



Institute  
and Faculty  
of Actuaries

## Where the bodies are

An Undertakers view of Solvency II

David Sanders

23 September 2014



Institute  
and Faculty  
of Actuaries

## Or 50 years experience

23 September 2014

erlise  
 onship  
 Thought leadership  
 Progress  
 Community  
 Sessional Meetings  
 Education  
 Working parties  
 Volunteering  
 Research  
 Shaping the future  
 Networking  
 Professional support  
 Enterprise and risk  
 Learned society  
 Opportunity  
 International profile  
 Journals  
 Support

## Agenda

- A brief history of insolvencies
- The real reason
- Does Solvency II help?
- Based on actual experience!



---

23 September 2014

## Fire Auto Marine

- Dr Emil Savundra
- Cash flow underwriting
- No Reserves (no money)
- Frost Debate



---

23 September 2014

## Vehicle & General

Largest of six companies to fail

IBNR

DTI

Uninsured Drivers (same as FAM)

Something needed to be done

## London Indemnity

- Biggest UK insolvency at that time
- Owned by Investment vehicle
- Assets “dumped” into Fund
- High interest and high dividends
- Income Bonds
- Mac Fisheries
- Reddington immunisation theory

## StockMarket Collapse 1974-1975

- Most insurers technically insolvent
- Spain changed 16% rule to 12%
- The meeting that didn't happen
- 31<sup>st</sup> December most insurers scrape through
- Compare with recent stock market collapse

## Lifeguard, Saveguard and IALA

- Lifeguard was Lloyds life insurer
- IALA rescued by Lifeguard – a cautionary tale
- Lifeguard had innovative bonus structure
- Sold too many policies
- Couldn't raise further capital in short time
- Solvent run off
- Recommenced writing 5 years later

## Nation Life

- First to use policyholder protection act
- Main investment was hole in ground in Bournemouth
- Duncan Fergusons SIAS paprt

## Others

- Crystal Life
- Income Bond mismatching

## New Legislation

- Insurance Companies Act – covered life issues
- Policyholders Protection Act

## Insurance Corporation of Ireland

- Wrote offshore business through London and Guernsey
- No controls
- Nodding donkey
- Developed reserving methods to determine “how bad”
- Eventually resold in 1994

## Dingell Reports

- Failed Promises
- Wishful Thinking
- Difficult to obtain
- Attached to pdf version

## Weavers, LUI

- CD Driver

## Kwelm

- Excel

## Spiral Business

- Getting your own back
- Who actually paid for the losses
- No exposure control (assumptions not validated)
- Equitas



## Asbestos Pollution and Health

- Events Not in Data
- One in 200 or 0.5%
- What was the real percentage?
- Perception

## Mortgage Guarantee

- Money for old rope
- Was it insurance
  - Insurer knew more than insured
  - Claims/risks not independent
  - Moral Hazard
- Mispriced options

## Equitable Life

- Reinterpretation of policy documents
- Not dissimilar to asbestos when legal judgement can result in significant increase in losses
- ENID?

## Independent

- Claims manipulation
- Seen elsewhere in Europe
- We should really question the data!

## AIG and Financial Guarantees

- The last crisis
- Money for old rope
- Similar to Mortgage guarantee crisis

## Financial Crash and Quinn

- Asset manipulation
- Loans to buy shares in Irish Bank
- See LIGI and similar 1974 losses

## Summary

- History repeats itself
- Major issues are
  - Fraud
  - Contracts not insurance in traditional sense
  - Asset issues
  - Hidden data

Does Solvency II really help