The Actuarial Profession
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General insurance
Current issues newsletter

The content of this newsletter is a summary of some of the current issues that might be of interest to UK general insurance actuaries and that have come to the attention of the General insurance Communications Committee. As such it is not a complete list. Anyone who feels that relevant issues have been omitted or that the summaries are in anyway misleading is invited to contact the Chairperson of the Committee, Kate Angell.

The information provided has been derived from a variety of sources. The Committee has not been able to check independently the veracity of all of the facts stated. Any opinions expressed are those of the Committee members, and do not necessarily reflect the position of the Institute and Faculty of Actuaries.

September 2010

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1. Market news

Quinn exit latest in major PI shakeup

The solicitor professional indemnity market has undergone a significant change in the run up to the 2010 renewal season. Quinn Insurance has become the latest company not to offer renewal terms to its solicitor clients and joins major players such as Hiscox and Catlin to exit the qualifying insurer's list[1] for 2010/11 renewals. RSA, which had a 6% market share last year, will also cut a significant number of existing policies and will not take on any new business. The solicitor market has seen some very poor results in recent years causing many players to either increase premium rates and / or to reduce capacity.

It has been reported by the Law Society Gazette that Travelers has struck an exclusive agreement with Quinn's former broker, Prime Professions, to offer professional indemnity cover to sole practitioner lawyers previously covered by Quinn. However, Prime director, Richard Brown, has stressed that these solicitors could expect premium increases of up to 20% and Travelers will only take on around three-quarters of the 1,900 sole practitioners currently insured by Quinn. The remaining 500 would be faced with the challenging task of finding alternative cover.

Energy insurance in Deepwater

The US offshore energy insurance market is also experiencing a major restructuring following the worst offshore environmental disaster in history. Although the impact on market insurance losses is expected to be significantly less than that of Hurricanes Katrina, Rita and Ike, the fall-out from this event has caused many offshore energy insurers and reinsurers to reassess their involvement and restructure the cover they plan to provide.

The "modest" market loss of $1 billion could have been much worse if BP preferred to obtain insurance cover, rather than retaining all of the risk within its captive (without any reinsurance). Higher retentions have been called for from both energy companies and their primary insurers, along with high excess capacity reducing by up to 50%. Premium rates in the direct offshore energy market have increased by up to 50%, although the true impact on reinsurance rates will only be known at the major 1 January renewal date.

Work continued on the plugging of the oil well until at least mid-August through the process of pumping mud and then cement into the well to seal it. It appears that the operation has successfully sealed the well, although many people fear that the plug might not prove permanent. The clean-up operation is understood to have cost BP approximately $4 billion, the company having received 116,000 claim applications. Meanwhile, MOEX Offshore, a subsidiary of Mitsui & Co, one of BP's partners in the venture, said it was unable to quantify its exposure to loss from the event in view of the ongoing investigations and pending lawsuits.

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[1] *In order to become a qualifying insurer ("QI") insurers are required to confirm that they are willing to enter into a QI qualifying agreement including the minimum terms and conditions laid down by the Solicitors Regulatory Authority.*

Late in July, BP sold assets worth $7 billion to Apache Corporation, a US energy firm, in order to raise funds to assist with the clean-up operation among other things. The assets concerned are located in Texas, New Mexico, western Canada and Egypt.

UK motor insurance – premiums going up

Motor insurance premiums have increased by an average of 14% since October 2009, according to the AA British Insurance Premium index; the largest increase in rates for more than 15 years. The index, which is based on 1,000 insurance quotes from 90 providers, has recorded its biggest single quarterly jump (5.6%) since it began collecting figures in 1994. Premiums for third party fire and theft cover increased even more sharply, by 17.6% over the year.

One of the major drivers of the increases is the escalating cost of bodily injury claims, partly driven by increases in legal costs, which now account for about 40% of total injury claims costs. Another factor is fraud which now accounts for about £44 per household's motor premiums, a topic which is discussed further below. These effects have hit many insurers particularly hard, also impacting their prior year reserve estimates.

Average premiums on price comparison web-sites are rising even more sharply than the overall average, since dishonest individuals are said to able to manipulate their information on the price comparison sites. The AA President said he would not be surprised if premiums increased by 50% in the two years 2009 to 2011.

