General Insurance Communications Committee

Current Issues Newsletter - May 2009

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 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 Faculty or Institute of Actuaries.

CONTENTS

1. Market News

D's and E's and O's

Rates for financial institutions insurance coverage have increased by about 50% over the course of the last 12 months, reflecting the enormous claims expected to affect the errors & omissions (E&O) and directors' & officers' (D&O) liability classes. Market experts have estimated that combined E&O and D&O losses could be in the region of US$6 billion to US$25 billion. There are also additional suggestions in the market that the available D&O capacity (believed to be about US$5 billion) is insufficient to cover the vast problems now being encountered in the global economy, potentially leaving senior directors and officers open to having to meet claims from their personal wealth.

US securities class actions (from which the larger claims will probably arise) increased from 176 in 2007 to 226 in 2008. An example was seen at the end of January, when a US class action was filed against Royal Bank of Scotland and its (now ex) chairman and chief executive, Sir Tom McKillop and Sir Fred Goodwin, accusing them of misleading investors in the bank's shares. The action relates largely to the RBS purchase of ABN Amro.

Stanford insurance – just not cricket

Insurance coverage bought by Stanford Financial Group (SFG), the banking and investments group at the heart of $8 billion fraud allegations from the Securities and Exchange Commission (SEC), is not expected to play ball. It is understood that SFG bought D&O insurance, Blanket Bond (BBB) insurance and E&O cover in the London Market through global insurance broker Willis.

It is unlikely that a claim under the D&O policy would be covered, as claims arising from dishonest or criminal acts are normally excluded. A claim under the BBB policy would require an extension under the fidelity section of the policy to include coverage for company directors, which is unlikely given the ownership structure at SFG. The most likely successful avenue for an insurance claim would be the E&O cover for negligence in failing properly to monitor investments controlled by the group.

The largest potential loss exposures may arise from the insurers of the professional indemnity cover purchased by the lawyers and auditors acting for SFG, or other professional advisers working for them.

AIG developments

Bonus malus

There was huge dissatisfaction, from both the US government and public opinion, following an announcement that AIG were paying bonuses totalling US$165 million to members of their staff - mainly in the Financial Products unit which caused the significant losses. These were claimed to be written into the contracts of the staff involved and required under the Connecticut Wages Act.

The US House of Representatives has since passed a motion calling for a 90% tax on bonuses paid by companies receiving bail-out funds, but there were questions as to whether this would be constitutional. At the beginning of April, the US Government Accountability Office recommended that the US Treasury should make the additional US$30 billion of aid to AIG contingent on the company renegotiating its contracts with executives, employees and financial counterparties. Edward Liddy, AIG chairman and chief executive, also called on AIG executives to return at least half their bonuses above US$100,000, with some executives actually returning their full bonus award.

Divestments

The sale of AIG assets needed to repay the bail-out funds provided by the US government continued with quite a few of the non core AIG subsidiaries being put up for sale. It was reported in early April that there were a number of parties interested in purchasing the asset management business, AIG Investments, but that the prices being suggested were disappointingly low (at under US$1 billion, compared with the hoped for US$1 billion to $2 billion). The sale of the aircraft leasing business is also progressing disappointingly slowly, with an apparent need to use some of the bailout funds to support this unit until the sale is completed. However, the sales of AIG Life of Canada, Hartford Steam Boiler and the credit card and banking business in Thailand were all finalised by mid-May, generating total funds of over US$1.1 billion. A bigger sale followed soon after with Zurich Financial Services picking up 21st Century Insurance, a California-based automobile insurer, for around US$2 billion.

Banking beneficiaries

European banks have become the largest beneficiaries from the US government bail-out money after receiving approximately half of the US$180 billion rescue fund. A large part of this total was provided to the banks in their roles as counterparties to various AIG credit default swap deals.

