

Background & Objectives



Background

- Career
- Volunteer
- Personal



Objectives

- More appreciation of UK market issues.
- Get you thinking about how they may affect the Asia market

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Outline

- The purpose of this talk is to outline the conditions that the UK GI market is facing.
- · The focus will be on:
 - ✓ evolution and recent history of the market;
 - ✓ the key market drivers and their impact on the whole industry;
 - ✓ the reaction to and potential consequences of these drivers;
 - √ how they link to one another;
 - √ how the market conditions in the UK may translate into the Asian market.
- · Personal opinion, not of employer's.

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Overview of UK Non-Life Market



1 relative to £3,570bn for banks and £1,610bn for life insurance

Soft Market

Key Drivers

- · Lower premium rates
- · Lower profitability
- · Increasing competitive pressure

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- · Increasing competitive pressures
- Extended/relaxing terms & conditions
- Temptation to increase reserve releases
- Reliance on top-line growth
- Temptation to reduce reinsurance

Correlation 8

- · Catastrophe events
- · Reinsurance capacity
- Investment income
- Regulatory intervention
- Lessons
- Technical pricing
 - System of Governance
 - · Underwriting, Reserving, Reinsurance, Capital
 - Market consolidation

1 in 4

London Market insurers relying on investment returns to make a profit

98%

Net COR (95% adjusted for planned investment returns

30%

Premiums cut by on average property reinsurance and energy classes

Source: PwC Lo

Source: PwC London Market 2016 outlook

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Catastrophe Risk



- Absence of significant natural catastrophes
- UK Flood
- European & US Windstorm



- Usually followed by hardening of premium rates
- · 'New normal'



- Soft market
- Climate change
- Alternative investment vehicles e.g. ILS
- State intervention

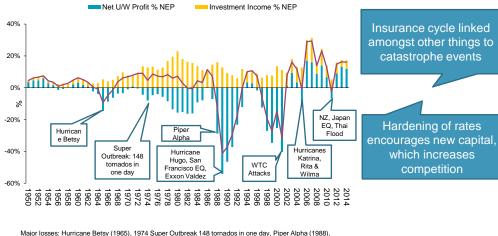


- Holistic risk management & modelling including monitoring
- Link with other professions e.g. geo-modelling



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Insurance Cycle



Major losses: Hurricane Betsy (1965), 1974 Super Outbreak 148 tornados in one day, Piper Alpha (1988). Hurricane Hugo (1989), the San Francisco Earthquake (1989), Exxon Valdez (1989) North European storms (1987 and 1990), Typhoon Mireille (1991), Hurricane Andrew (1992), Northridge Earthquake (1994), WTC (2001), Hurricanes Charlie, Francis, Ivan (2004), Hurricanes Katrina, Rita, Wilma (2005), New Zealand, Chile Earthquake (2010, New Zealand, Japan Earthquake, Thailand Flood (2011)

Source: Lloyd's Annual Reports, 4th March 2016

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Reinsurance Capacity

Key Drivers

- Abundance of reinsurance capacity
- Capital market structures allowing easy access to specific insurable risks



- · Cheap costs
- · Lack of cover



- Soft market
- Alternative investment vehicles e.g. ILS



- Understand the risk transfer and the economic impact on business planning, capital setting and reserving
- Wider associated risks to reinsurance placements e.g. credit risk





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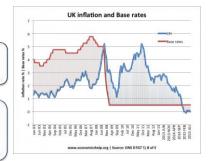
Economics

Key Drivers

- · Low interest rates
- · Low inflation rates
- · Lower oil prices

Consequences

- Lower investment returns less material for a non-life firm
- · Lower claims inflation



Correlation & Linkages

- · Lower profitability
- Higher capital relative to exposure all being equal

Business plan monitoring – gap between AvE expected to increase.



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Source: ONS Bank of England

Technology



- Cyber risk in context of security and products
- Big data



- Cyber crime & security
- All-risk cover
- · Change in pricing model



- Uncertainty in all-risk cover
- High volume of data new models?
- Regulations restrictions on use of data



- Cyber security
- Research and development







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- Periodic Payment Order (PPO)
- Climate change
- · Cyber risk



- Reserving
- Risk Management
- Capital



- Legal uncertainty
- Political pressures



- Acceptance that things will/may change
- Research and development







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Product Innovation & Market Practice



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Conclusion

- Inter-related drivers brings us where we are today nothing is truly independent.
- Be mindful of what is happening around us and how it might affect us (stress and scenario testing!).
- · Learn from history and learn from others.
- Actuarial experience and professional learning puts us in an excellent position to understand the market.

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