline” and increased investment income (up 1.2% for the year). For 2009, the group raised its guidance for core earnings to a range of \$3.70 to \$4.00 a share, with a combined ratio of 88% to 91%.

**Lincoln Financial Group and Genworth Financial...** two of the U.S. life assurers hoping to receive funds under the Treasury’s Troubled Asset Relief Program, were both hit hard by realized investment losses and other impairments in 2008. **Genworth** reported a net loss of \$572mn from year-earlier income of \$1.22bn as realized investment losses were five times higher at \$1.02bn and its U.S. mortgage insurance business swung to an operating loss of \$330mn. **Lincoln Financial** saw 2008 net income sink 95% to \$56.8mn owing to after-tax realized investment losses of \$493.6m and after-tax impairment of intangibles of \$304.6mn.

**CNA Surety Corporation...** shares surged after it reported net income for Q4 of 2008 of \$29.1mn, or \$0.66 per diluted share, compared to \$21.9mn, or \$0.49 per diluted share, for the same period in 2007. The increase in net income primarily reflects higher favorable loss development on prior accident years and higher earned premiums. For the year ended December 31, 2008, net income was \$110.4mn, or \$2.49 per diluted share, compared to \$92.5mn, or \$2.09 per diluted share, for 2007. The company’s shares have more than doubled from its 52-week low.

**CNA Financial Corporation...** announced Q4 2008 results, which included a net operating loss for Q4 of 2008 of \$21mn, or (\$0.15) per share and net loss for Q4 of 2008 of \$336mn, or (\$1.31) per share. Net operating income for the full-year 2008 was \$533mn, or \$1.91 per share. Net loss for the full-year 2008 was \$299mn, or (\$1.18) per share. The continued disruption and turmoil in the capital markets resulted in significant realized and unrealized investment losses and declines in net investment income. Property & Casualty Operations combined ratios for Q4 and full-year 2008 were 89.1% and 98.0%.

**W.R. Berkley Corporation...** reported net income for 2008 of \$1.62 per share, or \$281mn, compared to \$3.90 per share, or \$766mn, for 2007. Net operating income for 2008 was \$2.96 per share, or \$513mn, compared with \$3.73 per share, or \$734mn, for 2007. During 2008, the Company changed its method of accounting for certain cash distributions received from investors. This change, which was applied retrospectively, increased net income for 2007 by \$23mn, or 12 cents per share. Net operating income is a non-GAAP financial measure defined by the Company as net income excluding realized investment gains and losses.

**Lancashire Holdings...** Bermuda-based **Lancashire Holdings** reported a pre-tax profit of \$97mn for year-end 2008 beating analysts’ expectations of \$58.9mn. However this year’s net income was some 75% lower than the year before, due mainly to the effect of Hurricanes Ike and Gustav. Nonetheless, CEO Richard Brindle said, “The market has undoubtedly turned. As in 2006, we expect the rate increases we have seen in January to gain momentum as the year progresses.” (Source: Royal Gazette; <http://www.berbiz.net>)

**Flagstone Reinsurance...** Bermuda-based **Flagstone Reinsurance Holdings Ltd** reports a 4Q 2008 net loss of \$75.6mn, largely due to a decline on investments. The net loss for the full year 2008 was \$187.3mn, compared to net income of \$167.9mn in 2007. Chairman Mark Byrne said “2008 was a challenging year. Our book value declined due to investment losses, with the

majority of these losses occurring in Q3 and the first two weeks of Q4. We made the decision to reallocate our asset portfolio in October to a very risk-averse portfolio where we remain today." Flagstone now has 90% of its assets in high-grade fixed income securities. (Source: Royal Gazette; <http://www.berbiz.net>)

**Montpelier Re...** Bermuda-based **Montpelier Re Holdings Ltd.** reported a 4Q2008 net loss of \$47.7mn compared to a profit of \$90.5mn for 4Q 2007. Realized and unrealized investment losses totaled \$111.9mn in the quarter and \$243.1mn for the year. (Source: Royal Gazette; <http://www.berbiz.net>)

**IPC Holdings...** Bermuda-based **IPC Holdings Ltd** reported a net income of \$43.7mn in 4Q 2008, compared to \$167mn for 4Q 2007. The company reported a full-year net income of \$90.4mn after a full impact of \$167.6mn for Hurricanes Ike and Gustav. Gross premiums written for the year were \$403.4mn, a small decrease over the year before. (Source: Royal Gazette; <http://www.berbiz.net>)

## ***People***

**Lloyd's** announced that it has appointed Ms **Bin Yang** as the Chief Representative for its Beijing representative office. Before joining Lloyd's, Ms Yang worked for Swiss Re Beijing as a Vice President of Client Markets, which serviced all key clients.

**Swiss Re's** Board of Directors announced that it has accepted the resignation of **Jacques Aigrain** as Chief Executive Officer, and has appointed **Stefan Lippe**, currently Deputy Chief Executive Officer and Chief Operating Officer, as his successor.

**irl** note: → Stefan Lippe (53, German national) has a long and distinguished career as a reinsurance expert and has been with the Group for 25 years. He was appointed a member of Swiss Re's Executive Board in 1995, and served for 10 years as Chief Executive Officer of the Bavarian Re group. In 2001, he was appointed as Head of the Property & Casualty business worldwide and as a member of the Executive Committee. Beginning in 2005, Stefan led Swiss Re's Property & Casualty and Life & Health Underwriting activities, and in September 2008, assumed the role of Chief Operating Officer and was appointed Deputy Chief Executive Officer.

**Liberty International Underwriters Europe** (LIU Europe), a division of Liberty Mutual Group, reports that **Christopher Holborn** has been appointed casualty manager for its Continental European business, covering LIU Europe's Continental European offices. Holborn comes from AIG, where he was casualty manager for Switzerland. Reporting to **Gerard van Loon**, managing director of LIU Europe's Continental European operations, Mr. Holborn will be based in Zurich and will take responsibility for growing LIU Europe's casualty lines business in Spain, Germany, France, The Netherlands and Switzerland.

Woodland Hills, California P&C insurer **Zenith National Insurance Corp.** said that board member **Leon Panetta** has resigned to become director of the U.S. Central Intelligence Agency. President Barack Obama chose Panetta, a former chief of staff to President Bill Clinton and a former Democratic congressman from California, to head the agency. Panetta had served as a member of Zenith's audit committee and its nominating and corporate governance committee. Zenith named **Jerome L. Coben**, a partner at Zeughauser Group, as Panetta's replacement. Coben will serve on the audit committee and the health care committee.

**ING** announced that the Supervisory Board intends to nominate **Patrick Flynn** (1960, Irish) for appointment to the Executive Board at the annual General Meeting of Shareholders of April 27,

2009. Upon appointment Patrick Flynn will become the new Chief Financial Officer of ING. Flynn is currently Chief Financial Officer of HSBC's global Insurance business, based in London. Previously he served as CFO for HSBC's banking and insurance operations in South America from 2002-2006. Flynn will succeed John Hele who will become Chief Financial Officer of Arch Capital Group.

## ***Event***

**April 19 – 23, 2009** – Orlando, Florida – RIMS 2009 Conference – Amidst the recent turmoil in the financial markets, the risk management industry has been placed into the spotlight and risk practitioners are being asked to re-evaluate their risks and exposures. The Risk and Insurance Management Society (RIMS) 2009 Annual Conference & Exhibition, taking place April 19-23 in Orlando, Florida will provide risk managers and other executives charged with risk management responsibilities with proven leadership strategies and techniques to successfully navigate this time of economic uncertainty, and the surfacing global threats. The conference will take place at the Orange County Convention Center.

**irl** note: → Launched in 1963, RIMS Annual Conference & Exhibition attracts some 10,000 risk and insurance professionals at all experience levels, business executives with risk management interests, brokers, insurers and service providers for the ultimate educational and networking experience. The five-day event offers more than 120 educational sessions, keynote presentations, special events and an expansive Exhibit Hall with more than 325 exhibitors. After Orlando, the event will be hosted in Boston in 2010 and Vancouver in 2011. For more information, visit [www.RIMS.org/RIMS2009](http://www.RIMS.org/RIMS2009).

# ***ABC REVIEW***

## ***Snippets & People***

**Indonesian brokers** have problems with new minimum capital limit – 29 Indonesian insurance and reinsurance brokers have failed to meet the new minimum capital limit of RP1 trillion introduced at the end of 2008. There are still 40 out of 140 to report, according to *Asia Pulse*.

**Aon Global Risk Consulting (UK)** appointed **Graham Heath** as director of Risk Control – UK.

**Aon Consulting Worldwide** announced **David Sult** was hired as senior vice president for the Corporate Transactions practice. Sult will be responsible for consulting with clients in areas such as organizational restructuring and organization effectiveness, as well as mergers, acquisitions, and divestiture and carve-out transactions.

**Aon/Albert G. Ruben**, Aon's entertainment industry broker, announced that **Amy Turnbull** joined the firm as account executive in the newly-created employee benefits department. With this addition, Aon/Albert G. Ruben can broker all lines of commercial insurance coverage and provide employee benefits solutions.

**Aon Limited (UK)** has appointed **Paul Manduca** as non-executive chairman. Paul has been an independent non-executive director of Aon Limited for three years and brings over 35 years of multi-sector business experience. Manduca takes over the role from **Steve McGill**, CEO of **Aon Risk Services**, who, further to his appointment as non-executive chairman of Aon Limited in January 2007, was also appointed Chairman and CEO in 2008 of ARS. McGill, who is based in

Chicago, will focus the majority of his time on this role as he grows the global business while providing support to Manduca and the UK leadership team as required.

**Guy Carpenter & Company**, announced that its' InStrat® quantitative and risk modeling group has introduced a new Pan Central and Eastern European (CEE) flood model. Countries across the CEE region have suffered significant flood losses in the recent past, most notably the 1997 summer floods in Poland and the Czech Republic, as well as the catastrophic floods of August 2002 that affected the Czech Republic, Austria, and Germany.

**Willis Global Specialties**, a business unit of **Willis Group Holdings**, announced the appointment of **Matthew Wilson** as Chief Operating Officer, Global Specialties, and **Mike Pinard** as Chief Operating Officer of the Group's Financial and Executive Risks division, FINEX Global. Global Specialties includes the Willis global businesses of Aerospace, Marine, Energy and Financial Solutions, along with the International businesses of Construction, FINEX Global and Global Markets International.

**Willis Group Holdings** announced a series of international appointments in **Willis Global Placement**, its newly formed entity that coordinates worldwide placement strategy for the benefit of Willis clients. Installing Global Placement leaders in key geographies and business units, the company announced the following appointments:

- **Nigel Roberts** is appointed Chief Placement Officer for Global Specialties and will report to **Joe Trotti**, CEO, Willis Global Specialties.
- **Paul Ward** is appointed Regional Placement Officer for Asia, reporting to **Roger Wilkinson**, CEO, Willis Asia.
- **Phil Jacobs** is appointed Regional Placement Officer for Continental Europe, reporting to **Adam Garrard**, CEO, Willis Continental Europe.
- **Edward Fyfe** is appointed Regional Placement Officer for Latin America, reporting to **Eugenio Paschoal**, CEO, Willis Latin America.
- **Tony Barber** is appointed Regional Placement Officer for Australasia, reporting to **Bill Donovan**.