Good riddance

Meanwhile, the Wall Street Journal disclosed that the company's central risk committee, which reviewed and approved risk-taking decisions, "remained largely unchanged" since before the expensive venture into credit default swaps, although the name of the committee has been changed to “the finance and risk committee”. Shortly afterwards, Elizabeth Warren, the chief watchdog for the US government’s bailout plan, called for the removal of various top executives of the company.

AIG also announced that they would gradually be changing the brand name for the property/casualty business to AIU Holdings Ltd, in view of the damage caused to the AIG name.

Piracy problems

It is expected that kidnap and ransom (“K&R”) premiums for ship owners whose fleets travel in the Gulf of Aden area will rise significantly on renewal, in view of the substantial increase in the piracy problems since policies were renewed in 2008. Some premium rates are increasing by multiples of 6 or 7, and this is expected to continue at least until the autumn. Some ship owners have decided not to renew specific K&R cover, but to include protection under their hull and war risks policies.

The continuation of the problem was emphasized when two chemical tankers were hijacked within 24 hours in late March. Hijackings continued through April with a Taiwanese fishing boat, a French yacht, a Yemeni tug-boat, a German container vessel and a 32,000 tonne British bulk carrier (the Malaspina Castle) all being seized on the 5th and 6th of the month. A couple of days later, the container ship Maersk Alabama with its crew of US citizens was hijacked and the following week four further vessels, a 35,000 tonne bulk carrier, a 5,000 tonne tanker and two small Egyptian boats, followed. It is believed that this surge of activity results from the improved weather conditions as the monsoon season concluded.

Some of the pirates were killed and others captured during rescue operations by French and US forces. It was then reported that the pirate gangs had threatened to take revenge on the next vessel with French or US citizens on board.

Supply chain insurance

Claims in respect of losses due to the failure of a counterparty to a transaction, otherwise know as supply chain or trade credit insurance, have increased by approximately 40% from 2007 to 2008, according to a statement made by the Association of British Insurers. Even in the face of this increase in credit losses due to the recession, the actual value of turnover insured still increased to £302.5 billion in 2008, up from £282 billion in 2007, demonstrating the commitment of trade credit insurers to support their clients in the current economic climate.

Nick Starling, the ABI's Director of General Insurance and Health, said: "The latest rise in trade credit insurance claims, and the value of turnover covered, shows that insurers are playing a crucial role and continue to help their customers through the recession."

In addition, the Chancellor of the Exchequer announced the introduction of a government-backed trade credit insurance top-up scheme, to support the commercial market for this important class of business. This appeared to accept that the commercial market had not, as suggested in certain parts of the media, seized up due to the recession. The new scheme, which was expected to start in May, would rely on the existing market mechanisms for the acceptance and pricing of risks, but would provide additional capacity (up to £5 billion in aggregate) where necessary.

Lloyd's developments

Insurers

Brit insurance is shifting its headquarters to the Netherlands, after contemplating such a move since summer 2008. Increased tax rates and uncertainty over the impact of proposed tax reforms in respect of companies' foreign profits were the principal drivers of this move. Apparently, the Dutch government has given very clear guidance on the tax treatment of foreign profit for companies domiciled in the Netherlands, in contrast to the UK treasury's lack of clarity. The move follows rival Lloyd's insurer Beazley, which has created a new Jersey-based parent company for the group that is tax-resident in the Republic of Ireland.

It is anticipated that Brit's corporate tax rate will reduce in line with that of their peer group including Kiln, Hiscox and Hardy, which are all now domiciled in Bermuda.

Underwriting

Terrorism underwriters at Lloyd's remain keen to write the business, in spite of the fact that £40 million of capacity has been lost from the market because capital providers are supporting the UK state-run company, Pool Re, instead. The Lloyd's terrorism offering is more flexible than that of Pool Re, as the latter does not allow insureds to select which properties should be covered – it is all or none.

Capital

On 22 April, Lloyd's offered to buy back up to £100 million of subordinated debt securities – two issues due to mature in 2024 and 2025 and one perpetual security. The market is in a position to reduce its debt as a result of improving market conditions and a strong capital position.