UK motor insurance – fraud increasing at record pace

AA Insurance says rising car insurance fraud is punishing honest drivers, with increasing car insurance fraud contributing to the fastest-ever rise in car insurance premiums. This follows a recent report published by moneysupermarket.com which suggests that one out of every 20 motorists aged under 35 has 'staged' an accident in order to make a fraudulent car insurance claim. As a result, premiums for young drivers are rising faster than average.

It is believed that dishonest claims are being encouraged by a fast-growing 'black market' of personal injury claim lawyers who are only too ready to promote 'free' cash by claiming for a relatively minor, or even non-existent, injury that people would otherwise not have thought to claim for before. Other common forms of fraud include 'fronting', where a named driver (often a young person on a parent's policy) is actually the main driver; withholding information such as past claims or convictions; telling lies about age, where the car is kept or occupation; and even cancelling direct debit payments to insurers once documents have been delivered.

Mergers and acquisitions

In mid-August, UK insurer RSA offered £5 billion (more than RSA's own market capitalisation) for Aviva's general insurance business in UK, Canada and Ireland, an offer which would be funded by a £5 billion rights issue.

The Aviva board rejected the offer stating that “the highest value to shareholders will be delivered by retaining these businesses within the group”. According to Aviva, the current joint general and life insurance business model would also require a smaller capital requirement under Solvency II given the natural diversification benefit between these types of insurance.

Some major Aviva shareholders thought there was considerable merit in such a deal and that the board did not act in the interest of its shareholders by rejecting the offer without detailed consultations. The general market feeling, however, appeared to be that RSA would need to increase their offer by about 10% for a deal to go through.

Aviation developments

Airline insurance claims in the first 6 months of 2010 are estimated at $733 million, less than half the figure for the equivalent period during 2009, which was impacted heavily by the Air France flight 447 loss. If the second half continues in the same vein, a profit can be expected for the first time in three years.

Underwriting evolution

Lloyd’s of London has joined with brokers Marsh, Cooper Gay and RK Harrison to trial the use of iPads on its underwriting floors. The trial, commencing in September and set to last for three months, will see the iPads used as an electronic slip and enable brokers to take the slips to the market electronically. It is hoped that this will speed up the underwriting process as they can review documents with underwriters and make the necessary annotations as required. It is hoped that more brokers will join the pilot scheme imminently.

Asbestos and pollution development

Rating agencies have indicated that they remain focused on insurers’ asbestos liabilities, despite the other issues facing them. This followed the publication of an update on UK asbestos liabilities by the Actuarial Profession’s UK Asbestos Working Party and the news that the Fireman’s Fund was increasing its reserves for US asbestos and pollution liabilities by $301 million, after completion of an independent review.

CNA Financial Corp has reinsured its asbestos liabilities (up to a limit of $4 billion) to National Indemnity Company, one of the principal trading companies of Berkshire Hathaway, for a premium of $2 billion. The liabilities, currently estimated at $1.6 billion, were largely written by CNA’s Continental Casualty Company subsidiary. As a result of the transaction, CNA are expected to register an accounting loss of approximately $375 million. Market reaction was generally favourable, as it substantially reduced the uncertainty regarding future profitability.

FSA fines Zurich Insurance £2.3 million

The Financial Services Authority (“FSA”) has fined the UK branch of Zurich Insurance Plc (“Zurich UK”) £2,275,000 for failing to have adequate systems and controls in place to prevent

the loss of customers' confidential information. The fine is the highest levied to date on a single firm for data security failings.

The failings came to light following the loss of 46,000 customers' personal details, including identity details, and in some cases bank account and credit card information, details about insured assets and security arrangements. The loss could have led to serious financial detriment for customers and even exposed them to the risk of burglary, although Zurich UK has seen no evidence to suggest that the personal data was compromised or misused.

Zurich UK outsourced the processing of some of its general insurance customer data to Zurich Insurance Company South Africa Limited ("Zurich SA"). In August 2008, Zurich SA lost an unencrypted back-up tape during a routine transfer to a data storage centre. As there were no proper reporting lines in place Zurich UK did not learn of the incident until a year later.

As Zurich UK agreed to settle at an early stage of the investigation the firm qualified for a 30% discount. Without this discount the firm would have been fined £3.25 million.