### **Published Reports**

#### **Aon: Directors' and Officers' Insurance Costs Skyrocket for Financial Institutions**

D&O Liability insurance costs for the S&P Financials Sector increased 50 percent in the fourth quarter of 2008 compared to that of 2007 according to the Quarterly D&O Pricing Index released by Aon Corporation's Financial Services Group.

*irl* note: → The full Quarterly D&O Pricing Index can be accessed [here](#).

[\[http://www.aon.com/about-aon/intellectual-capital/attachments/risk-services/quarterly\\_do\\_pricing\\_index\\_3rd\\_quarter08.pdf\]](http://www.aon.com/about-aon/intellectual-capital/attachments/risk-services/quarterly_do_pricing_index_3rd_quarter08.pdf)

Aon experts believe that a number of unprecedented events contributed to these significant price increases, including:

- The Department of Labor reported that 1.3 million jobs were lost from October – December 2008

- Bernard L. Madoff was arrested and charged with securities fraud after it was revealed that his securities business was allegedly a Ponzi scheme resulting in investment losses estimated at \$50 billion and affecting as many as three million investors
- The Dow Jones Industrial Average, S&P 500 Index, S&P Financials Sector Index and the NASDAQ Composite Index all closed down significantly for the year
- Stanford Law School's Securities Class Action Clearinghouse announced that 225 federal securities class-action lawsuits were filed in 2008

The Index shows that the average price for \$1 million in coverage limits increased 3.15 percent from Q4 2008 compared to Q4 2007. This is the first time in 21 consecutive quarters that prices have increased year over year and the first time since 2003 that price increases in the financial sector have been significant enough to move the entire Index.

"In the short term, we expect to see D&O pricing for the financial sector continue to rise," said Mike Rice, managing director of Aon's Financial Services Group and an author of the Quarterly D&O Pricing Index. "It is possible, however, that a tough underwriting environment could emerge for all public companies as the economy continues to negatively impact both financial results and stock prices."

Aon's analysis found that rates for D&O liability insurance in non-financial sectors actually declined by 6.3 percent in Q4 2008 compared to Q4 2007.

The Quarterly D&O Pricing Index is designed as a hands-on tool to provide the directors, officers and risk managers of publicly traded corporations with a better understanding of current and historic pricing conditions for directors' and officers' liability insurance.

## **Marsh Creates Windstorm Program for Gulf of Mexico Oil & Gas Companies**

Marsh announced the creation of a one-of-a-kind property insurance program that can provide up to \$500 million of annual capacity, in the aggregate, for windstorm losses incurred by all participating oil and gas companies operating in the Gulf of Mexico in a given policy year.

Marsh's Cost and Coverage Certainty Program, known as the **Triple C Facility**, was developed in conjunction with the Berkshire Hathaway Group. The Triple C Facility is designed to provide oil and gas companies operating in the Gulf of Mexico with insurance protection, on a pooled basis, with pricing stability, and for a period of five years. Underwritten by members of the Berkshire Hathaway Group, the program is currently available exclusively through Marsh.

"The series of severe hurricanes that struck the Gulf of Mexico during the past five years have drained insurance capacity and left many energy firms with few, if any, alternatives to obtain the levels of coverage they require at stable prices," said Jim Pierce, chairman of Marsh's Global Energy Practice. "We believe that the Triple C Facility will address a serious exposure for these businesses in an acutely challenging economic cycle when the effects of a large uninsured loss might be devastating."

The Triple C Facility will offer participating businesses flexibility in coverage design and structure, including a choice of limits of \$100 million per occurrence or \$50 million per occurrence and a variety of attachment points, ranging from \$20 million to \$250 million per occurrence.

## **Marsh Ranked #1 International Broker in China for Second Year in a Row**

Marsh has been ranked once again as the number one international broker in China by the China Insurance Regulatory Commission (CIRC). This is the second year in a row Marsh has achieved the top position among foreign brokers.

The CIRC ranked China's top 20 intermediaries based on annual invoiced revenue in its 2008 *Insurance Intermediary Market Report* released on February 11, 2009.

Marsh was ranked number one of all international brokers and number four of all brokers in China, with invoiced revenue of RMB134.03 million\* (US\$19.62 million), a growth of 43% over previous year and corresponding to 5.06% market share. Total invoiced revenue for all brokers grew 31.25% to RMB2.65 billion (US\$378.99 million).

Marsh recently opened a branch office in Dalian, the largest city in Liaoning province, to serve clients in northern China. The new office is the fifth branch office outside of Beijing for Marsh (Beijing) Insurance Brokers Co. Ltd. (Marsh China), following previous approvals from the China Insurance Regulatory Commission (CIRC) for branch offices in Shanghai, Guangzhou, Chengdu and Hebei province. Marsh was awarded China's first ever Wholly Owned Foreign Enterprise (WOFE) insurance broking license in January 2007.

## **Willis: Mining Industry Faces Insurance Crunch**

*Declining Commodity Prices Force Miners to Seek Alternatives as Record Claims in 2008 Impact Insurance Rates, Capacity*

With capacity levels up at the start of 2009, the energy insurance market remains relatively stable, despite insurers seeking rate increases and the energy industry trying to maintain profitability and reducing asset values in the face of plummeting commodity prices and demand, a new report from Willis Group Holdings has found.

*irl* note: → The full Willis Mining Market Review can be accessed [here](#).

[[http://www.willis.com/Client\\_Solutions/Industries/Mining\\_and\\_Metals/Publications](http://www.willis.com/Client_Solutions/Industries/Mining_and_Metals/Publications)]

The latest Energy Market Review from Willis reports that, with little or no withdrawals from the energy insurance market in January 2009, stated capacity levels for energy risks have increased by approximately five percent.

Insurers, meanwhile, are seeking rate increases to shore up long-term profitability in this sector, as recapitalization becomes an increasingly expensive prospect. Since the third quarter of 2008, underwriters' profitability has been buffeted by larger-than-expected windstorm losses from Hurricane Ike and a reduction in investment income due to the global financial crisis. Added premium that was generated by higher asset values, brought on by the "superheated" commodity prices of the past, is now coming under pressure as those asset values fall. Without that prop to offset a soft market, insurers now are seeking to maximize underwriting profitability through higher rates.

The prospect of a hardening market, while tempered in the short-term by increased market capacity, will also face resistance from energy companies as they seek to shore up their own profitability in the face of plummeting demand and crude oil prices that are now a third of their

2008 peak. These developments have implications for future capital expenditure plans and existing asset values, and could lead to reduced premium income for energy insurers.

Commenting on the relatively stable energy insurance industry market conditions thus far in 2009, Alistair Rivers, Willis Energy CEO, said, "Although in general terms our markets are beginning to harden, we estimate that overall capacity levels for energy business have actually increased for 2009; this has, for the time being, tempered the extent of any hardening dynamic, despite the macro-economic factors currently at work in the insurance industry."

### **Gulf of Mexico Windstorm Risk**

The Willis report noted that, with Hurricane Ike overtaking Hurricane Rita to become the third most expensive event in insurance history, a number of key energy insurers have found that their initial loss estimates for this windstorm have proved wholly inadequate, leaving their Gulf of Mexico wind portfolio in tatters. In the aftermath of Hurricane Ike, the report concludes that Gulf of Mexico Windstorm risk is more confused, volatile and expensive than ever before. Buyers are facing the prospect of paying increasingly higher prices for the limited cover available while being asked to retain an increasingly significant share of this risk on their own balance sheets.

Willis said the market is expected to offer approximately 30 percent less capacity for Gulf of Mexico wind risk than in 2008, although this is likely to be shortly augmented by fresh capacity from Berkshire Hathaway. The report also highlights a potential long-term answer for Gulf of Mexico wind risk in the form of new capital market solutions based on the Willis Hurricane Index, which offers a parametric windstorm "trigger" that more closely correlates with actual losses sustained than previous products of a similar nature.

"Should such a capital market instrument prove attractive to Energy market reinsurers, it may serve to underpin the supply of more plentiful and consistent risk transfer capacity for Gulf of Mexico wind risk in the future," said Rivers. "Achieving this ultimate solution to a seemingly insoluble risk management problem for the energy industry will require the goodwill and understanding of everyone involved: risk managers, catastrophe modelers, brokers and the capital market specialists, insurers and reinsurers. To date, this understanding has not always been in evidence; however, the needs of the energy industry now require us all to step up to the plate," he said.

The comprehensive Willis review also examines developments in energy-related sectors and issues including: Reinsurance, Upstream, Downstream, OIL membership, Construction, International and U.S. Excess Liabilities.

### **Assurex Global Partners with ProspX**

ProspX, a specialist in on-demand collaboration and automation solutions for the commercial insurance industry, announced that it has teamed with Assurex Global, which represents \$28bn in annual premium volume, to deliver Assurex Global Partner Connect.

Assurex Global is using the ProspX platform to connect brokers, agencies and carriers in over 80 countries around the world to help them collaborate in real-time online to bring maximum value to the insurance buyer.

The Partner Connect initiative leverages the ProspX collaboration engine to give brokers quick and easy access to the critical internal resources available for new and renewal business opportunities, while allowing carriers the ability to elevate their message for increased visibility. Current participants in the initiative represent some of the largest insurance organisations in the United States.

“Our mission is to help our worldwide network of agency and carrier partners to harness the best relationships, intelligence and resources available for the benefit of their clients,” said Jim Hackbarth, president and ceo of Assurex Global. “ProspX has given us the ability to create interactive industry and line-of-business focused Practice Groups that allow us to offer a shared channel for brokers, agencies and carriers to work together and improve performance. With the help of ProspX, we’re taking our mission to new heights.”

Assurex Global operates across six continents and serves over 120 independent brokers with custom programs designed to meet the specific local, regional and global needs of its clients. Through the Partner Connect initiative, participants have on-demand access to thousands of agency and carrier resources in real-time. The ProspX platform is also helping Assurex Global Partners better leverage existing technology, including various agency management and CRM systems.

“Partner Connect is one of the top initiatives at Assurex Global and we are very excited that ProspX is the technology behind it,” said Todd Young, president and ceo of ProspX. “Because we specifically designed our technology to address the complexities of today’s commercial insurance industry, organisations like Assurex Global can now successfully leverage their internal and external resources at the point of opportunity.”

## **AEGON Selects Towers Perrin Modeling Platform**

Towers Perrin has announced that its MoSes modeling platform has been selected by AEGON for use within its operations around the world.

AEGON has already been using the actuarial analysis and reporting tool for the past five years at some of its businesses in Europe, the United States and Asia.

MoSes provides comprehensive actuarial analysis and reporting for typical life insurance and annuity products marketed around the world.

“For a company like AEGON, effective risk management is vitally important, and to have an actuarial modeling system like MoSes available group-wide is a necessity,” said Tom Grondin, executive vice president and AEGON’s chief risk officer. “Having more consistency in modeling platforms allows more effective sharing of data and leveraging of centrally developed applications.”

“AEGON is a valued, long-standing client of Towers Perrin, and we are delighted that AEGON has selected MoSes as the platform of choice to centralize and consolidate its actuarial modeling,” said David Tonner, software sales director, Europe, Middle East and Africa. “We believe that MoSes will help AEGON standardize its actuarial modeling and meet the forthcoming challenges of Solvency II and Principle-Based Approaches in the U.S.”

