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34TH ANNUAL GIRO CONVENTION

CELTIC MANOR RESORT, NEWPORT, WALES

Up Close and Personal

Issues affecting the Personal Lines General Insurance Market:


- Rainfall
- Update on Ogden and Courts Acts
- Mortgage indemnity and bursting the bubble
- Other emerging issues



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Up Close and Personal

Rainfall



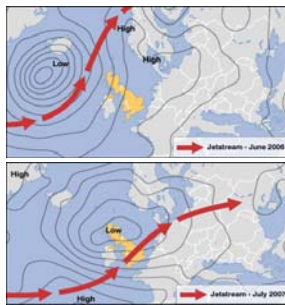
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Rainfall

- What caused the floods
- Historical data and trends
- Impacts
- Historical perspective
- Dry years

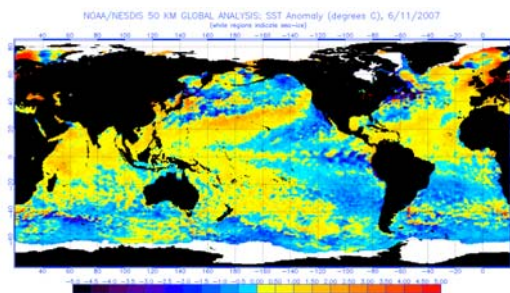
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What caused the floods?



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What caused the floods?



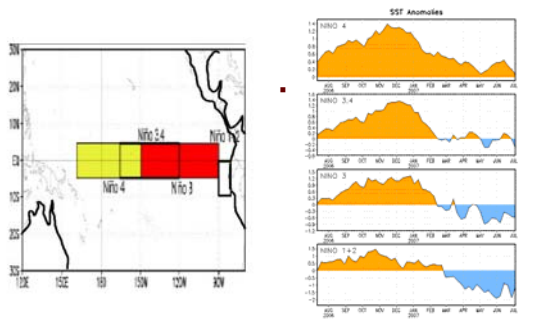
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What caused the floods?

- What is a El Nino?
 - El Nino is an oscillation of the ocean-atmosphere system in the tropical Pacific having important consequences for weather around the globe.
 - El Nino is characterized by unusually warm ocean temperatures in the Equatorial Pacific
- What is a La Nina?
 - La Nina is characterized by unusually cold ocean temperatures in the Equatorial Pacific

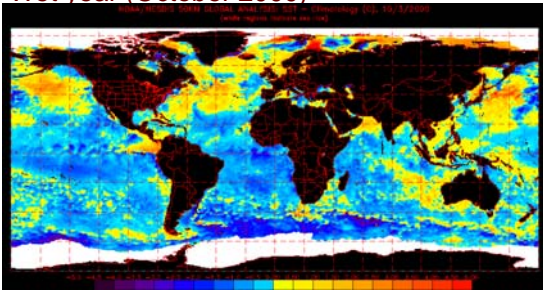
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What caused the floods?



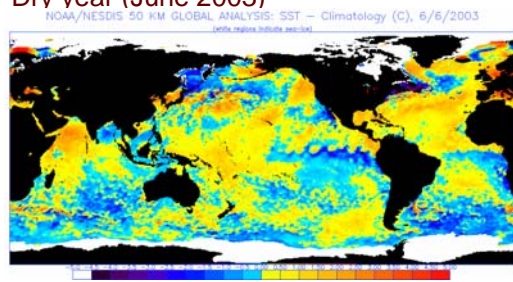
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Historical data and trends Wet year (October 2000)



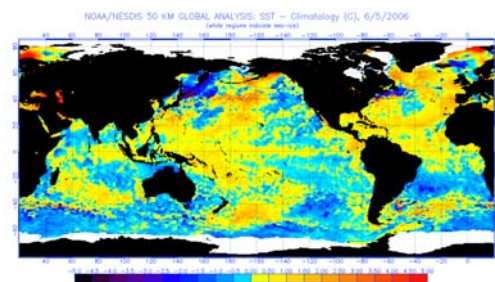
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Historical data and trends Dry year (June 2003)



