

Current Issues in General Insurance
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The catastrophes of 2011 and their impact on 2012

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2011 Catastrophic Events Industry Insured Loss Estimates

- New Zealand EQs

- \$12bn

- Japan EQ

- \$35bn

- US Tornadoes*

- \$14.3bn

- Hurricane Irene

- \$5.3bn

- Thai Floods

- \$12bn



Sigma 2012

2011 Natural Catastrophes

Second Highest Year for Insured Losses on Record

- High frequency of events
- Large non-modelled components
- Largely impacting insurers earnings rather than capital
- Volatile loss estimates
 - Unique features of each event
 - Slow information flow

2011 Natural Catastrophes

Japanese Earthquake, March 2011

- Magnitude 9.0
 - Not expected by scientific community
 - Not included within vendor model event sets
- Non-modelled secondary peril
 - 40m high tsunami travelled up to 10km inland



Reserving Issues

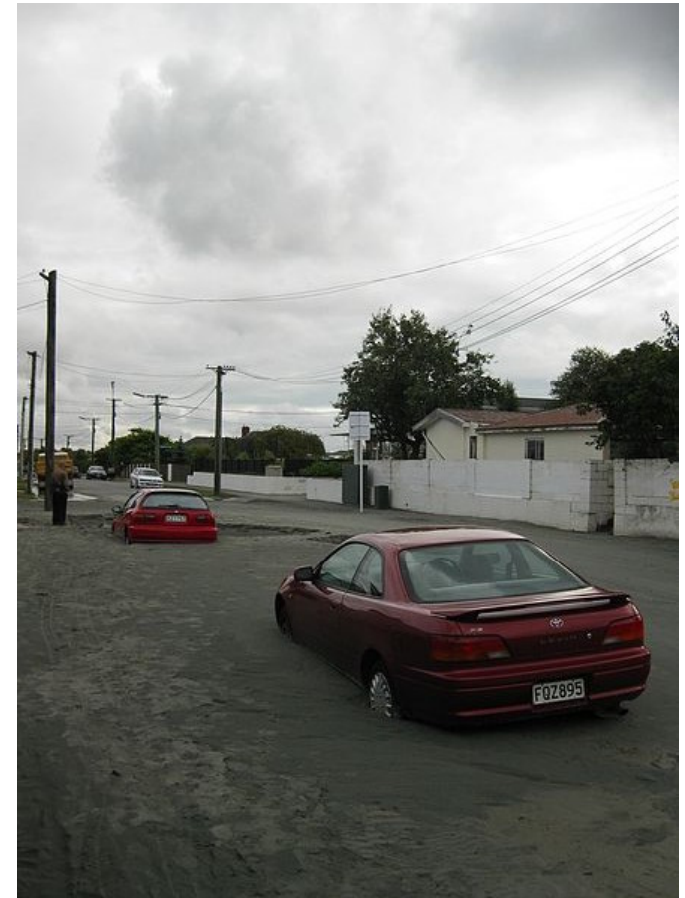
Japanese Earthquake, March 2011

- Restricted access for prolonged period
 - Exclusion zone around Fukushima nuclear plant
 - Little access for loss adjusters
- Volatile loss estimates
 - Increasing cedant loss advices
- Difficulty in estimating supply chain exposures
 - Contingent business interruption element (CBI)
- Exchange rate movements
- Post loss funding from reinsurers to cover large cash payments

2011 Natural Catastrophes

New Zealand Earthquakes, 2010 - 2011

- Four significant events to date
- Unexpected geographical location
 - Not within event set
- Extensive liquefaction



Reserving Issues

New Zealand Earthquakes, 2010 - 2011

- Restricted access for loss adjusters due to closure of CBD
- Volatile loss estimates
 - Increasing cedant loss advices
 - Demand Surge
 - Government intervention
 - Length of tail for settlement
- Aftershocks
 - Allocation between events

2011 Natural Catastrophes

Thai Floods, July – January 2012

- Widespread flooding during monsoon season
 - 65 of Thailand's 77 provinces declared as flood zones
 - 7 major industrial estates suffered up to 3m of water
- Costly manufacturing losses
 - Poorly understood exposure for insurers
 - Accumulation of manufacturing facilities
 - Increased exposure following Japanese EQ

Reserving Issues

Thai Floods, July – January 2012

- Months before water subsided
 - Restricted access to assess loss
- Volatile loss estimates
 - Increasing cedant loss advices
 - Demand surge
- Difficulty in estimating supply chain exposures
 - CBI element
 - Several large companies reporting loss in profits due to floods, Sony, Honda



Reserving Issues

Common Themes

- Volatile loss estimates
 - Increasing cedant loss advices
- Restricted access for loss adjusters
- Difficulty in estimating supply chain exposures
 - CBI element
- Exchange rate movements
- Post loss funding
- Lack of historical claims development
- Length of tail for settlement

Pricing Considerations

Were all loss contributors priced for?

- Vendor models captured some of the loss features
 - Non-modelled elements, e.g. tsunami, CBI
 - Were adjustments to vendor models sufficient?
- Methods for non-modelled regions
 - Difficulty in benchmarking perils with little historical data
 - Often poor exposure data provided
 - Changed view of severity, potentially also frequency

Pricing Considerations

Have do we allow for potential trends?

- Different economic conditions
- Earthquake aftershocks and clustering?
- Changing exposures post loss

Are accumulations being adequately monitored?

- Sometimes, yes
- More granular exposure data will be demanded over time

Market Conditions

Increased rates for loss impacted business

- Japan / Thailand
 - Loss impacted business experienced significant rises
 - Non-loss impacted business also rising
 - Tighter terms and conditions and reduced event limits
 - Tight reinsurance capacity
- Australia / New Zealand
 - Double digit rate increases across most accounts
 - Maintained levels of reinsurance protection

Lessons Learnt

Impacts throughout (re)insurance companies

- Focused effort on non-peak exposure management
- Consideration for outwards reinsurance protection
- Rating and wordings reviews
 - Increased (re)insurance rates
 - Tighter terms and conditions
 - Reduced event limits