## **Results**

**Aon** down 96% in Q4 – **Aon** has posted net income of \$10m compared with \$207m, for Q4. The results included an expected \$116m loss related to disposal of P&C insurance operations and higher restructuring charges. Earnings included results from Benfield since the close of the purchase in November. Revenue was down 4.1% at \$1.92bn. The broker increased its estimates for savings under its restructuring to \$240m/\$260m this year and \$370m in 2010, reports *Dow Jones*. The complete report for Q4 and Full Year 2008 is available on the following link.

*irl* note: → Complete report available [here](#).

[<http://www.isn-inc.com/UserFiles/File/Aon%20Q4%20and%20FY%202008.pdf>]

Profits down at **Gallagher** – **Arthur J. Gallagher** posted a 44.3% drop in profits at \$77.3m for 2008. Revenues rose 1.3% to \$1.65bn, reports *Business Insurance*.

**Jardine Lloyd Thompson Group plc** announced preliminary results for the year ended December 31, 2008.

### Financial Summary

	2008	2007	Change
	£m	£m	%
• Fees and commissions	536.1	473.2	13%
• Underlying trading profit *	76.2	62.1	23%
• Profit before tax	92.8	95.2	-3%
• Underlying profit before tax *	95.2	82.5	15%
• Diluted Earnings per Share	29.6p	33.7p	-12%
• Underlying Diluted Earnings per Share*	30.4p	26.0p	17%
• Total dividend for the year	20.5p	20.5p -	

\* Underlying results exclude exceptional items and impairments.

### Highlights

- Turnover up 13% including organic growth of 6%
- Underlying trading profit up 23%
- Trading profit margin up 1% to 14%
- Risk & Insurance turnover up 15% with increased trading margin of 18%
- Employee Benefits turnover up 8% with maintained trading margin of 17%
- Strong financial position with low net debt

**Marsh & McLennan Cos.** posted consolidated revenue of \$11.60 billion for 2008, a 4% increase compared with 2007. Marsh said that for 2008 it posted a net loss of \$73 million, largely because of an impairment charge of \$540 million in its risk consulting and technology segment. This compares with net income of \$2.50 billion for 2007, a figure that was boosted by a \$1.90 billion gain from the divestment of Boston-based **Putnam Investments**. For Q4 of 2008, Marsh posted a net income of \$80 million, compared with \$85 million in Q4 of 2007. The brokerage posted consolidated revenue of \$2.70 billion for Q4, a 9% decrease of the comparable period last year, reports *Business Insurance*.

**Willis** – revenues increase, net income down – Willis Group Holdings Ltd. reported a 26% drop in net income to \$303 million in 2008, due largely to integration costs of its acquisition of **Hilb Rogal & Hobbs Co.** and foreign currency movements. Willis reported growth in commissions and fees in 2008 of 12% to \$2.8 billion. Organic growth in commissions and fees in 2008 was 4%. Commissions and fees in Q4, which included revenues from HRH, grew 28%. Organic growth in Q4 was 6%.

## **Acquisitions**

**Aon Reed Stenhouse Inc.** announced its acquisition of **IAO Actuarial Consulting Services**, the leading actuarial advisor to the Canadian property and casualty insurance industry. IAO's capabilities will be integrated into **Aon's Global Risk Consulting** business, which provides a range of services from risk identification and control to assessment and risk financing. The acquisition of IAO will augment Aon Global Risk Consulting's actuarial and analytics practice in Canada. Additionally, IAO's insurance advisory services complement the global property and casualty actuarial consulting services of Aon Global Risk Consulting, which maintains a large market share in the non-insurance corporate sector, advising clients on risk retention and loss liabilities.

**Arthur J. Gallagher & Co.** announced the acquisition of **Fidelity Benefits & Insurance Services** in Waco, Texas. Founded in 2003, Fidelity Benefits & Insurance Services (FBIS) is an employee benefits consultant and insurance broker offering a broad range of employee benefits insurance and consulting services to their Texas clients. They specialize in group life, accident, health, dental, retirement, long and short term disability and cafeteria plans.

**Arthur J. Gallagher & Co.** announced the acquisition of **PartnerSource, Inc.** in Dallas, Texas. Organized in 1994, PartnerSource, Inc. is a retail insurance broker and consultant specializing in the design, implementation and ongoing support for non-subscription programs, an alternative for Texas workers compensation, for their clients with operations in Texas. They also provide non-medical employee benefit programs. Their national and multi-national clients are generally in the retail, manufacturing, healthcare, transportation, food service and hospitality industries.

## ***GLOBAL BRIEFS***

Editor's Note: Several Country Briefs below have links to additional information – this is for the benefit of online subscribers – go to [www.isn-inc.com](http://www.isn-inc.com) for details.

**Bahrain** – Legal & General Gulf and Legal & General Gulf Takaful have been granted licenses by the Central Bank of Bahrain and will be established with a total paid-up capital of \$26.5m, contributed equally by the UK insurer and Ahli United Bank (AUB). Initially, products will be marketed through AUB branches in the region, reports *Middle East Insurance Review*.

**China** Healthcare Reform – The government will spend 850 billion yuan (\$124.26 billion) in the next three years to provide accessible and affordable healthcare to the country's 1.3 billion people. The aim of the reform is to make the government bear most of the medical expenses of the people by 2011. The government will expand the sponsored medical insurance network to cover 90 percent of the population. Each person covered by the system will receive an annual subsidy of 120 yuan from 2010.

**China** – To counter the slow-down in premium growth in China, the CIRC is encouraging insurers to invest in medial institutions as a lead into expanding the provision of healthcare insurance. For more information on Healthcare in China, [click here](#).

**China** – Farm insurance in is booming with premiums doubling in 2008. For an insight into what is happening in this sector, read more by [clicking here](#).

**China** – Chinese insurance premiums grew 39% in 2008, slowing from a 42% annual pace in the first 11 months, as the global financial crisis bit into household and corporate budgets. Premiums reached 978.4 billion yuan (\$143 *billion*) for the year as a whole, marking the fastest annual growth since 2002, according to the China Insurance Regulatory Commission (CRIC).

**EU** – European employees are absent 7.4 days per year, with a majority of companies reporting no significant change in absences in the past three years, said consulting firm Mercer L.L.C. in a survey released in January. Of about 800 companies surveyed across 24 European countries, 19% said that since 2005 the average number of sick days taken per employee had increased, 12% said it had decreased, and 68% said it had stayed about the same, according to Mercer's "Pan-European Health & Benefits 2008 Survey Report."

**France** – Taxes on complementary health insurers (including mutual and providents) is rising from 2.5%.

**Global** – Air crash fatalities reduce in 2008 – The number of fatalities in air crashes fell by 25% last year, according to statistics from London-based aviation consultancy Ascend Worldwide Ltd. According to Ascend's annual safety bulletin, there were 539 reported passenger and crew fatalities in 2008, compared with 730 deaths in 2007. But the number of fatal air crashes in 2008 was higher than the previous year, 28 compared with 24 in 2007.

**Greek Stamp Duty to be abolished** – The much trumpeted, but delayed reform of Greek Stamp Duty on insurance contracts is now underway. On February 5, 2009, the Greek Parliament passed a draft bill abolishing Stamp Duty on Life and Damage insurance from January 1, 2009. The law is not yet in force as this change has not yet been published in the Government Gazette. It is anticipated that Greek Stamp Duty will be scrapped on all other classes of insurance from January 1, 2010.

**Hungary** – It is anticipated that there will be a 3% increase in VAT (to 23%) to help deal with the economic downturn.

**India** – GIC targets Rs 150 billion premium – The state owned reinsurance company General Insurance Corporation of India (GIC) has set a target of Rs 150 billion premium income by 2015 as against Rs 93.5 billion in 2007-08. The company said that its international business will be the driver for the growth and to strengthen the business. It is planning to enter Brazil and Argentina among others. GIC Chairman and Managing Director Yogesh Lohiya said that the share of international business, which was estimated at 27% at the end of March 2008, is expected to rise to 50% by 2015. Lohiya said compared to the domestic market, international business offered 20-25% higher profits. The Indian reinsurer intends to focus on aviation reinsurance, where it is the 5<sup>th</sup> player, and other businesses such as property, energy and marine. To achieve this target, Lohiya said, the company is looking at foraying into new countries. At present, GIC has liaison, representative or branch offices in London, Moscow and Dubai. The insurer received a license from the Brazilian government recently, which will allow it to enter the reinsurance market there.

**India** – First-year premium collection by life insurance companies decreased by 2.4 per cent to Rs 522.99 billion in the April-December period last year, mainly led by a drop in the premium collection of the largest insurer, Life Insurance Corporation of India's (LIC). LIC's premium income for April-December fell by 14.8 per cent.

**India** – The Indian state owned non-life Oriental Insurance says that its gross premium was expected to rise by a little over 5% to Rs 40 billion during the current financial year as against Rs 38 billion in 2007-08. While motor accounted for 50% of the company's portfolio, health made up for Rs 5.50 billion in 2007-08 and this sector was expected to contribute around Rs 8.5 billion this year.

**India** – In case you missed it, at the end of October last year, the Indian government approved a new bill that paves the way for foreign investors to take much larger stakes in domestic insurance companies. The bill proposes raising the limit for foreign direct investment from its current level of 26% to 49%. Multinational insurers would then be free to move into a market where just 20% of the 1bn population is insured. For the original story [click here](#).

**Iran** is to alter the criteria for grading insurance companies in order to promote the industry and explore new markets. It is not easy to get information about the Iranian insurance market from people in that country but our Russian friends have managed a good overview of the market. For details [click here](#).

**Italy** – It is reported that the required paperwork on life insurers is being reduced.

**The Netherlands** – FM Global has opened an insurance branch office in Amsterdam, the Netherlands, to meet the growing insurance and loss prevention engineering needs of its clients in the Benelux region. FM Global has been servicing clients in the area for more than 40 years. FM Global now has 61 offices servicing approximately one of every three FORTUNE 1000-size companies and similar size organisations in more than 130 countries. In Europe, FM Global employs more than 800 people from its 12 offices.

Nigerian Finance Minister Warns Local Insurers – **Nigeria's** Finance Minister Remi Babalola has warned local insurers against failing to disclose sufficient relevant financial information to shareholders. He did so on the day that the government indicated that it planned to review the current Insurance Act of 2003 and the National Insurance Commission Act of 1997. On February 26, 2009, Mr. Babalola said that the Nigerian government would launch a code of Corporate Governance for the Insurance Industry. He said that “the regulatory going forward, will not tolerate insufficient financial disclosure and poor corporate governance practices. With this code of conduct in place, it is not going to be business as usual and I must stress that NAICOM must ensure its full compliance and apply sanctions where necessary”. (Source: Enstar Group)

**Poland** – Direct insurance increase – In 2009 Polish direct insurance market should be worth about 800 million PLN – as estimated by Paweł Zylm, president of BRE Ubezpieczenia TU. He wants to get 10% of the market.

**Poland** – Twelve direct insurers – Ergo Hestia will develop its direct insurance business. From the beginning of the year Ergo's clients can set up e-accounts and wait for their policies via internet. Ergo is one of the twelve Polish insurers which collect premium in such a way. In 2008 the whole direct insurance market has amounted to 520 million PLN – this is the data given by *Gazeta Prawna* daily.