Lloyd's: 'big queue' of entrants in Lime Street

Lloyd's has confirmed there is a long line of aspiring entrants into Lime Street, proving that its popularity for accessing business remains undimmed despite tough market conditions. But the trend is creating a dilemma for Lloyd's, which knows that a large number of new arrivals will be unpopular with existing (re)insurers already operating in brutally competitive markets.

The new entrants include a number of brokers rushing to try and launch their first Lloyd's syndicate for approximately 30 years, following rule changes in 2008. It is rumoured that brokers such as BMS, Willis and Ryan Specialty were all looking to have syndicates established in 2011. The 1982 Lloyd's Act forbade co-ownership because of fears that brokers might be tempted to place under-priced business into the mutualised market. However, as part of an overhaul in the Society's distribution strategy the restriction was relaxed two years ago.

In addition to brokers, trade (re)insurers thought to be interested in launching underwriting operations next year in Lloyd's include the Norwegian P&I club Skuld, White Mountains Re (Sirius), China Re and the Bermudian (re)insurer Endurance.

Lloyd's capacity in 2010 is at a record high of £23 billion.

Lloyd's: first-half profit plummets to £628 million

Lloyd's pre-tax profits more than halved to £628 million for the first six months of this year, from £1.32 billion for the same period in 2009, following significant claims activity and poor investment conditions. Lloyd's underwriting profitability also plummeted to £107 million, from £678 million at June last year, amid soft pricing and a higher level of first half catastrophe claims compared to other years.

Overall, the market recorded an accident year combined ratio of 103.3% - compared with 95.5% in June 2009 - which was reduced by a prior year reserve release of 4.6% to give an overall combined ratio of 98.7%. The combined ratio for the first half of 2009 was 91.6%.

Lloyd's chairman Lord Levene summed up the period as "the costliest on record since we began interim reporting, testing not only Lloyd's but insurers around the globe". Lloyd's is materially exposed to a number of the large catastrophic events that have struck (re)insurance balance sheets during the first six months of the year. The most notable include the earthquake in Chile - which Lloyd's estimate will cost $1.4 billion in ultimate claims - and the Deepwater Horizon disaster in the Gulf of Mexico, which is expected to result in $300 million in claims. In total, major losses added 17.1% to the accident year ratio, against just 3.9% during the first half of 2009.

Meanwhile, gross written premiums in the market for the six months to June 2010 were £13.49 billion - broadly stable against the £13.46 billion booked over the same period in 2009 - with little impact from US dollar fluctuations. Lloyd's said that total premiums for established syndicates fell compared to the same period in 2009, offset by an increase in premiums written by syndicates starting in 2008 and after that are seeking to build their books of business.

Despite an unprecedented level of claims activity during the first half of the year, Lloyd's said that none of the events to date this year can be described as "market changing", noting that industry capital is now "at or near" peak levels and rates are only improving in certain lines. "Pricing levels and combined ratios are likely to come under increasing pressure without a major catalyst for change (such as a significant catastrophic event or sharp deterioration in loss ratio)," it forecasted.

Investments at Lloyd's were as expected, producing a return of £597 million over the first half of the year, compared to £708 million over the same period last year. Meanwhile, central assets stood at £2.23 billion, against £2.01 billion in June 2009.

Lloyd's CEO Richard Ward noted that the interim report comes with the caveat that, historically, the last six months of the year attract a greater number of catastrophe losses. "Indeed, forecasters predict that 2010 will experience a more active than average hurricane season," the Lloyd's CEO warned.

2. Claims and legal issues

Lloyd's insurers battle Stanford over legal bills

The jailed financier Allen Stanford is trying to force a group of Lloyd's of London underwriters to foot legal bills for his defence against $7 billion fraud charges laid by the US government, in a battle over an insurance policy indemnifying executives of his defunct business empire against litigation.

Stanford, together with several senior colleagues from his Stanford International banking group, have begun a Court case against the Lloyd's insurers in Texas, seeking an injunction forcing the insurers, led by Brit Insurance, to stump up millions of pounds for an increasingly complex and long-running criminal case.

Stanford, 60, was once a billionaire but claims to have become destitute since his arrest last year on charges of defrauding US investors with savings certificates that were allegedly a front for a pyramid scheme. The Lloyd's insurers have already paid out $6 million to cover lawyers for Stanford alone. However they balked at any further expenditure in November, arguing that Stanford and his co-defendants, who include accounting executives Mark Kuhrt and Gilbert Lopez, had breached a clause that voids the policy in the event of money laundering.