Environmental insurance issues

The UK government proposal to encourage the use of electric or hybrid cars by providing subsidies of up to £5,000 needs to result in a major change in the insurance industry, since currently there is very limited competition for the insurance of such vehicles. The amount of data available from the 1,000 or so electric cars currently on the road provides a very limited basis on which to assess premium rates. According to European Commission standards, electric vehicles are not classed as cars, but electric quadricycles!

The Centre for Climate Change Economics and Policy (a joint venture between the University of Leeds and the London School of Economics) is to receive £3 million from Munich Re as well as a £5 million grant from the UK Economic and Social Research Council. The Centre will be researching such topics as the development of climate science and economics, adaptation to climate change and climate change mitigation. The Munich Re contribution will concentrate on evaluating the economics of climate risks and opportunities in the insurance sector.

Swiftcover to musicians

The Advertising Standards Authority has upheld viewer complaints over the latest television advertising campaign for Swiftcover, featuring Iggy Pop. As a result, the company has decided to start providing cover to musicians rather than abandoning the 'Get a life' ad campaign, which led to a 31% increase in revenue during the first quarter of 2009. Tina Shortle, marketing director of Swiftcover, said: "Iggy Pop and Swiftcover have made motor insurance interesting for a change. However, we appreciate that some musicians were disappointed that they could not get 'swiftcovered', so we are now one of the few insurers that actually insures musicians".

Interest rate cuts raise pressure on non-life insurance rates

Unprecedented interest rate cuts by global central banks in the past six months are putting pressure on the non-life insurance sector to hike technical premiums to sustain profitability as a result of reduced investment returns, according to Swiss Re.

The scale and geographic magnitude of interest rate reductions is having serious consequences, and possible further rate cuts will cause a spill over effect in insurance pricing. In the current difficult economic environment, insurers face a challenge in meeting profitability in light of interest rate reductions, with insurers required to lift technical premiums to compensate for lower investment returns.

2. Claims & Legal Issues

Fraudulent claims on the rise

The ABI has released figures showing that insurers are detecting an increased level of fraudulent claims. The number of fraudulent claims found by insurers in 2008 was 107,000, an increase of 17% since 2007. The value of these claims was estimated at £730 million, a 30% increase on the previous year. Increased fraud is expected through a recession, though the increased number of fraud detected may also be a result of better fraud detection measures utilised by insurers.

Record spinal injury payout

A £8.1 million claim award has been made in respect of a spinal injury claim. The claimant, Callum Eriksson, was accidentally run over by his father in March 2002 when he was two and a half years old. The award includes a periodical payment of £220,000 per annum.

Periodical payments appear to be becoming more of a permanent feature of the compensation environment.

Pleural plaques – insurers launch judicial review

A judicial review has been lodged by Aviva, AXA Insurance, RSA and Zurich against The Damages (Asbestos-related conditions) (Scotland) Act. The Act makes pleural plaques a compensatable condition in Scotland, overturning a House of Lords ruling that found plaques should be non-compensatable, since they are symptomless (Rothwell, 2007).

Insurers are arguing that the Act:

- ignores medical evidence that plaques are symptomless and do not cause asbestos-related conditions, such as mesothelioma;
- overturns a fundamental UK legal principle that compensation is payable only where physical harm has been suffered through negligent exposure to a risk;
- fails to assess fully the financial impact on Scottish firms and taxpayers; and
- could lead to a rise in claims from people exposed to a risk, but having no symptoms - this would mean higher insurance costs for all firms and damage the economy.

Australian bushfires

The Australian state of Victoria was devastated by bushfires in February 2009, resulting in Australia's highest ever loss of life from a bushfire. A total of 173 people are confirmed to have died in the fires with around 500 injured. The fires destroyed at least 2,029 homes, 3,500 structures in total and damaged thousands more. The current estimated insurable cost is A$1.2 billion.