**Saudi Arabia** – New regulations are to be introduced which will enhance transparency and combat fraud. New rules will apply to insurance and reinsurance companies, branches of foreign companies and brokers. A wealth of information can be found by [clicking here](#).

Atrium Underwriting Group Ltd reported that it has opened an office in **Singapore** to develop regional business on behalf of Atrium Syndicate 609 and will write a portfolio of marine and energy, aviation and non-marine short-tail business.

**Taiwan** – According to *The Economic Daily*, AEGON is looking to sell its Taiwanese business for \$117.8m.

**Turkey** – During the past couple of years there has been a flurry of European insurers establishing operations in Turkey – Aegon, Axa, Ergo and Groupama to name a few. As relations with the European Union should improve, one can expect local laws and regulations to be brought more in line with EU legislation. To find out local comment on the Turkish market and to read reactions to the way the country is going, [click here](#).

**The U.A.E.** is introducing mandatory health cover rules for new expatriates who apply for work or visit visas. The Gulf News magazine gives an outline – [click here](#).

**United Kingdom** – Businesses and homeowners battling through the recession are being hit by an increasing fire threat according to figures released by the Association of British Insurers. The cost of fire damage in 2008 rose by 16% on 2007 to a record £1.3 billion – £3.4 million every day. The figures show that in 2008:

- Commercial fire damage cost £865 million, up 15% on the previous year. School fires alone cost £33 million, with a serious school fire occurring every month on average.
- Fire damage to homes cost £408 million, up 17% on the previous year.

## ***AMERICAS***

### **ARGENTINA**

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#### **Premium Income Increased 8.2% in December**

Total premium income reached 2.55B pesos (USD 750.4M) in December 2008, showing an 8.2% increase against December 2007, reported the Argentine Insurance Companies Association (AACS). “Total 2008 sales at constant values (December 2008) reached 27.34B pesos (USD 8.05B), 8.2% above the year 2007”.

**irl** note: → 8.2% for both December and the full year.

Non-Life premium reached in December 2.01B pesos (USD 592.8M), 2% more than in November and 23.8% above December 2007. Auto totaled 894M pesos (USD 263.2M), 13.9% above November.

At the end of the year Non-Life premium represented 79% of the market total (73% in 2007) against 15.3% in Life (21%). Retirement Insurance fell from 21% in 2007 to 6%.

## **BRAZIL**

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### **Chubb's Profits Up 4.4% in 2008**

CHUBB DO BRASIL reported 2008 profits of 35.9M reales (US 15.34M) obtained through a 10.9% increase in retained premium and a lower loss ratio of 42.7%. The combined ratio was 75.9%. Chairman and CEO Acacio Queiroz estimated "more growth in 2009. We shall keep investing in our main lines, develop strategic alliances with brokers and associates that will contribute to our growth. We also expect to continue in 2009 with certain technical adjustments in our portfolios and with the company's geographic expansion".

## **LATIN AMERICA**

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### **Allianz Expects to Double Its' Latin American Income Over the Next Five Years**

Allianz expects that its Latin American operations will lead to double the Group's income in the region over the next three to five years, said Vicente Tardio, Allianz General Director for Spain, Portugal and South America. "Emerging markets are good bets for future growth, especially in Latin America", he added.

Allianz has insurance operations in Argentina, Brazil and Colombia with particular weight in large corporate risks in the last two countries. Tardio anticipated that they plan to enter the retail segment through new agreements with brokers and banks.

## **MEXICO**

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### **Economic Crisis Directly Affected Insurance Industry in 2008**

According to information anticipated by the Mexican Insurance Companies Association (AMIS) the insurance segment increased only 0.8% in 2008 against 2007 with direct premiums of 203.68B pesos (USD 13,66B). AMIS executive director Recaredo Arias said that this lower growth was due in part to a fall in Q4 sales, and also because "although the economic crisis started in late 2007, its effects on premium income were felt gradually during 2008 and specially during the last quarter".

Life premium increased 3% reaching 84.24B pesos (USD 5.65B) and Accident and Health grew 31.29B pesos (USD 2.1B). Auto and Damages, however, fell 0.3% and 8.2%, respectively. Auto premiums reached 47.31B pesos (USD 3.17B).

Recaredo Arias estimates a small growth in 2009 (0.5%) reaching about 205B pesos (USD 13.75B).

## **THE UNITED STATES**

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### **I.I.I. Insurance Issues Updates**

The Insurance Information Institute has updated six Issues Updates reports as of February 17, 2009. The reports and updated sections are:

Arson – Recent developments  
Captives and Other Risk-Financing Options – Microinsurance; Capital markets  
Compulsory Auto/Uninsured Motorists – Background: No pay, no play  
Insurance Fraud – Entire paper  
Liability System – Tort costs  
Workers Compensation – Congress; Florida; Workplace injury rates

The reports can be accessed at [http://www.iii.org/media/hottopics/#ppart\\_552522](http://www.iii.org/media/hottopics/#ppart_552522).

## **LIMRA/McKinsey Study Reveals How Life Insurers Can Optimize Advisor Performance**

A multi-faceted approach is the best way to enhance advisor performance, according to a major new study of distribution in the life insurance industry recently released by LIMRA and McKinsey & Company.

The study, conducted in the fall of 2008, surveyed more than 1,200 advisors across a broad range of distribution channels to identify the challenges facing the industry and practical steps that carriers can take to enhance productivity and retention.

Researchers found life insurance companies that recruit well-educated advisors, launch them into team-based practices, tailor support services to maximize their value, realign the role of sales managers to better meet advisor needs, and migrate experienced advisors to multi-advisor teams significantly improve advisor performance.

“Advisor-based distribution is under stress,” said Vivek Agrawal of McKinsey, a member of the team that conducted the study. “The number of advisors has remained stagnant and their average age is on the rise. While advisor income has grown over the past four years, stagnant sales and the shift toward investment products, with their lower margins, have put pressure on carrier profitability.”

“Our research with McKinsey pinpoints a number of concrete steps that companies can take to overcome these challenges and increase the success of their advisory distribution,” said Pat Leary, LIMRA analyst and also a member of the research team. “Companies can use this information to enhance productivity and retention among financial advisors.”

The LIMRA/McKinsey study identified five areas of critical importance:

**(1) Education and the right experience matter when recruiting advisors.** According to the study, advisors with a higher education (at least a Bachelor’s or Master’s degree) earn approximately 40 percent more than those without it. In addition, advisors with previous experience earn 40 percent more than those without experience in the first seven years of tenure. However, after seven years, those without previous experience (i.e. hired right from college) close that gap and earn a comparable amount. Interestingly, junior agents with previous *sales* experience on average underperform their peers.

**(2) Launching advisors into team-based practices is by far the most important factor in their success.** The LIMRA/McKinsey study reveals that advisors placed in team-based practices are 10 times as likely to succeed. This factor was the single most important predictor of advisor success, eclipsing even the impact of the individual’s attitudes.

**(3) Tailoring the services they offer advisors can help home offices achieve enhanced productivity and retention, as well as significant cost savings.** The study identified areas where there is a mismatch between the support services provided by carriers and the services that advisors most value. Carriers should focus on strengthening their services associated with ease-of-doing-business, which have a high mutual value, and continue to offer specialist support free-of-charge. Right-sizing training and realigning field management support will help companies capture significant savings.

**(4) Ensuring that field managers provide the support services that advisors value most improves a carrier's offering.** According to the study, field managers are investing their time in those support services that advisors value least. In addition, field managers are underutilized, providing support to at most 40 percent of the advisors they serve. Carriers can improve the effectiveness of their field managers and improve advisor retention by helping managers to prioritize their time, drop under-valued services and emphasize high-value services.

**(5) Migrating experienced advisors who have been operating as solo practitioners to multi-advisor teams can significantly increase the likelihood of their success.** There are two major factors that drive the success of advisors: the amount of leverage in their practice and the number of clients they serve. The study shows that top-quartile producers earn two to three times their peers, and advisors are much more likely to be in this quartile if they tailor their operating model along these two dimensions. In particular, the likelihood of success grows with increasing leverage, either through the addition of staff or the formation of multi-advisor practices. Survey data reveals that multi-advisor practices are three-to-four times more likely to succeed than solo practices. Such practices create value by improving sales productivity as well as by creating economies-of-scale.

## ***EUROPE***

### **LATVIA**

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#### **Latvia's Economy Shrinks Rapidly**

Latvia's economy has shrunk at the fastest rate since the early 1990s, when it split from the Soviet Union, the statistics office has estimated.

Gross domestic product (GDP) fell 10.5% in the last quarter of 2008 from the same period a year earlier. The Latvian economy had been booming for several years, driven by consumer demand, but was hit hard last year amid the global financial crisis.

Economists believe that Latvia's GDP could fall as much as 10% this year. "We are dropping in the hole faster than we expected," said Andris Vilks, chief economist at banking group SEB. "I would say that we will see double-digit [GDP] decreases for the first and second quarter."

Manufacturing output plummeted 11.3% in the quarter in comparison with a year ago, while the retail trade sector fell 15.6% and hotel and restaurant businesses plunged 24.8%.

Separately, Latvia's labor agency reported a rise in unemployment to 8.3% in January from 7% in December.

At the end of December, the International Monetary Fund approved a 1.68bn euro (\$2.35bn; £1.59bn) rescue loan for Latvia.

It is part of a 7.5bn-euro package that includes funding from the European Union, the World Bank and various countries.

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## **SPAIN**

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### **February 9 Terrorist Attack Will Cost Insurers Euro 3 Million**

Following its first preliminary analysis of the damages caused by the explosion in Madrid of a car bomb on February 9, Consorcio de Compensación de Seguros (CCS)<sup>2</sup> made a preliminary loss reserve of nearly 3 million Euros (USD 3.87M). CCS expects no less than 60 claims, 52 of which would involve vehicles, with a total approximate cost of 500,000 Euros (USD 646,330) and the other eight would refer to material damages to affected buildings with a “very provisional” cost of nearly 2.5M Euros (USD 3.23M). Four buildings were damaged by the explosion, and there were also some minor infrastructure damages in the area.

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## **SWITZERLAND**

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### **IAIS Issues Progress Reports Ahead of G20 Summit and FSF**

The International Association of Insurance Supervisors (IAIS) has issued two progress reports to the Group of Twenty (G20) and Financial Stability Forum (FSF). These reports respond to G20 and FSF recommendations in 2008 to enhance sound regulation, strengthen transparency and reinforce international cooperation.

They address specific actions the IAIS has recently taken, including:

- charting a new focus for the IAIS on the supervision of internationally active insurance groups;
- working with the International Organization of Securities Commissions and the Basel Committee on Banking Supervision to identify important regulatory gaps and areas for enhanced supervision;
- providing guidance on the use of supervisory colleges in group-wide supervision.

The IAIS has identified several issues facing insurers and insurance supervisors, such as:

- unregulated entities within a group, posing risks and liquidity demands for the overall group;
- the complexities of supervising cross-border groups due to varying legal environments and coordination challenges among supervisors; and
- regulatory arbitrage by taking advantage of differences in regulatory requirements.