Thousands paid out in pothole claims

Council in Scotland have paid out thousands of pounds in compensation to motorists after potholes multiplied in the coldest winter for 30 years. Local authorities across Scotland saw the number of potholes on roads soar as the lowest temperatures in decades gripped the country and damaged roads.

Hundreds of claims were made from people injured in the conditions and for damage to vehicles, with more expected. Winter maintenance costs, including snow clearing and gritting, also rocketed on the previous year.

Glasgow City Council said it spent around £4 million on winter maintenance – £2.5 million more than in a normal year. The council also said they had 544 compensation claims for damage to vehicles during the cold spell – almost double the number for the same period in 2008-09.

Surge in metal theft claims hits Ecclesiastical

Ecclesiastical Insurance has seen a sharp rise in the number of metal theft claims at the beginning of the year after a calm 2009. The insurer reported 427 metal theft claims, which cost £995,000 in the four months to April, versus 190 claims, which cost £450,000 in the corresponding period last year.

The steep rise came after claims declined to just over £2 million in 2009, down from £7.98 million in the previous year. However, a strong increase in scrap metal prices since the end of 2009 has prompted a rebound in thefts.

The increase in scrap metal prices has also caused an apparent increase in the number of catalytic converters being stolen. Particularly at risk are 4x4 / off-road vehicles, because their high ground clearance means it is easier to steal the catalyst part of the exhaust.

The platinum and rhodium in the catalytic converter are the materials that the thieves are actually targeting. As well as private car owners falling victim to the thieves, car showrooms have also come under attack with catalytic converters being stolen from forecourts.

Lloyd's sees $1.4 billion of Chilean earthquake claims

Lloyd's of London has said that it estimates claims from the Chile earthquake will be around $1.4 billion, with a further $300 million to $600 million from the Deepwater Horizon explosion in the Gulf of Mexico. It said there will be a negligible impact on Lloyd's capital and no central fund exposure from the events.

Lloyd's said the preliminary figures are at the upper range of industry loss estimates and draw on market share analysis, the application of modelling techniques and a review of contracts in force as well as early estimates from each syndicate. It warned, however, that the figures could change as both events are still evolving.

Largest-ever injury payout for cyclist

A former Commonwealth Games cyclist has been awarded £14 million, Britain's largest-ever injury compensation payout. Manny Helmot was hit by a car while on a training ride in Guernsey in November 1998, suffering brain injuries and losing the use of his right arm as a result. He has constant double vision, is registered partially blind and needs 24-hour care.

His was previously awarded £9 million, but the figure was raised on appeal. Guernsey's Court of Appeal ordered the sum to be paid by the driver, Dylan Simon, his insurer Tradex and the company's reinsurers.

The highest previous award was £11 million, awarded to a car passenger who was left paralysed following a car crash.

Bermuda Igor losses 'unlikely to exceed $100mn'

Insured losses from the damage caused on Bermuda by Hurricane Igor are likely to be under $100 million, according to catastrophe modelling firm AIR Worldwide. Late on Sunday 19 September, Igor came within 40 miles of the island - where much of the world's reinsurance industry is domiciled - subjecting it to sustained category 1 winds of 75 miles per hour.

Local reports describe widespread but generally minor damage across the island. Some streets in Hamilton are covered by several inches of water and elsewhere water is said to be several feet deep. A number of low-lying coastal roads are reported to have been washed away. Some boats have broken free of their moorings and several beach clubs and other structures on the shore have sustained more significant damage. Damage to the causeway leading to the island's airport is minor. These reports and Bermuda's strict building code suggest a modelled loss of less than $100 million. The modelling firm said that Igor had now passed north of Bermuda.

3. Solvency II

Through the middle part of 2010 further milestones on the road to Solvency II implementation have been reached. The initiatives continue on all fronts and the industry gets more deeply engaged in ensuring its readiness. Below is a summary of the main developments, with particular attention paid to areas of interest to general insurance actuaries.