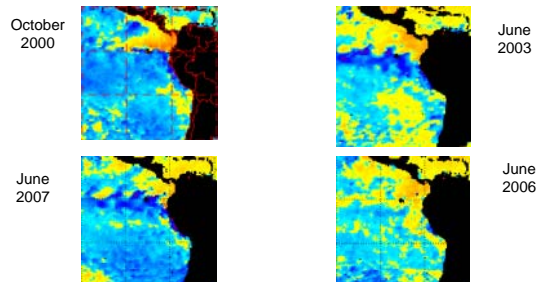
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Historical data and trends Dry year (June 2006)



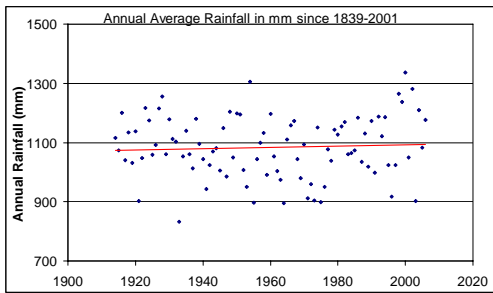
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Ocean temperature over different periods



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Historical data and trends



Source: Met Office

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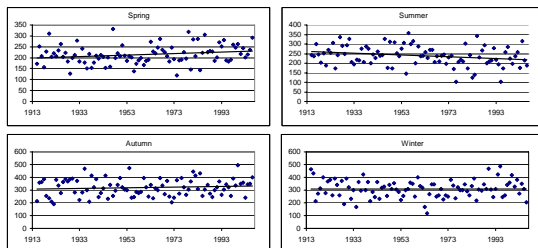
Historical data and trends

- In **winter**, there has been a statistically significant shift towards heavier rainfall. This trend is most apparent over central and eastern parts of Britain.
- In **summer**, at most locations, there has been a shift towards lighter rainfall. This pattern is strongest in south-central and northern England and in eastern Scotland.
- In spring and autumn picture is less clear.

Source: Parliament Study

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Historical data and trends

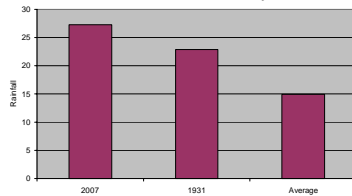


Source: Met Office

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Historical data and trends : wet years

- June and July 2007 wettest since 1914? Almost wettest? Or nowhere close?
- Rainfall in 2007 was 27.3cm, previous record was 22.8cm in 1931
- Chart of rainfall in June and July



Source: Met Office, data for UK

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Historical data and trends : dry years

- How dry was 1996 and 2003?
- In 1996 and 2003 total UK rainfall was 91.6cm and 90.2cm
- Over the past 94 years only 9 years had annual rainfall levels at or below this amount (6 years if we consider England only).
- Of the above 9 years only 3 were preceded by a year of below average rainfall, one of which was 2003.

Source: Met Office

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Impacts

June & July 2007

- insured losses at around £2.5bn to £3bn
 - add 28% to the industry's gross property loss ratio (source S&P)
- repair cost strain / demand surge will push up costs
 - Jan 2005 Carlisle floods building costs rose 50%. (source ABI)

March 1947

- insured losses of £4.5bn to £6bn if it occurred today (source Risk Management Solutions, catastrophe modellers)
- Conclusion....sorry no Crystal ball

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Up Close and Personal

OGDEN & COURTS ACT

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Ogden

- GAD published 6th version on 3 May 2007
- Mortality
 - allows for improved & improving mortality
 - includes Scotland & Northern Ireland
- Contingencies other than mortality
 - disabled spend more time out of employment
 - future employment status determined by
 - gender
 - current employment status
 - whether disabled, or not
 - educational attainment (replace occupation, industrial sector, geographic location & level of economic activity)

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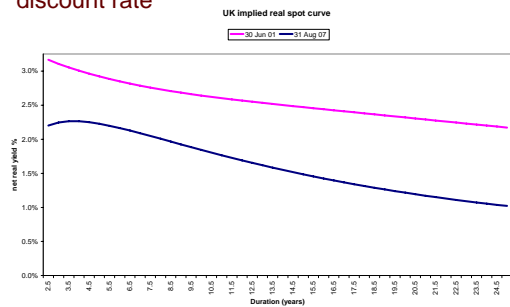
Ogden

how will the Courts deal with proposed methodology ?