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<sup>2</sup> CCS's activities fall within the framework of the insurance and non-insurance functions with which it has been entrusted. With regard to the former, mention must be made of its subsidiary nature, its activities in general being those of a direct insurer in the absence of any participation by the private market, as well as those activities pertaining to a guarantee fund that comes into play under certain circumstances where there is a lack of insurance, the insolvency of an insurer, etc.

Peter Braumüller, chair of the IAIS Executive Committee, noted that “the IAIS is taking an active role to closely monitor financial crisis developments and its particular impact on the global insurance sector.”

The IAIS will continue to remain vigilant and respond as issues emerge from the financial crisis. Further details on the actions taken can be found in the progress reports to the G20 and the FSF, available on the IAIS website at [www.iaisweb.org](http://www.iaisweb.org).

### **About the IAIS**

Established in 1994, the IAIS represents insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries and has also more than 120 insurance professionals, insurers, reinsurers and trade associations as observers. The IAIS issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision and works closely with other international institutions to promote financial stability.

## **THE UNITED KINGDOM**

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### **Names’ Appeals Refused**

Lloyd’s of London says that Names’ litigation against it has been ended by a recent legal decision.

The Court of Appeal in February upheld a High Court ruling that struck out a claim brought by 50 Names against Lloyd’s. That claim, the latest in a series by disgruntled Names, alleged that the description of reinsurance to close in Lloyd’s brochures and verification forms in the 1980s had been fraudulent.

In July 2008, the High Court struck out the claim and the judge in the case described the claims as “unquestionably an abuse of process”.

In the subsequent appeal, the Court of Appeal described the appeal as without merit and described it as “just part of the continuing abuse of process of the court by dissatisfied Names who are perpetually trying to find new ways of accusing Lloyd’s of fraud”.

The judge, Lord Justice Longmore, said that litigation pursued by Names should now cease, and he said that the civil restraint orders against the 50 names stopping them from bringing further claims should remain in place.

Lloyd’s welcomed the decision.

Sean McGovern, Lloyd’s general counsel, said: “The decision marks the end of perpetual litigation trying to reopen matters which have been definitively laid to rest by the Court on a number of occasions.”

### **RSA Announces Profit, Job Cuts**

RSA, the insurer formerly known as Royal & Sun Alliance Insurance Group P.L.C., announced a 7% rise in operating profit for 2008, beating analysts’ expectations.

The insurer also announced plans to make cost savings of about £70 million, largely through a program of job cuts.

RSA announced operating profit of £867 million for 2008, while pre-tax profit grew 13% to £759 million.

RSA also announced its plans to make cost savings and improve efficiencies. Part of that plan, the London-based composite insurer said, would be the loss of about 1,200 jobs by the middle of next year. That figure represents about 14% of the company's U.K. workforce.

"In a year of challenging trading conditions and volatile investment markets, we have once again delivered strong results and have strengthened the Group's net asset and regulatory capital position. These results continue to demonstrate the positive impact of our tight operational and financial management and the benefit of the Group's strong and diversified portfolio," said Andy Haste, group CEO of RSA.

"We expect to continue to face challenging conditions going forward. However, with our ongoing actions and the strength of our portfolio and balance sheet, we remain confident of continuing to deliver sustainable profitable performance and we are well positioned to take advantage of market opportunities," he added. "As it stands today, we expect to achieve a combined operating ratio for 2009 of around 95%."

On the back of the company's announcement, rating agency A.M. Best upgraded the U.K. operating units of RSA to A, from A-.

### **Hardy to Raise Capital**

Hardy Underwriting Bermuda Limited announced plans to raise £40.3 million to enable it to take advantage of improved insurance market conditions.

"Hardy is perfectly positioned to take advantage of the return of harder market conditions. We have the right team, expertise and structure to support the increased volumes of business that the Group now proposes to underwrite against a backdrop of an unbroken track record of profitability for over three decades," said Barbara Merry, chief executive of the company. "This is a significant milestone in Hardy's history and we look forward to the future with significant enthusiasm."

### **Beazley Raises Capital, Acquires Surplus Lines Writer**

London-based insurer Beazley Group P.L.C. last month announced plans to raise £150 million to support the acquisition of a U.S. underwriting manager and further growth at Lloyd's.

Beazley, which announced pre-tax profit of £87.2 million and a combined ratio of 90% for 2008, said it would acquire First State Management Group Inc. from the Hartford Financial Services Group Inc. for \$35.4 million cash.

"We called a turn in the market last October and foresaw "significant opportunities" for Beazley. Opportunities to grow our Lloyd's business and our locally underwritten US business have increased since then, with January renewals confirming our expectations of premium rate rises in many classes," said Andrew Horton, Beazley's CEO.

“The acquisition of First State marks a significant step forward in the development of our U.S. strategy, which focuses on gaining access to profitable business that would not normally come to London. We have reinsured First State for many years and the expertise of their team and quality of their broker relationships is well known to us,” he said.

Beazley also announced plans to create a new parent company for the group that will be incorporated in Jersey and tax resident in Dublin, Republic of Ireland.

This new set up will not affect the way business is written by Beazley, the company said, but would bring the company’s tax position more into line with some of its peers. “The Republic of Ireland enjoys a stable and respected legal, regulatory and tax environment. The changes to our corporate structure should enhance the group’s return on capital and competitive position,” Mr. Horton said.

## **Independent Deputy MD Fined by SFO**

The former deputy managing director of collapsed U.K. insurer Independent Insurance Co. Ltd. has been ordered to pay £1.3 million to the Serious Fraud Office.

Philip Condon, who was jailed for his role in Independent’s 2001 collapse, was given the confiscation order in March. If he does not pay the charges within six months he could face another four years in prison.

The funds will be passed on to Independent’s liquidators, PwC, according to the SFO.

The latest twist in the Independent sags follows a similar confiscation order against Denis Lomas, the former finance director of Independent, who was ordered to pay £470,113 in November.

The larger-than-life former CEO of Independent, Michael Bright, who like his former colleagues is serving jail time for fraud related to the company’s collapse, also had to pay £1.3 million through a civil settlement to PwC. Those funds were taken from Mr. Bright’s pension fund since he has no other significant assets, according to the SFO.

## **CII Get Increased Membership Backing for Improving Professionalism**

The CII Group’s fourth annual survey shows members giving increased backing to the Institute’s determination to improve professionalism within insurance and financial services.

Almost three quarters of members who responded to the online survey believe that the CII should continue to push the initiative (up 7% from last year) while 83% were aware of the campaign.

Martin Reid, Head of Membership Marketing at the CII, said the survey provides an excellent opportunity for the CII to engage with members and that the results show the fruits of the drive towards professionalism – “The research suggests that this effort is paying off. We are getting a higher profile and we are punching our weight on the public stage. That’s good for the profession and good for our members.”

“72% of members support our ambition to raise the status of insurance to be on a par with other established professions, and 81% believe we should be publishing more high profile media reports and launching more events in Westminster,” he added.

The value of CII membership has continued to improve along with other key performance measures reflecting the new services implemented by the CII. “We had a strong message in the last survey for more technical and knowledge-based services and online member benefits,” commented Reid. “We listened, implemented changes and will again look closely at the latest findings to see where we can enhance the value of membership.”

Technical and knowledge services were enhanced by a number of new services, including fact files on six topical industry issues, two training guides for starters in the industry, a monthly legal digest and the launch of Thinkpiece, a series of topical issues written by industry experts.

Amongst several initiatives implemented for online and email services, the CII launched an improved knowledge services web site, the Xpress monthly e-newsletter, online Faculty masterclasses, TCF (Treating Customers Fairly) and fraud podcasts, a career support centre and the recently published redundancy guide.

Managed by an independent research agency, the survey was issued electronically in December and was responded to by 6,008 CII members.

The CII is currently running a series of road shows throughout the UK led by CII vice president, Local Institutes, Branko Bjelobaba FCII, increasing engagement with the 60 local institutes and supporting members throughout the regions.

## **ABI: Age Restriction Would Lead to Higher Insurance Costs and Less Choice**

*Any legislation should tackle genuine discrimination, not insurance where the use of age helps to ensure*

All customers are likely to face higher insurance premiums and less choice if the Equalities Bill restricts the use by insurers of age to help them assess risk, the ABI (Association of British Insurers) warns in a recent report. The cost of travel insurance alone could double if age could not be used as a risk factor.

The report: *Age and Insurance: Helping older customers find the cover they need* shows that restricting the use of age by insurers would be:

- Unnecessary. Insurance is widely available for all customers, regardless of age. Independent research undertaken for the ABI shows that 99% of older customers are already able to find motor insurance, with 98% able to obtain travel insurance.
- Unfair. Taking age into account, where it is relevant, ensures that prices are fair to all, including older customers. In motor insurance, the average cost of a claim made by someone aged over 80 is nearly 50% higher than one made by someone aged 60. In travel insurance, the average cost of a claim made by someone aged over 65 is nearly three and a half times more than one made by someone under age 50. Restricting the use of age would mean that insurers would not be able to take account of differences in risk among older customers, unless a more intrusive and costly approach, such as individual medical assessments, were used. The additional costs would lead to higher premiums.

- Restrictive. Without sufficient age-related information, insurers would be unable to offer competitively priced cover to accurately reflect the risk. This could lead to some insurers ceasing to offer cover, and discourage those insurers who currently specialise in providing cover for older customers.

Nick Starling, the ABI's Director of General Insurance and Health, said: "The insurance industry is committed to treating people fairly, and is opposed to unfair discrimination. The Government, organisations that represent older people and the insurance industry agree that premiums should reflect individual risk.

"Insurers only use age where it is relevant, and restricting their ability to do so would rebound on all customers, through higher premiums and less choice. Any legislation should tackle genuine discrimination, not insurance where the use of age helps to ensure a wide range of products at competitive prices.

"Our research shows that travel and motor insurance is widely available to older customers. However, we recognise that some people may need more help to find the right policies for them. That is why we are working with our members, the Government and age charities to improve access to information about suitable insurance products."

## ***FAR EAST***

### **AUSTRALIA**

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#### **Australia's Black Saturday – As Fire Storm Kills 200 and Destroys 1,830 Homes**

On Saturday February 7, 2009, Australia experienced its worst bushfires on record. In the small townships surrounding the city of Melbourne and in many communities in the central part of the state of Victoria, 200 people lost their lives and 1,830 homes were raised to the ground by an intense fire storm. According to rating agency Standard and Poor's early estimates of insurance losses are expected to be more than A\$500 million and total damage including infrastructure could exceed A\$2 billion. As forensic experts sift through the remains of the destroyed communities more bodies are expected to be found. On that Saturday, the temperature reached 46 degrees C. The heat was intensified by a strong northerly wind. Some of the fires are believed to have been lit by arsonists. One man has already been arrested over the fires.

The Leader of the Opposition, Mr. Malcolm Turnbull, describes the fires as an unprecedented tragedy. He says the scale and speed of the fires, and the intensity of the heat, is literally unimaginable. The inferno was as tall as a four storey building and at one stage was sparking spot fires 40 km (25 miles) ahead of itself as the strong winds blew hot embers in its path. A team of US and Canadian fire fighters are on their way to Australia to assist local fire-fighters.