The arrival of QIS 5

The primary initiative of the Committee of Insurance and Occupational Pensions Supervisors ("CEIOPS") in the May to September period of 2010 has been the publication of the Quantitative Impact Study 5 ("QIS 5") process. This crucial process is expected to be absolutely central to the final calibration of the standard formula for setting capital requirements under Solvency II and is anticipated to be the last impact study. The chronology surrounding the process is as set out below:

- 6 July 2010 – CEIOPS published the final technical specification document supporting the process and calculations.
- 24 August 2010 – CEIOPS published the QIS 5 spreadsheet and accompanying documents which are required to be completed by (re)insurers.
- 31 October 2010 – This is the deadline for solo entity QIS 5 submissions.
- Mid-November 2010 – Deadline for group submissions.
- 7 and 21 September 2010 – Any updates to the QIS 5 spreadsheet to be published by CEIOPS.
- April 2011 – CEIOPS to publish its report on the QIS 5 submissions that it receives.

CEIOPS also stressed the importance it attaches to high participation rates in QIS 5 and this has been echoed by industry bodies such as the CEA, who are keen to see firms use this chance to lobby the European Union on final Solvency II capital requirements. CEIOPS is also keen to see high quality submissions in order to gauge the industry's readiness for the higher regulatory hurdles of Solvency II.

The QIS 4 specifications in general contained no great surprises for non-life insurers that have remained close to evolving Solvency II requirements and reflected consultation over the past twelve months. Expectations are for some capital requirement reductions relative to the parameter update published by CEIOPS in late 2009. Among some of the notable inclusions are the following:

- Reduction in some of the underwriting and reserve risk charge factors.
- Incorporation of the recommendations of the Catastrophe Task Force which published its report on the use of standardised scenarios in June 2010.

- Non-life firms can now discount the technical provisions at the risk-free rate plus 50% of the illiquidity premium.
- Some changes to class segmentation.
- Amendments in correlation factors in a number of areas.

Firms intending to apply for Internal Model approval are required to provide output from that model. Also forming part of the QIS 5 processes are a series of questionnaires to consolidate qualitative feedback from the industry.

The FSA and QIS 5

The FSA is strongly encouraging firms to take part in QIS 5, as the exercise will feed in to the Commission's further development of the new regulations and help to shape the final Solvency II landscape. It will also form a vital part of the preparations by both firms and regulators for the introduction of Solvency II.

QIS 5 represents the last opportunity for field testing of the current thinking on quantitative aspects of Solvency II. Ken Hogg, Director of the Insurance Sector at the FSA, said that QIS 5 "is as much about firms' transition work into the new regime and the senior management getting a solid understanding of the impacts, as it is about informing the final calibrations".

The resource angle of Solvency II hits home

The summer of 2010 has seen concerns emerge in the industry as to the resourcing pressures caused by Solvency II. As companies and regulators have gone deeper into Solvency II implementation the levels of expenditure required have come into sharper focus and the issue of availability of technical staff familiar with the regulatory requirements more pronounced.

Lloyd's has announced that it is spending some £51 million per annum on implementing Solvency II. The impact is being most keenly felt in the smaller Lloyd's Syndicates and Managing Agents, and there is speculation that the costs of implementation could lead to some consolidation in the market.

Separately, the publication of a survey by the Lloyd's Market Association ("LMA") confirmed what a big opportunity Solvency II has presented for general insurance actuaries. The LMA indicated that in 2010 there are some 382 people employed as actuaries at Lloyd's. This represented a 49% growth in the past three years - with Solvency II being a major contributory factor. Further strong growth is forecast in the next year.

Some concerns have also been voiced within the industry regarding the FSA's ability to efficiently support Solvency II implementation. This concern has come about as a result of data released to the industry detailing the high level of resignations experienced by the regulator since the start of 2009. For example, during the second quarter of 2010 the number of staff leaving the FSA rose by 128% to 121 from 53 in the same period in 2009. This staff turnover has been coupled with the departure of some high profile managers, including individuals

supporting the Solvency II project, along with the uncertainty that FSA staff face regarding the changes to its structure that were announced by the UK government in July.

The scramble for equivalence

In July, the Committee of European Insurance and Occupational Pensions Supervisors ("CEIOPS") published its highly anticipated Consultation Paper 81 on the steps to achieve Solvency II equivalence that non-European Union countries must go through to have their regulatory systems recognised as equivalent to the European Union's ("EU"). Equivalence is considered to be an advantage for regulatory jurisdictions, as insurance groups domiciled in those countries but with operations in the EU will not have to prove that they conform to Solvency II requirements at group level but only at the level of their EU operations.

