Where the bodies are
An Undertakers view of Solvency II

David Sanders

Or 50 years experience
Agenda

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

Fire Auto Marine

• Dr Emil Savundra
• Cash flow underwriting
• No Reserves (no money)
• Frost Debate
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
- 31st 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 paper

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