Some of the worst fires were at Kinglake and Marysville, north of the city of Melbourne. These are towns once supported thriving populations and business communities. Today there is nothing left. A class action has been issued against a private electricity company in the wake of Victoria's deadly bushfires. The Age newspaper reports that the law firm Slidders is launching a class action against Singapore-based firm SP Ausnet, which is responsible for maintaining most

of the power lines in eastern Victoria. It is believed the case centers on a fallen power line in Kilmore East that may have started the Kinglake fire, which killed 100 people.

The Federal Member of Parliament for McEwan, Fran Bailey, says local authorities have told her a fallen powerline was creating sparks on that Saturday. Ms Bailey, who represents some of the areas worst affected by bushfires in Victoria, has told the Australian Broadcasting Corporation (ABC)'s Insiders program that regional power networks need to be upgraded.

"The local CFA [Country Fire Authority] told me on that Saturday, with those very high winds, one of the lines had broken and was whipping against the ground and sparked," she said.

"Whether or not that is the cause of that terrible fire that actually took out Kinglake and maybe Marysville, the investigations will prove that, but we've got to do better." Louisa Graham from SP Ausnet says the firm will assist the relevant authorities with their inquiries.

The Age also reports the state police Phoenix task force has removed a length of the fallen power line and a pole as evidence. The lawsuit is expected to cover thousands of farmers, small business owners, tourist operators and residents who lost their homes. The action will cover this year's fires, as well as blazes in 2003, 2006 and 2007. The Age reports the utility company's liability will be capped at A\$100 million, under a deal struck by a previous state government when the State Electricity Commission was privatized in 1995. Slidders lawyers have called on people affected by the fires to detail their losses on the firm's website, saying they may be entitled to compensation. It is believed other law firms are also considering class actions.

An expert in climate modeling says next summer could see even higher fire dangers for Victoria due to extreme temperatures. It has been predicted that an El Nino climate event could hit Australia this year, causing higher than usual temperatures across the country. Professor Roger Stone from the University of Southern Queensland has told ABC Radio's AM program the added risk highlights the need for a risk-management approach.

"There's probably about a 60% chance of an El Nino developing mid-winter, and if that happens that will exacerbate the whole drought and therefore fire situation over a lot of Australia, not just Victoria," he said. A risk-management approach has to be developed that can have the contingency planning in place for such an event."

Professor Stone's warning comes as firefighters continue to battle bushfires burning across Victoria.

Meanwhile, the terms of reference for the royal commission into the Victorian bushfires have been finalized by the state government. Two assistant commissioners are expected to be named to help retired Supreme Court judge Bernard Teague. Premier John Brumby says he is expecting an interim report from the Commission later this year ahead of its final report by July 2010. Since the 1939 fires, governments have been warned by numerous inquiries after other conflagrations of the perils of not burning off forest fuel. But these recommendations have not been heeded. Repeatedly fuel reduction programs have been inadequate or not been implemented to prevent bushfires.

## **Australian General Insurance Statistics Show Continued Profits Despite Claims Increase**

The Australian Prudential Regulation Authority (APRA) has released its Half Yearly General Insurance Bulletin which is compiled from audited annual returns from APRA-regulated general insurance companies for their financial years ending in the period 1 July 2007 to 30 June 2008. The APRA noted that an aspect of the industry's performance was its sustained profitability even allowing for the increase in incurred claims and the decrease in investment income that have occurred during the period.

Insurers reported gross premium revenue of A\$30.8 billion, an increase of A\$1.3 billion on the previous year. Gross incurred claims were A\$23.0 billion. This is an increase of A\$3.0 billion on the previous year and is largely due to a continuing series of severe weather events in the 2007 and 2008 calendar years. The industry reported a net profit after tax of A\$3.4 billion, down 32.2% on the previous twelve months. Industry total assets increased by 3.5% to A\$91.1 billion.

Liabilities increased by 4.7% to A\$65.6 billion. This resulted in the industry's capital coverage reducing to 1.91 times the minimal capital requirement from 2.06 at 30 June 2007 and 2.04 at 31 December 2007.

APRA Member John Trowbridge said the industry had endured the difficult financial conditions well, but underwriting profits had begun to show the effects of the series of weather events suffered in the last two years. He said the Australian general insurance industry had to date negotiated the global financial turbulence without any material adverse impacts. This was primarily due to strong levels of capitalization, a conservative approach to investments and a generally close matching of assets and liabilities to mitigate effects of changes in interest rates on balance sheets.

### **Insurance Council of Australia Calls on Royal Commission to Look at Non-Insurance**

Non-insurance is a major problem in Australia with research commissioned by the Insurance Council of Australia (ICA) in 2007 showing that 24.5% of households in the state of Victoria do not have any home and contents insurance. In October 2008, the ICA called for Victorian householders to prepare for the impending bushfire season and to include in that planning re-assessing the value of their home and contents insurance. The ICA noted in 2008 that the social and economic costs were potentially enormous if a total loss of property occurred.

In responding to the 2009 Victorian bushfires, the ICA has called upon the Royal Commission into these bushfires to look at the issue of the ability of the community to recover from the social and economic costs arising from the total loss of life and property. As part of this issue, it said, the Royal Commission needed to consider the issue of non-insurance in the community and those factors that might contribute to non-insurance including the levels of taxation on insurance in the state of Victoria.

The ICA has also advised on updates to claim volumes and insurable costs for the Victorian bushfires and Far North Queensland floods.

“As access improves, assessors are able to move into more of the affected areas, allowing the general insurance industry to assess the damage to insured properties resulting from the Victorian bushfires. To date, approximately 60% of domestic and commercial claims received have been assessed by the general insurance industry,” said Ms Kerrie Kelly, CEO of the Insurance Council. To date, there have been 6,760 claims received. Based on these assessments the approximate value of claims including residential, commercial, industrial and farming losses is A\$810 million. In comparison, the general insurance industry has received a

total of 800 claims resulting from the floods in Far North Queensland. These claims currently have an insurable cost of A\$12million.”

## **Slight Increase in Australian Private Health Insurance**

In the December quarter of 2008, Australian private health insurance membership grew by 54,000 people, or 0.1 percentage points. A total of 44.8% of all Australians were covered by private hospital insurance, the highest proportion of people covered for hospital treatment since December 2001. This is the first release of membership figures for the period since the confirmation of the government Medicare Levy Surcharge changes, and the second full quarter since the changes were announced last May. The changes raised the thresholds for the Surcharge to A\$70,000 for singles and A\$140,000 for families, and delivered tax cuts to 250,000 Australians.

This growth in membership comes despite widespread claims of a risk of dramatically slumping membership and the crumbling of public hospitals in the aftermath of these changes. While this figure shows a modest slow in growth from the previous quarter, the fact is that membership has continued to increase and the sector is strong. The Minister for Health, Nicola Roxon, said this was an encouraging sign considering the difficult global economic circumstances. Given the economic conditions, the government will continue to closely monitor membership numbers over the coming months.

## **AUSTRALIA / NEW ZEALAND**

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### **New Zealand and Australia’s Superannuation Schemes – a Comparison**

While Australia may have had its superannuation system a lot longer than the New Zealand scheme, Australians can still learn a thing or two from New Zealanders when it comes to retirement savings and aged pensions systems. Outsourcing and investment services group, Mercer, in a recently released discussion paper – *Comparisons between New Zealand’s national superannuation savings scheme – KiwiSaver and Australia’s superannuation system: lessons for policy makers and employers* – draws comparisons between the age pension and retirement schemes in both countries on eleven different features, revealing that New Zealand’s KiwiSaver system has some clear advantages when pitted against Australia’s superannuation system, but could still benefit from some enhancements.

Paul Newfield, head of Mercer’s retirement, risk and finance business commented that the retirement savings systems in Australia and New Zealand are not often compared but the ongoing exodus of New Zealanders to Australia had put the issue well and truly in the spotlight. He said employers, in both New Zealand and Australia, with employees in both countries, should be aware of the differences between the two systems and what it all means for them and their workers.

“New Zealand recorded its highest net outflow of people moving to Australia in 2008 – there are a number of issues that employers have to consider when competing in a global market for talent, but one question that should be asked is, What can employers, and the government, do to make it more financially viable to accumulate retirement savings and eventually retire in New Zealand?” he said.

In an era when governments are concerned about the fiscal impact of an ageing population, the Australian system scores valuable points for encouraging a self-funded retirement, according to

Mercer's paper. Mercer's comparison shows that the Australian system requires a higher level of employer contributions to be paid into the fund, meaning at face value Australians are contributing more to superannuation and lower levels of contributions tax create a huge incentive to save into superannuation.

"But the major area of difference is tax on investment earnings, which is lower in Australia than New Zealand and will result in better savings outcomes. The Australian investment tax system is also much simpler for members to understand," said Mr Newfield.

"In light of this Mercer has continued to argue that the tax rate on investment earnings should be a single, preferential rate. We believe this will encourage people to transfer savings from non-superannuation assets and traditional superannuation into KiwiSaver, as well as making it easier for fund managers to report investment returns and easier for consumers to understand."

The KiwiSaver framework, which allows New Zealanders to have only one account also has a number of benefits. It avoids lost accounts, consolidates retirement savings, is simpler for employees to manager and understand, and saves employees money by avoiding multiple administration fees. There is no doubt that New Zealand's single account framework where each KiwiSaver member has one account, delivered multiple benefits, Mr Newfield said.

Another key difference between the two nations is that there is no income or assets test to access New Zealand's tax funded universal pension – New Zealand Superannuation. By comparison, Australian's must meet a range of criteria relating to age, income and assets to qualify for their age pension.

Mr. Newfield commented, "When looking at factors such as eligibility and the actual pension value New Zealand wins hands down. Not only is our system far simpler to understand and easier for the Government to administer, but the basic pension is higher in dollar terms.

Additionally, New Zealand's system acts as a universal safety net and provides a minimum income for life thus protecting New Zealanders from longevity risk and the possibility of running out of capital to fund basic living costs later in retirement.

Mercer said the differences ring true when breaking down what it would all mean for the average worker when they reach retirement age.

A comparison of two individuals both aged 25 – one in Australia, who is in the Superannuation guarantee system and one in New Zealand, who signs up to KiwiSaver, each of whom earn NZ\$50,000 in their respective currencies and each remain in those arrangements to age 65 and invest their contributions in a growth fund shows that the Australian will be better off in terms of retirement savings and the money available over their lifetime.

Mr. Newfield said this type of debate and comparison was important if New Zealand was to continue to improve the efficiencies of its saving system and remain competitive globally. He said New Zealand had many benefits to offer and it was important that the country recognized and communicate this, but by the same token it could and should look to the experience of more established superannuation systems such as Australia's.

## **INDIA**

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**Insurance Companies' Exposure in Satyam Could Reach Rs 12 billion**

The Insurance Regulatory and Development Authority (IRDA) say it does not see any major concern in the exposure of insurance companies to the scam-hit Satyam Computer Services.

“Since all the investments were done by the insurance companies within the guidelines prescribed to them, the regulator does not see the exposure as an issue which would cause concern,” Mr. J. Hari Narayan, Chairman of IRDA, told reporters.

The IRDA last month had asked companies to disclose the exact amount they pumped into Satyam after its former Chairman, Mr. B. Ramalinga Raju, confessed to have fudged the balance sheets of the company since 2001.

Mr. Narayan, however, said that since it was client-sensitive information, the regulator would not be in a position to disclose the investment of each company, the pattern and so on.