CEIOPS stated that the key countries for equivalence are the United States, Switzerland and Bermuda, although they have named Bermuda and Switzerland as the only two countries being considered for equivalency assessment in the next 12 months. This restriction arises because of the lack of resources to make a decision on more than two jurisdictions in this time-scale.

In order to ensure the granting of equivalence, Bermuda has embarked on a process to evolve its regulatory system. In July the Bermuda Monetary Authority ("BMA"), which regulates insurers and reinsurers on the island, put forward consultation on the introduction of a commercial insurer's solvency self-assessment ("CISSA") the intention of which is to mirror aspects of the EU's own Solvency II Own Risk and Solvency Assessment ("ORSA") requirements. At the same time the BMA is also consulting on additional disclosure requirements for its charges which it intends having in place at the end of December 2010. The authority is also currently piloting an internal models regime with a small number of firms.

4. Government and regulatory issues

PPI news

The FSA has temporarily (for the period from 28 May to 27 October) suspended the six-month time limit, from the date of a company's final decision letter, for bringing a payment protection insurance ("PPI") complaint to the Financial Ombudsman Service. This action was taken without consultation, and will result in an unexpected increase in companies' liabilities.

Subsequent to this announcement, the FSA published a policy statement confirming its package of measures to protect consumers in the PPI market. The package will ensure customers are treated more fairly when complaining about PPI and better when buying the product. It includes:

- new handbook guidance to ensure complaints are handled properly, and redressed fairly where appropriate;
- an explanation of when and why firms should analyse their past complaints to identify if there are serious flaws in sales practices that may have affected complainants and even non-complainants; and
- an open letter setting out common sales failings to help firms identify bad practice.

Firms must implement the measures by 1 December 2010, with the time in between to prepare for implementation such as training staff to a higher level. The FSA will be monitoring firms closely to ensure the new standards are adhered to.

The policy statement follows consultation that saw significant levels of highly detailed feedback from PPI providers, sellers, trade groups and consumer bodies. The measures follow up on the FSA's commitment to reform the market and build on the agreement the FSA secured from the industry in 2009 to stop selling single premium PPI on unsecured loans. The FSA has also taken action against 24 firms and individuals for PPI failings with fines totalling approximately £13 million.

Dodd-Frank bill

The Dodd-Frank bill was finally approved by the US Senate in mid-July, and signed by Barack Obama a few days later. Although much of the bill relates to banking, the insurance industry will be significantly affected by the introduction of the Federal Insurance Office ("FIO"), a body within the Treasury which will provide Congress and the administration with information and expertise on insurance matters. However, it will not, as originally planned, regulate the insurance industry. The FIO is expected to play a pivotal role in harmonising regulatory standards and dealing with equivalence issues under Solvency II. The Act provides for pre-emption of state insurance regulations in the event that they are inconsistent with agreements between the US and other countries. It appears that the final Act has recognised that insurers, unlike banks, do not pose a systemic risk to the economy.

BAS – busy again!

Since our last newsletter the Board for Actuarial standards has continued to be busy, publishing two new draft standards, together with an updated Actuarial Quality Framework.

In June, BAS published its draft standard on pensions and insurance transformations in which the entitlements of scheme members and policyholders are changed. Within general insurance, transformations may occur, for example, where there is a transfer of a book of insurance business between insurers. Other examples covered by the draft standard include bulk transfers of members between pension schemes and re-attributions of the estates of with-profits insurers. This new standard aims to ensure that the pension trustees, courts, or others responsible for making decisions on whether transformations should go ahead are given the relevant information about how scheme members and policyholders might be affected. The consultation period for the exposure draft ended on 27 August 2010.

Also in June, following an internal review and discussions with stakeholders, the Financial Reporting Council ("FRC") has confirmed and updated its Actuarial Quality Framework ("AQF"). The AQF is a guide to assessing the quality of actuarial work for use by actuaries, users of actuarial services, advisers and policymakers. A similar framework – the Audit Quality Framework - has been developed as a tool for assessing the quality of audit work. The AQF was originally issued by the FRC as a working document in January 2009, with a commitment to review it in spring 2010, and the FRC will continue to keep the AQF under review.

In August, the BAS published its draft standard for work performed for funeral plan trusts. Funeral plan trusts provide security for customers' pre-payment of funeral costs. This new standard will ensure that the funeral plan trustees are given high quality information about the assets and liabilities of the trust including information about cash flows which will enable them to manage the trust effectively. The consultation period for the exposure draft ends on 15 October 2010.