Insurance recoveries in Madoff case

An article in the National Law Journal has recently suggested that insurance claims will probably not be the primary thrust of litigation in the Bernard Madoff scandal since the huge amount lost by investors will probably largely exceed any insurance coverage that Madoff had in force. The reporting law firm says that most investors can hope at best to recover a tiny fraction of their losses from insurers, probably through directors and officers coverage or errors and omissions coverage claims. Interestingly, it has also suggested that alternatively investors may try to recover some of their losses through their homeowners insurance which may offer limited coverage for securities losses from theft.

Insurance and legal costs surge in wake of Madoff fraud

Insurance companies and Lloyd's report they have raised premiums for insurance against legal claims on corporations and their directors. Although several class actions against feeder funds and funds of funds that invested with Madoff will be on a no-win no-fee basis, some are reporting they are already paying for legal advice. These costs are expected to surge if, as is likely, court cases will surge.

3. Solvency II

Political and legislative update

April and May 2009 witnessed two key milestones in the European Union's (EU) Solvency II project. Following on from political divisions that emerged in the latter part of 2008 regarding the Solvency II Framework Directive, the various institutions and member states of the EU reached a compromise that saw the Solvency II Directive ratified by the European Parliament in April and then approved by the Economic and Financial Affairs Council in early May.

The political agreements remove all residual uncertainty regarding the shape of Solvency II for the insurance industry and put the regime on track for implementation as planned in October 2012. The focus for the institutions of the EU now turns entirely to the implementation phase of the project.

The main compromise elements within the Solvency II Directive text are as follows:

- Omission of articles relating to group support
    - This removes the ability of firms to manage capital centrally and allocate group level diversification benefits out to subsidiaries. In effect each subsidiary will need to hold sufficient capital for its own individual Solvency Capital Requirement ('SCR').
    - A backstop allowing the EU to reintroduce the group support regime is contained within the Directive. The relevant articles can be reviewed again three years after the implementation of the Solvency II regime (2015 if implementation is completed as planned in 2012).
- Introduction of a mechanism within the standard approach to adjust the size of the equity stress factor to reflect the position of equity markets relative to the historical position.
- Clarification of the requirement to include one year of new business in the SCR calculation.
- Introduction of a cap and floor on the Minimum Capital Requirement (MCR) relative to the SCR. These limits are 45% and 25% respectively.
- Strengthening of the group supervision articles allowing for a supra-national group of supervisors to oversee the supervision of insurance groups.

- Inclusion of the proportionality principle, which allows regulators to calibrate the supervisory process to the size, nature and complexity of the enterprise under review so that insurance vehicles such as captives are not penalised by the regime. Specific mention is made to the need for the Actuarial Function to have skills and expertise commensurate with the size and nature of the insurance firm.

Industry response to the compromise has generally been favourable as practitioners view the removal of uncertainty in a favourable light. Some commentators have expressed disappointment about the compromise on group support indicating that an opportunity has been missed to strengthen supervision at a time when the financial crisis has emphasised the need for overall enterprise level risk management.

CEIOPS' recent activities

In tandem with the political negotiations and agreements that have been taking place in the early months of 2009, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has been engaged in working on some of the practical aspects of Solvency II, in particular, those surrounding implementation of the regime.

Key amongst CEIOPS ongoing initiatives are those surrounding the Level 2 Implementing Measures. Of particular interest to practitioners are a group of twelve (yes, 12) consultation papers released in March. This is the first set of three consultation phases designed to help the industry understand and provide feedback on how Solvency II will be implemented in practice. Topics covered in this consultation phase include best estimates of insurance liabilities, rules and guidance for supervisors of insurance entities and the approval process for internal models. The first phase of consultation is open until June 2009.

All of the consultation papers released by CEIOPS in March 2009 can be found at : http://www.ceiops.eu/content/view/14/18/.