Industry estimates, however, point out that the exposure of insurance companies in Satyam could be between Rs 11 billion and Rs 12 billion.

Life Insurance Corporation (LIC) and ICICI Prudential Life Insurance, together hold about 6.81% in Satyam. While LIC holds 4.34%, ICICI Prudential has around 2.47%.

### **General Insurance Rates May Rise from April**

Premium rates for fire, engineering and motor policies may rise in India in the coming months as non-life insurance companies are anticipating reinsurance commission rates to fall when they come up for renewal in March.

With steep discounts offered last year post-detariffing, reinsurance players are worried as companies to underwrite the same amount of risk but earn much lower premium income. Commission rates are commission earned on passing on the liability to a reinsurer.

According to industry sources commission rates have come down from 45% in 2007-08 to 30-35% in 2008-09 and may fall further to 25% during the next financial year.

Commission rates on facultative reinsurance (Fac Re), or reinsurance done on a case-to-case basis is around 10% for very large deals. However, commission rates vary for different product segments.

The reinsurance rates have come under pressure in 2008 after de-tariffing of premiums. The premium collection by general insurers from fire, engineering and property segment which accounted for 30% of the industry saw discounts of 60-80% fell by more than 50%.

The insurance sector regulator, IRDA has allowed Indian insurance companies to enter into a reinsurance arrangement with reinsurers that have a minimum ‘BBB’ S&P rating for the last five years.

### **A Novel Way to Produce New Business**

*LIC to renew policies lapsed more than five years ago*

The state owned Life Insurance Corporation of India (LIC) will now renew policies that lapsed more than five years ago.

The special revival campaign, launched on January 19, stayed open until February 28.

**irl** note: → We'll follow up to see how this worked out for the LIC and report.

This is the first time that the policies lapsed for more than five years have been allowed to be renewed, said a senior official from the customer relation management department of LIC. Earlier, the corporation allowed for renewal of policies that have lapsed less than five years ago.

“This is the first time that we are offering our clients the opportunity to revive policies that lapsed seven years ago,” said D.K. Ghosh, general manager (customer relations), eastern zone, LIC.

The insurance giant has offered to revive these policies by charging 20% less on the penal interest rate.

LIC charges 8% annual interest as penalty for not paying premium within the grace period from the premium due date. The penal interest becomes applicable from the premium due date till the time the premium is paid.

The insurer allows customers to revive policies that lapsed for shorter durations.

“However, there is a restriction in the case of policies that lapsed seven years ago. Such policies should have acquired the surrender value, that is the premium should have been paid for the first three years after the policy commenced,” said Ghosh.

It is estimated that for an insurer, a life insurance policy achieves breakeven if the premium is paid for three years. The insurer begins to make profits on premiums paid after three years. Hence, a life insurance policy acquires a paid-up value — or a surrender value — after premium is paid for three years.

LIC has been sending out letters from its branches to policyholders whose policies have lapsed to inform them about the renewal offer. “We expect the scheme to generate a good response,” said the LIC official.

When asked about the response, the official said the renewal figures from across the country will be available only after the scheme closes.

## **General Insurers Seek IRDA Approval to Increase Deductibles**

Private sector general insurance companies such as ICICI Lombard, Bajaj Allianz General Insurance, Reliance General and Royal Sundaram have sought regulatory approval for hiking deductibles.

The Insurance Regulatory and Development Authority (IRDA) has allowed variation in deductibles for motor, fire and engineering policies. It has relaxed the terms for coverage of policies in these segments with effect from January 1, 2009.

Industry experts say that the deductibles will only increase in the coming years as they are among the lowest in the world. Deductibles charged in the fire and engineering segments are Rs 10,000, while in motor it starts from Rs 500 depending on the engine capacity of the vehicle and the sum insured.

So, if a product is available at a lower price, policyholders will have to shell out more at the time of damage or claim. The general rule is that higher the deductible, lower is the premium and vice versa.

Insurance advisors said that buyers should not merely look for the premium rates but also read the fine print to ensure that they are not asked to pay higher deductibles. Higher deductibles are also expected to help insurance companies discourage policyholders from making smaller claims.

## **IRDA to Make Disclosures Mandatory**

India's insurance regulator, the Insurance Regulatory and Development Authority (IRDA) expects to make it mandatory for insurance companies to make more disclosures to its policyholders. Industry analysts say that the IRDA move is to improve corporate governance of insurance companies.

Addressing the media during the launching of Star Health Insurance's health magazine, Mr. J. Hari Narayan, Chairman, IRDA, said that currently insurance companies' disclosures to the public is limited; noting that the level of disclosures made by stock market listed companies are higher.

"When people are making investments in insurance companies by buying policies they are expected to know about the company," he said. Insurance companies are governed by the Companies Act.

A committee would have to be set-up in this regard, he said, "I expect the disclosure norms to be in place by the end of the next financial year."

At present there are 22 life insurance companies in India, including the state-owned Life Insurance Corporation, and 21 general insurance companies.

## **IRDA Instructs Insurers to Avoid Mis-selling of Policies**

India's insurance sector regulator the Insurance Regulatory and Development Authority (IRDA) says that the insurance companies should provide proper understanding of the product at the time of selling a policy to avoid mis-selling.

While delivering his keynote address at a workshop on consumer grievance management in the insurance industry, organized by IRDA, Mr. J. Hari Narayan, IRDA Chairman said that mis-selling has been a major area of complaint from a consumer point of view.

In many cases, there seems to be no clarity on how to interpret a policy and its implications, Mr Narayan said.

On an average, about 300,000 complaints are registered in the country per annum while the industry is selling about 50 million policies a year, he said.

Out of this, over 100,000 complaints are on mis-selling and the remaining pertain to claim settlement and other issues, he added.

The industry, especially, private insurers, should set up benchmark time-frames for addressing various sets of complaints from the consumers, the regulator said.

The institution of ombudsman, which was introduced prior to the formation of IRDA, would also be brought under the purview of IRDA "sooner or later", Mr Narayan said adding that further streamlining of the ombudsman system could be taken up later.

IRDA will be introducing an integrated online grievance redressal system to help the policyholders, he said.

### **IRDA Plans to Issue Draft Guidelines for M&As by March 2010**

The Insurance Regulatory and Development Authority (IRDA) is expecting to put in place the draft guidelines for mergers and acquisitions (M&A) for the insurance sector and the level of disclosure by insurance firms by March 2010.

The regulator is also setting up a data warehouse for the management of health insurance claims.

IRDA Chairman J. Hari Narayan said, the draft guidelines will not only give a boost to the insurance sector, but will also help them to operate with more clarity, since there are no guidelines in place now.

IRDA is evolving rules and regulations to put in fairer corporate governance practices in the insurance sector. Since none of the insurance companies are listed with the stock exchanges, the possibilities of corporate risks could arise. To ensure that such a thing doesn't happen, the regulator might unfold fairer corporate governance guidelines for insurance in the future with many more new laws in place, he added.

Narayan said that IRDA was talking to the market regulator, Securities and Exchange Board of India, about the role of the new internal committee. The committee would come out with new directions for the insurers and would focus on improving the level of disclosure by the insurers, including cash flows.

### **Indian Life Insurers to Invest Rs 50 billion in Equities**

Indian insurance companies are expected to invest over Rs 50 billion in the Indian stock market in the month of March.

Though the growth in new sales has dipped for life insurers, the total investment in equities is around the same level as last year. Since policies sold last year are continuing, the incremental investment may be a little lower as premium collected from the sale of new policies is growing at a slower pace.

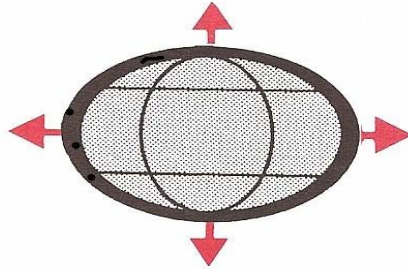
Insurers have not given up hope of additional premium mop-up in March, which accounts for almost a quarter of their annual sales.

In 2007-08, insurers invested Rs 650 billion in the stock markets. In January, chief financial officers at life insurance firms said they have parked around Rs 80 billion in equities during January and February. Between April and December, investment by insurance companies is estimated at Rs 450-500 billion.

## ***SPECIAL REPORT***

March 2009

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### **INTERNATIONAL RESEARCH SERVICES SPECIAL REPORT**

#### **FIDES Statistics: Insurance in Latin America, Portugal and Spain**

The Mexican Insurers Association (AMIS) released a report with 2007 data of member countries of the Inter-American Insurance Companies Federation (FIDES). The following is a summary of this report covering different Latin American countries.

#### **Argentina**

In 2007 Argentina's GDP grew more than 8%, in actual terms expressed in domestic constant currency.

Wages increased above inflation causing an additional demand increase which has affected prices. Unemployment decreased, but a sizable share of population still suffers insufficient income and lives in poverty or extreme poverty conditions.

550.000 new vehicles were sold, building shows significant increases and small and medium-sized companies are a sizable segment of business growth.

This has benefited insurers with an important increase in premium income.

#### **Bolivia**

Bolivia's GDP grew 4.03% in 2007 against 2006. Building, financial and insurance institutions, corporate services, transportation and storage, manufacturing, electricity, gas and water facilities, communications and trade were among the economic activities showing positive variations<sup>3</sup>.

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<sup>3</sup>Bolivian National Statistics Institute (INE).

Inflation reached 11.7%, three times as much as the Government's forecasts of early 2007. This increase was caused in part by higher prices that affect as well the other South American countries.

**Insurance:** As in previous years, fire and allied risks, engineering and liability were the largest premium earners in the market, as production and infrastructure investments demanded more insurance services. Auto insurance follows in the ranking, in line with the statutory Traffic Accidents Insurance (SOAT).

Personal insurance has grown as well in lines like life (individual and group), health, personal accidents and life annuities payable to retirees.

**Insurance density** is still very low (1.5% of GDP; US\$ 15.41 per capita expense in insurance) due to different reasons like population density, income and assets ownership distribution, industrial development and low level of social infrastructure. Although Bolivian insurance growth rates have steadily exceeded GDP development, there is still much to be done to reach other exposure segments.

The market's **net assets** reached 105M dollars, with investments in excess of 448M dollars.

## Brazil

In 2007 the macroeconomic scenario suffered a slump of the world economy and higher inflation rates pulled by increased costs of agricultural commodities and energy. The problems created by the American sub prime mortgages crisis that started during the second half-year peaked with the fall of most world stock exchanges causing a pessimistic outlook for the rest of the year and on 2008 and 2009 projections.

Inflation reached 7.75%, doubling the 2006 3.85% ratio and reversing the previous falling trend.

In spite of this scenario, GDP exceeded all expectations with a 5.4% increase against 3.8% in 2006, due to higher consumption, fall in the basic interest rate and higher investments. In this framework the insurance market reached a 3.30% GDP share against 3.17% in 2006.

**Per-Capita Premium** was of USD 202.20, exceeding the Latin American average of USD 154.10, but still far from the world average of USD 607.7. Nevertheless, Brazil enjoyed an extraordinary 25.67% increase of per-capita premium in just one year, and 56.87% against 2005 (USD 128.9%).