5. International

North America

National Flood Insurance Program ("NFIP")

The Federal Emergency Management Agency ("FEMA") has confirmed that property damage caused by oil in flood waters will be covered by the NFIP. This was a particular concern following the Deepwater Horizon spill.

Damage caused by flooding is not covered by standard home or business policies. Through the NFIP, however, individuals and businesses in participating communities are able to purchase cover against direct physical loss to property by or from flooding. To be covered for oil damage, the event must first be defined as a flood.

The NFIP was recently extended to 30 September 2010. This is the most recent of a series of short-term extensions made necessary due to political disagreement as to how to reform the program which is $20 billion in debt.

Federal hurricane legislation

Congress is considering legislation to have the federal government play a larger role in the insurance of catastrophe liabilities. Opponents argue that it would require other states to subsidise hurricane prone Florida.

The proposed bill would allow states to pool their resources and spread their disaster risk and issue catastrophe bonds with a loan guarantee from the federal government.

South America

Brazil - New state-run insurance agency

Brazil's finance ministry is expected to send a bill to congress this year to set up a new state-run insurance agency. Agencia Brasileira de Garantias (Brazilian Guarantee Agency or ABG) would provide credit guarantees and surety for major infrastructure projects where private sector cover is not available, as well as export, low-cost housing, education and SME coverage.

Brazil - IFRS

Many of Brazil's insurers will have until January 2011 to begin recording IFRS compliant financial statements instead of having to be compliant for their 2010 statements. Susep, the regulator, has issued new rules pushing the requirement dates back together with exceptions and auditing requirements.

Columbia

Columbia's insurance market is opening to offshore sales. From 2013, Colombian companies and individuals will be permitted to buy insurance coverage from abroad, but will have to purchase policies in the country of the insurer issuing the policy.

Asia

India

There is a proposal to limit the liability of nuclear plant operators from accidents to 15 billion Rupees (US$322 million). The bill containing the proposal could be passed in the current session of parliament.

China

At the end of June 2010, the China Insurance Regulatory Commission ("CIRC"), the official regulator of the China insurance industry, issued the new edition of the Administrative Regulations on Reinsurance Business. The new edition came into force on 1 July 2010 and replaced the previous edition which was issued by CIRC in October 2005.

The most significant change contained in the new regulations is that the requirement was abolished that when handling treaty reinsurance or facultative reinsurance the ceding insurers in the China market should make prior offers to at least two reinsurers domiciled in China and the total share of the prior offers should not be less than 50% of the cession share. These requirements and restrictions have all been removed in the new regulations.

The other important amendment in the new regulations is that it is clearly stated that when placing property proportional reinsurance business the ceding company should not cede more than 80% of the sum insured / coverage limit per risk to the same reinsurer. This restriction is intended to prohibit the so-called fronting arrangements between domestic insurers in the China market and foreign insurers who have no business license China.

Some other enhancements appear in the new regulation as well, including risk unit definition, catastrophe reinsurance program, filing requirements and information disclosure.

The China Insurance Regulatory Commission may also start to allow foreign firms to offer mandatory liability insurance. Currently foreign insurers can offer some optional insurance, but tend to lose out to domestic insurers as customers tend to choose a single insurer for both compulsory and optional insurance.

Africa

Uganda

The Ugandan Government has indicated that it will accept insurance performance bonds from contractors. Formerly, contractors had to provide bank guarantees to protect the Government

against financial losses relating to the contractors failure to complete a contract. Insurance bonds may be accepted instead of bank guarantees provided they are on demand guarantees.

US and other sanctions

Lloyd's of London has created an insurance clause to ensure underwriters do not contravene US and other western sanctions or prohibitions on trade with, or economic sanctions against, certain countries or groups, such as Iran and Somali insurgent groups.

The clause says there are certain instances, outside the insurer's control, where the insurer cannot provide cover and will not pay claims. Whilst it was designed for marine insurance, the clause may also be used in non-marine.

South Africa

The Government has indicated its intention to introduce compulsory third party insurance for motor vehicles. It is estimated that only 35% of South Africa's vehicles are currently insured.

It is early days and various options are being considered including a fuel price levy to fund insurance cover and collecting the insurance premiums at the same time as taking out or renewing the vehicle licence.