- Full loss of earnings
loss x annuity x adj
- Partial loss of earnings
(loss – earnings) x annuity x adj
vs
loss x annuity x adj
less
earnings x annuity x adj*
- “Smith vs Manchester”
earnings x annuity x (adj - adj*)

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Ogden discount rate



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Courts Act

- Periodic Payments
 - take-up rate still low, especially for direct insurers
 - legal decision to use health care workers earnings index
- Effect on lump sum awards
 - opinion divided on whether this will affect the Ogden discount rate
 - critical issue : number of periodic payment settlements (using earnings index)
 - considerable downside for insurers !

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Up Close and Personal

MORTGAGE INDEMNITY
and
bursting of the property bubble

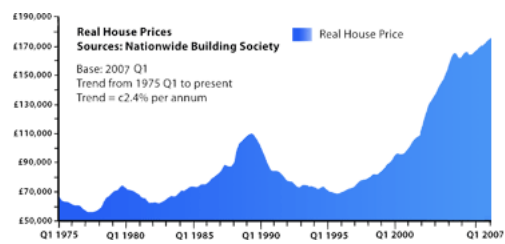
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MIG

- UK
- UK vs US
- Affordability
- US problems and UK comparators

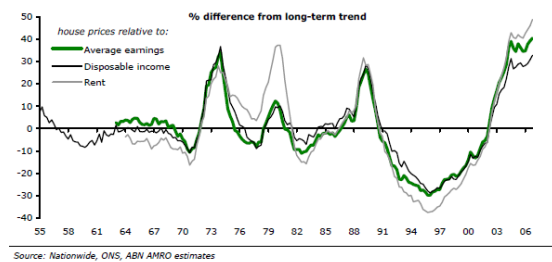
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UK Housing



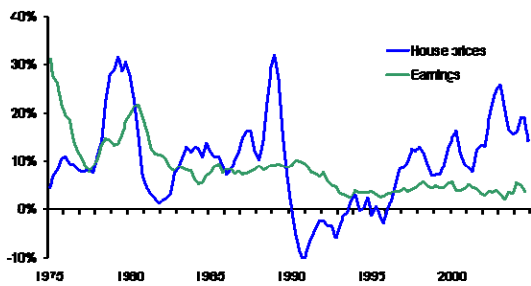
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UK housing valuation metrics



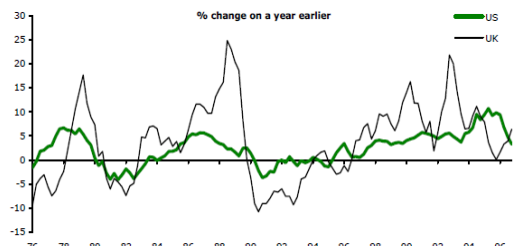
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UK Housing affordability



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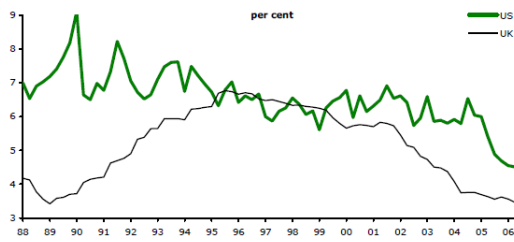
Real house prices in the US and UK



Source: OFHEO, DCLG

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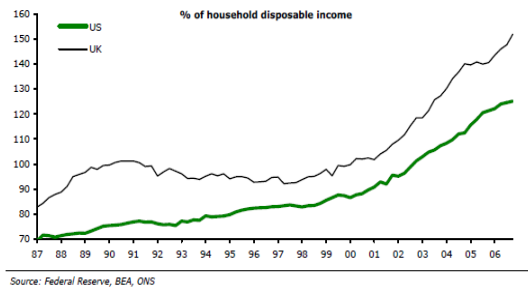
Rental yields in the US and UK



Source: Bureau of the Census, DCLG, Halifax, ONS, ABN AMRO estimates

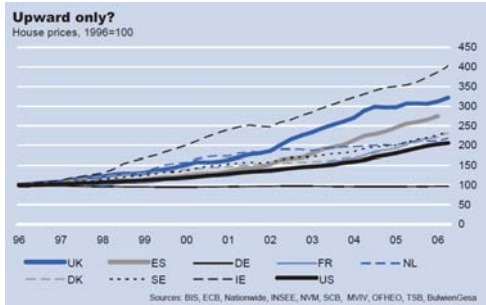
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US and UK household debt



