Credit Crunch
Practical Implications for
General Insurance Actuaries
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Claims – Primary Effects

- E&O and D&O
  - Sub-prime
  - Wider credit crisis
- Potential claimants
  - Mortgage lenders
  - Investment banks
  - Hedge funds
  - Homebuilders
  - Rating agencies
  - Equity brokers
  - Investors
  - Advisors

Securities Class Actions

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EXCLUDES: IPO, Enron, Laddering, WorldCom-related actions
Claims – Indirect effect

- Stagflation
  - Higher costs
  - Rise in fraud
  - Rise in crime
Lessons - Modelling
- Correlations in tail
- Black swan events
- Basis risk on reinsurance (including reinsurer default)
- Look at gross exposure not just net PMLs
- Danger of passively using third party models

Lessons - Behavioural
- Danger of expansion or defending market leading position in a soft market
- Importance of terms and conditions
- Risk of basing pricing off a benign loss environment
- Need for rapid management information