**Premium income, contributions and capitalization securities** increased 27.9% reaching USD 43.4 billion against 33.8B in 2006. Personal insurance showed the highest increase (35.3% or USD 19.8B) representing 45.9% of the whole market. The VGBL5 market provided a strong

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4 Instituto Nacional de Estadísticas de Bolivia INE.

5 VGBL funds hold personal voluntary savings in investment plans and only allow withdrawals under penalty. VGBL funds are customized investment tools for taxpayers who file simplified returns, while PGBL plans are for those who file itemized returns.

contribution to these results with 52.2% (USD 10.3B) of the overall Personal Insurance segment<sup>6</sup>.

**Underwriting reserves** accumulated managed assets of USD 85.5B.

## Chile

**Direct premiums** at December 2007 reached 6.17B dollars, 13.8% more than in 2006, and higher than the Insurers Association estimates of +11.9%.

**Profits** fell 24.7%, totaling USD 431.1M, 12.7% less than in 2006. This reduction was caused mostly by significant falls in life business as a consequence, among other reasons, of lower investment income, especially from variable income securities.

**Density** (Premium per capita) showed a 30% increase, reaching US\$ 371.7 (247.8 in life products, with an increase of 29%, and 123.9 in non-life, or 31% more than in 2006).

**Penetration** (premium expenditure in GDP) increased in 2007 reaching 3.55% (2006: 3.3%).

## Colombia

GDP showed a healthy increase in 2007 reaching 7.5%. Economic activity was supported mainly by investment which grew more than 15% for the third consecutive year.

In 2006 and 2007 aggregate demand grew at a higher rate than GDP causing inflationary pressure. The consumer price index exceeded the central bank's goal by 1% reaching 5.7%, causing the bank's board to introduce more restrictive monetary policies by increasing its interest rates.

Food prices were particularly affected by price increases as a consequence of growing international prices and domestic production far below the country's aggregate demand.

**Premium income** increased 6.8% after inflation in 2007, against 12.4% in 2006, showing high competition levels among insurers who tried to obtain higher market shares by lowering their prices.

**Loss ratio** (retained accounts) increased from 55.9% to 59.2% especially due to a high increase in non-life lines, while underwriting results fell 22%. Investment returns fell 6.2% and the Colombian insurance industry obtained net results 22.2% below 2006 figures.

## Guatemala<sup>7</sup>

GDP growth in 2007 did not exceed 1% in actual terms, while general inflation averaged 6.8%, 0.32% more than in 2006.

Premium income increased 8.72% in real terms against 2006. Growth was strongly supported by private life, accident and health, and auto insurance. Claims costs increased due to high auto

<sup>6</sup> According to other sources, contributions to Brazil's private pension funds, VGBL and PGDL, reached USD 12.4bn in 2008, increasing 14.5% on 2007

<sup>7</sup> Source: Banks Superintendency and "Banco de Guatemala"

and medical expenses loss ratios. Running expenses increased as well but bottom lines were positive thanks to good investment results.

## Honduras

In 2007 the economy grew 6.3% in real terms, favored mainly by the growth of manufacturing and agricultural production. Inflation was 8.9%, 3.6% more than in 2006.

At December 31, 2007 **Premium income** totaled USD 245.7M, 14.4% above 2006 in real terms, 8.1% above the national GDP growth. General risks accounted for 56.7% of the total, with fire / allied risks and auto insurance at the top of the premium income ranking. Surety insurance grew 136.7%.

**Claims** reached USD 105.7M; General Insurance and Accidents / Sickness accounted, respectively, for 52.6% and 28.7% of this figure. The retained loss ratio was 52.1% and the total loss ratio 43.0%.

**Managed assets** reached USD 352.5M, 18.1% more than in 2006, while liabilities totaled USD 212.4M (+22.4%).

**Underwriting and Mathematical Reserves** reached USD 125.5M (+20.2%).

**Net Assets** amounted to USD 140.1M, with an increase of 12.1%, mainly due to capital increases of 13.8%.

**Net profits** reached USD 25.1M, 4.2% less than in 2006, with an underwriting profit of USD 10.6M.

**Return on net premium income** was 10.2% and ROA fell 3% reaching 17.9% (20.9% in 2006).

**Payable premiums** amounted to USD 61.6M with a 90-day average collection period.

**GDP:** Insurance represented 2.2% of national GDP with a per-capita premium of USD 33.

## Mexico

**Premium income** in 2007 reached 190B pesos (approx. USD 17.43B), 11.9% more than in 2006 in actual terms or 1.95% of GDP, in line with the Mexican Insurers Association (AMIS)'s Markets Expansion Plan aiming to reach 5% of GDP by 2015-2020.

AMIS, its member companies and the regulatory and supervisory authorities agreed on micro-insurance operating rules to protect extremely poor families, launching models to insure CAT hydro-meteorologic exposures and promoting the insurance sector's participation in Social Security, among other areas.

## Panama

Panama's economy showed a significant growth over the last years; GDP grew 11.2% in 2007, one of Latin America's largest leaps, thanks to external sector growth in areas such as ports, air transportation, tourism, Colon Free Zone, etc. On the domestic front fields like building, banking, communications, wholesale trade, etc. showed remarkable growth as well.

There are 20 insurers in the **Insurance Sector** with 2,120 employees plus 2,500 licensed brokers.

**Premium Income** went up 22.0% in 2007, the highest growth in recent years, thanks to increases in Engineering Lines (220.8%), Surety (45.3%), Auto (36.5%), Personal Accident (29.8%), Multi-risk policies (28.9%), etc.

**Admitted Assets and Admitted Investments** increased by 13.7% and 14.9%, respectively.

**Claims**, however, increased as well by 19.7%, especially in Fire and Allied Risks (+193.9%), Multi-risk (+149.6%), Health (+27.2%), Marine Hulls (+20.5%) and Auto (+17.8%).

## Paraguay

Paraguayan insurance companies close their fiscal year on June 30. At June 30, 2007, total **Net Assets** reached USD 52.1M with ROA of USD 1.8M (3.5%).

**Investments** amounted to USD 30M, **Underwriting Reserves** reached USD 54.6M, with USD 130.3M in **Total Assets**.

**Premium Income** reached USD 99.6M, with an aggregate annual 5% growth over the last seven years, and represented 1.18% of 2007 GDP. **Per-Capita Premium Income** was USD 16.40

## Peru<sup>8</sup>

Peru's economy grew 9% in 2007 – the highest increase in 13 years – with 3.9% inflation.

**Net Premium Income** was of USD 1.18B or 10% more in current terms than in 2006.

**Net Claims** reached USD 797M (+51% against 2006); **Overheads** represented 16% of net premium income, 2% more than in 2006.

A major earthquake (7.9 on Richter scale) struck the center and South of Peru on August 15, 2007 causing 596 deaths and massive material damages. At the end of 2007 the insurance industry had paid USD 116.2M in earthquake claims; about 93% of this amount was paid by reinsurers.

Due to the quake, direct claims amounted to 67.5% of premium income, against 48.9% in 2006.

However, the industry showed an aggregate net profit of USD 136.5M, 11% more than in the preceding year. This net result was supported by higher financial revenue that reached USD 144.9M, covering increased net overheads of USD 39.3%, taxes and contributions (USD 3.4M) and a fall in extra profits of USD 17.7M.

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<sup>8</sup> Sources: Peruvian Insurers Association (APESEG); Banking, Insurance and Retirement Funds Superintendency (SBS) and Central Bank of Peru.

## Dominican Republic

The Dominican economy grew 8.5% in 2007, with a dynamic behavior in almost all sectors. Inflation reached 8.88%.

Insurance represented 1.48% of GDP, almost the same as in 2006 (1.47%).

Premium Income grew 15.5%. Engineering risks and Other Risks grew 63.7% and 41.7%, respectively, while Auto Hull and Liability increased 25.7%. This latter line had a 36.9% market share.

Results totaled 885.2M pesos (USD 26.7M) after income tax, 6.6% more than in 2006.

Net loss ratio increased from 55.6% to 57.6%, mainly due to losses arising from storms Noel and Olga which caused net losses of over 400M pesos (USD 12.1M).

Acquisition and Operating Costs fell slightly to 15.93% (16.13% in 2006) and 13.81% (14.00%), respectively.

Reinsurance costs (net of commission) also improved slightly to 44.81% (43.46% in 2006).

Overall insurance/reinsurance costs remained virtually unaltered (81.8% against 81.4% in 2006).

Reserves increased by 23.4%. Underwriting reserves went up 24.9% including outstanding loss reserves (+24.9%). Policyholder surplus grew 10.5%.

It should be noted that paid-up capitals fell 1.4% after the merger of two major insurers, while free reserves fell 36.3% to meet the losses caused by storms Noel and Olga.

### 2007 Insurance Figures – Latin America, Spain and Portugal Macroeconomic Data

Country	GDP % Growth	Population (Millions)	Inflation	Rate of Exchange
Argentina	8.7	36.3	8.5*	3.00
Bolivia	4.0	10.1	11.7	7.60
Brazil	5.4	187.0	7.7	1.90
Chile	5.1	16.6	7.4	495.80
Colombia	7.5	43.9	5.7	2078.50
Dom. Republic	8.5	9.4	8.9	33.1
Ecuador	2.6	13.6	3.3	n/a
El Salvador	7.4	7.1	4.9	8.8
Guatemala	1.0	14.0	6.8	7.6
Honduras	6.3	7.5	8.9	19.0
Mexico	3.3	105.8	3.8	10.9
Nicaragua	3.0	6.1	13.8	18.0
Panama	11.2	3.3	4.2	1.0
Paraguay	6.5	6.1	12.5	4900.00
Peru	9.0	28.2	3.9	3.0
Uruguay	7.2	3.2	8.5	24.3
Venezuela	8.4	27.7	18.7	2.2
Portugal	1.9	10.6	2.5	0.7

Spain	3.8	44.7	2.7	0.7
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\* Official figures. Private sources estimate between 15 and 20 percent inflation.

### Per Capita Premium and Premium as GDP%

Country	Premium Per Capita (USD Million)	Premium as GDP%
Argentina	170.0	2.97
Bolivia	17.0	1.71
Brazil	210.0	3.0
Chile	372.0	3.9
Colombia	93.0	2.8
Dom. Republic	65.0	1.5
Ecuador	56.0	3.5
Guatemala	29.0	1.2
Honduras	33.0	2.2
Mexico	165.0	1.9
Panama	181.0	3.6
Paraguay	16.0	1.1
Peru	42.0	2.0
Venezuela	208.0	2.7
Portugal	1792.0	8.5
Spain	1662.0	5.2

### Total Premium Income

Country	2007 (000 USD)	2006 (000 USD)	Variation (%)
Argentina	6,158,489	4,826,414	27.6
Bolivia	171,540	197,023	-12.9
Brazil	39,182,278	30,292,924	29.3
Chile	6,169,468	4,704,081	31.2
Colombia	4,102,081	3,203,547	28.0
Dom. Republic	611,496	529,377	15.5
Ecuador	766,556	696,241	10.1
Guatemala	403,932	330,235	22.3
Honduras	245,670	199,179	23.3
Mexico	17,454,881	15,579,989	12.0
Panama	602,745	489,580	23.1
Paraguay	97,300	79,500	22.4
Peru	1,182,222	1,078,120	9.7
Spain	74,311,000	65,692,000	13.1

# INSURANCE RESEARCH LETTER

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