The Level 2 Implementing Measures process will also include a QIS 5 exercise. This is anticipated to run from April 2010 at present.

During the first part of the year CEIOPS also released a number of other papers that may be of interest to insurance practitioners. These include:

- a report on lessons to be drawn from the credit crunch by insurers; and
- a report by the Internal Models Expert Group run by CEIOPS introducing the process for approval of internal models and providing an explanatory document for supervisors on current industry practice in this arena.

These two papers can be downloaded from the following web locations :

- http://www.ceiops.eu/media/files/publications/reports/CEIOPS-SEC-107-08-Lessons-learned-from-the-crisis-SII-and-beyond.pdf
- http://www.ceiops.eu/media/files/publications/reports/Stock-taking-report-on-the-use-of-Internal-Models-in-Insurance.pdf

FSA feedback statement on DP 08/04 "Insurance Risk Management: The Path to Solvency II"

In early May, the FSA published its feedback on responses to the Discussion Paper DP 08/04 that was released in September 2008.

The original discussion paper highlighted the key elements of the Solvency II regime and the actions that UK insurers should be undertaking. This feedback statement summarises the responses received on the questions it raised within the DP, and gives the FSA comment on these responses. Some key themes from the Feedback Statement are laid out below :

- The FSA expressed pleasure at the engagement shown by the UK industry with the Solvency II process identifying such areas as the QIS 4 participation rate and the progress being made in the internal modelling arena as positives.
- The proportionality principle – the need for the firm's risk management process and capital measurement process to reflect the nature and size of the enterprise is referenced throughout the Feedback Statement including in relation to the Actuarial Function, internal modelling and the Own Risk & Solvency Assessment (ORSA) process.
- Those responsible for Solvency II within firms should be following closely the implementing measure advice emanating from CEIOPS on a range of topics including the ORSA process, internal modelling and the Use Test.

The Feedback Statement can be downloaded from the following web address below : http://www.fsa.gov.uk/pubs/discussion/fs09_01.pdf.

FSA special project fees

The FSA has indicated an intention to levy charges of £7.2 million on the UK insurance industry in 2009/2010 in order to recover some of the cost associated with Solvency II. The fees are related to work being done generally on Solvency II but also to work related specifically to the Internal Model Approval Process.

4. Government & Regulatory Issues

FSA's General Insurance Newsletter

The FSA has published the latest edition of its' General Insurance Newsletter, at http://www.fsa.gov.uk/pubs/newsletters/gi_newsletter16.pdf. The main issues covered include :

- a summary of the Competition Commission's final report into the PPI market and the impact on the Insurance Conduct of Business Sourcebook;
- an update on the regulation of connected travel insurance; and
- conclusions from the review of insurance comparison websites.

FSA implements changes to simplify FSCS

The FSA is to go ahead with proposed changes to the compensation limits for insurance in the event of a firm failing, designed to achieve greater simplicity and consistency in the Financial Services Compensation Scheme (FSCS).

The changes will come into effect from 1 January 2010. For insurance, the changes include that, for non-compulsory insurances, protection will be for 90% of the claim, with no upper limit (compared with the current protection of 100% of the first £2,000 and 90% of the remainder, with no upper limit).

There will be no change to compulsory insurance, such as motor third party and employers' liability insurance. This will remain at 100% protection with no upper limit.

FSA asks firms to stop selling single premium PPI

The Financial Services Authority has written to all firms still selling single premium Payment Protection Insurance with unsecured personal loans asking them to withdraw the product as soon as possible, and by no later than 29 May. The letter, which has been sent to chief executives, follows the decision last month by a number of major banks to stop selling this product.

ABI report on restricting age as a rating factor

The ABI has published a report on the impact of restricting age as a rating factor in general insurance. The report states that this would lead to higher insurance costs and less choice and would be:

- unnecessary. as typically insurance is available for all customers regardless of age;
- unfair, as it is shown that the cost of a claim increases with age; and
- restrictive, as it may lead to insurers withdrawing cover.