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Housing Data & Trends



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Germany not in sync with other housing markets

Correlation coefficients, 1986-2006

	DE	DK	FR	IE	NL	SE	ES	UK	US
DE	1								
DK	-0.67	1							
FR	-0.05	0.09	1						
IE	-0.47	0.27	0.22	1					
NL	-0.24	0.17	-0.27	0.46	1				
SE	-0.08	0.19	0.63	0.50	-0.15	1			
ES	0.10	-0.20	0.81	0.06	-0.52	0.75	1		
UK	-0.53	0.21	0.57	0.44	0.06	0.50	0.53	1	
US	-0.29	0.52	0.81	0.23	-0.18	0.50	0.51	0.53	1

Note: Statistically significant positive correlations (95% confidence level) are bold.

Source: DB Research

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US - Sub-prime

- General term that refers to the practice of making loans to borrowers who do not qualify for the best market interest rate because of their deficient credit history.
- Sub-prime lending is risky for both lenders and borrowers due to the combination of high interest rates, poor credit history, and murky financial situations.
- Sub-prime lending encompasses a variety of credit instruments, including sub-prime mortgages, sub-prime car loans, and sub-prime credit cards.
- Over the past two decades, computerised databases and scoring methods have enabled lenders to classify loan applicants with greater accuracy. There has been a corresponding increase in the number of 'mainstream' lenders willing to extend credit to sub-prime applicants and even to the highest ranked sub-prime applicants. (FSA consumer research article)
- Sub-prime loans made up 20% of all new housing loans in the past two years, according to Professor Nouriel Roubini of New York University

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UK – Sub prime

- High profile lenders including Kensington Mortgages, which was recently bought by fund manager Investec, and Amber, owned by Skipton Building Society, have recently stopped selling higher-risk products.
- The possibility of bankruptcies in the sector was heightened when sub-prime lender Victoria Mortgages went into administration. Victoria sold £500m worth of mortgages last year, accounting for about 3% of the overall UK sub-prime market. At roughly £17bn this would equate to 15% of the total amount lent in 2006.
- A recent article in the Times noted that 9% of the UK mortgage market is accounted for by sub-prime with "Heavy adverse" estimated to account for a quarter of this amount. Their lending rate is linked to movements in the inter-bank lending rate.
- According to the Council of Mortgage Lenders, lenders foreclosed on 14,000 properties in the first six months of the year, 30 percent more than in the year-earlier period.

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UK – Self certification

- A self-certification mortgage is a mortgage offered on the basis of you stating what your likely income will be, rather than providing documentary evidence. But you may have to ask an accountant to back up your statement.
- You are asked to pay a higher rate because statistics show most businesses fail within the first two years of trading. And if you are left with heavy debt there is a possibility you could lose your home. (Guardian article)
- *And we specialise in providing **self certification** remortgages and secured loans, even if you've got CCJs, arrears, repossession orders, a past bankruptcy, etc. We can help with fast, friendly specialist assistance.* – Fast Money
- One finding of recent FSA study: 42% of files reviewed were for employed customers and in 83% of these cases there was either no reason, or it was unclear if there was a reason, why the customer could not verify their income.

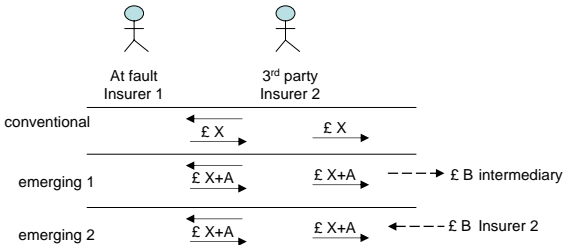
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What's next?

- Government figures show the number of households in England is expected to increase by 223,000 per annum (excluding immigration). House prices in Germany fell this year – see increase chart.
- Credit Crunch affecting businesses even where they are solvent and sound – liquidity issues.
- Bank of England guaranteeing bank accounts and lowering interest rates – solving the underlying problem or delaying the problem for another day?
- In a bleak warning, the IMF found that homes in Britain were overpriced by up to 40 per cent — far more than the overpricing in the US before the current property slump began there.

OTHER

Proposition : a case study



Up Close and Personal

THANK YOU