The ABI report can be found at http://www.abi.org.uk/Newsreleases/viewNewsRelease.asp?nrid=17375.

5. International

Americas

Cat Bonds weathering the storm

According to a report by Guy Carpenter, the catastrophe bond market is weathering the effects of the global financial downturn. The number of cat bonds issued in the first quarter of 2009 was equal to those issued in the first quarter of 2008. The amount of risk capital issued was US$575 million, down 6.5% from US$615 million for the same quarter a year ago. All three transactions issued in the first quarter of 2009 were for US perils only, with US$150 million exposed specifically to Florida wind.

Drop in predicted number of storms

Hurricane forecasters at Colorado State University are now predicting 12 named storms this tropical season, down from 14 in their earlier prediction. The forecasters are predicting that six storms will become hurricanes and two will become major hurricanes (Category 3 and above, with sustained winds of at least 111 mph). They have estimated the probability of a major hurricane making landfall along the US coastline to be 54%.

Lloyd’s US regulation

Lord Levene, chairman of Lloyd’s, has described as “fundamentally wrong” the existing US framework for reinsurance regulation, and criticised the principle of the modernisation framework put forward by the National Association of Insurance Commissioners, which continues with the principle of having different rules for US and alien reinsurers. Under the proposed changes, Lloyd’s would have to post security amounting to 20% of premiums written, a reduction from the current 100%, but Lord Levene described this as “still not good enough”.

Florida Hurricane Catastrophe Fund

A Florida senate committee is considering a revamp of the state’s catastrophe fund. This includes cutting back Florida Hurricane Catastrophe Fund capacity (which expanded enormously in 2007) by US$12bn over a 6-year period. In addition, the proposals would allow Citizens, the state’s insurer of last resort, which is in a somewhat precarious financial condition, to charge actuarially sound premium rates.

The proposed measures will raise rates for customers of Citizens by a state wide average of 10% a year, with the ability to raise individual policies by up to 20%. Premium rates will rise from 1 January 2010 — the date when Citizens' three year price freeze ends. Supporters of the proposals say the increases are needed because Citizens rates, frozen in 2007, do not adequately represent the risk those homeowner face in the event of a storm. State regulators estimate that on average, Citizens rates are about half of what they should be. But if officials were to let the freeze simply expire, and let rates rise to their actuarially sound level all at once, some coastal residents could see their rates more than double and in some counties they might go up by as much as 1000%.

The proposals, which would be expected to increase the business written in the commercial market, met general approval from insurance industry representatives, and resulted in an early start to the renewal season for hurricane insurance.

Texas Senate moves TWIA bill

In a similar story in Texas, the Senate has passed a bill that would allow the Texas Windstorm Insurance Association to increase rates by a state wide average of about 5% each year for three years in an attempt to bring the last-resort insurer to a more actuarially sound point.

The bill would give TWIA the authority to issue bonds of up to US$600 million before or after a storm, and gives the go-ahead for the state to give TWIA US$300 million to US$500 million in order for it to buy reinsurance. The proposal also includes a one-time charge of US$400 million to member insurers if losses exceed the Catastrophe Reserve Trust Fund.

Industry officials have declared TWIA in financial crisis. While it continues to pay claims from Hurricane Ike last September, TWIA has depleted the Cat Fund and its' reinsurance expires on 31 May. TWIA used up all of the cash it had on hand after Hurricane Dolly in July 2008.

New York Insurance Exchange

New York State Insurance Superintendent, Eric Dinallo, has confirmed that plans are underway to revive the New York Insurance Exchange ("NYIE") which was established in 1980 as a direct competitor for Lloyd's, but failed spectacularly in 1987, with 10 of the 50 syndicates declared insolvent. The new NYIE is said to be aiming to take business primarily from the Bermudian market, President Obama having expressed the view that he may initiate a crackdown on the use of offshore domiciles. It could also permit members to transact business across state boundaries without the need to obtain separate authorisation in each state.

Asia

Japan - Merger news

Towards the end of January, Mitsui Sumitomo, Aioi Insurance and Nissay Dowa General (respectively the second, fourth and sixth largest Japanese non-life insurers) announced plans to merge by April 2010. The resulting company would become the largest insurer in Japan, with joint non-life premium income of Yen2.7trn (approximately US$29.7bn), taking over from Tokio Marine which has a premium income of around Yen2.2trn. The credit rating agencies took a negative view of the proposed merger.

Hong Kong - Regulator takes control of motor insurer

The Hong Kong Insurance Authority has seized control of domestic non-life insurer Anglo Starlite Insurance Co Ltd, which it said is suspected to have misrepresented its financial status and could be insolvent. The regulator said that about 16,000 policyholders are involved. Of those, 15,906 have motor insurance policies and 32 hold employee compensation policies.

Anglo Starlite has about HK$272 million (US$35.1 million) in outstanding claims. Starlite's statutory deposits, together with resources available in Hong Kong's Insolvency Fund, total about HK$2 billion. Those funds, managed by the Motor Insurers' Bureau, are expected "to be able to meet all the valid outstanding insurance claims," said the Insurance Authority in a statement.

The regulator said it has taken a number of actions on Anglo Starlite, including a requirement to place a statutory deposit of HK$200 million in the name of the Insurance Authority, and a limit on the number of policies and gross premiums the company could underwrite annually.

Based on market intelligence and individual complaints, the Insurance Authority decided in April to investigate and verify the bank deposits and other assets reportedly held by Anglo Starlite. The regulator claimed that during the investigations, it found that some deposit receipts provided by the company are suspect and that the company would become insolvent if those deposits were to be discounted.

Joint managers, appointed by the Insurance Authority, will conduct an assessment of the financial position of Anglo Starlite. Incorporated in Hong Kong in 1980, Anglo Starlite has a 4.9% share of the motor vehicle business in Hong Kong. The company employs 44 people.

China - Insurers banned from raising solvency via reserves

Insurers in China are prohibited to raise profit and solvency via providing less reserves for unpaid indemnity according to the China Insurance Regulatory Commission (CIRC), the top Chinese insurance regulator.

Yong An Property Insurance Company Limited, a Xi'an-based insurer, was fined CNY 300,000 by the CIRC in February 2009 for falsifying a pre-tax operating profit of CNY 215 million in 2007. In addition, the top actuary of the insurer was asked to resign. An announcement from the CIRC showed that Yong An's reserves provision for unpaid indemnity in 2007 was CNY 215 million less than required, which caused its solvency adequacy ratio to increase to negative 151% as at the end of 2007 from previously negative 184%.

Insurers in the country should provide unpaid indemnity reserves for property insurance business, liability insurance business and one-year life insurance business, according to concerned rules and regulations by the CIRC.

South America

Brazil: Reinsurance growth to outpace insurance market

The growth in Brazil's reinsurance market will likely outpace premium growth in insurance in 2009 according to regulator Susep. Analyst projections for reinsurance growth in 2009 hover between 20% and 25%. While Susep have not yet released 2008's reinsurance premium figures, the report projects close to 4bn reais (US$1.68bn) in reinsurance premiums for last year.

Brazil's insurance premiums grew 15.1% in 2008, reaching 67.3bn reais, Susep showed in its latest statistical report. Brazil now has 55 reinsurers and 31 reinsurance brokers registered since the market opened in April 2008.

Australia

The Australian Prudential Regulation Authority (APRA) 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. Of most note is the sustained profitability of the industry 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 $30.8 billion, an increase of $1.3 billion on the previous year. Gross incurred claims were $23.0 billion. This is an increase of

$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 $3.4 billion, down 32.2% on the previous twelve months. Industry total assets increased by 3.5% to $91.1 billion. Liabilities increased by 4.7% to $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.