

Presentation delivered by Alan Chandler, Chartered Insurer
e mail alanchandler@uwclub.net LinkedIn Alan Chandler



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E mail alanchandler@uwclub.net www.alanchandler.co.uk

- **I have trained more than 2,000 individuals to become ACII qualified**
- I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.
- I train to a pass rate of more than 96% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.
- I deliver the Allianz scholarship and academy programmes in both the UK and Ireland and I have been a Cii examiner.
- I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).

Learning Objectives

- Understand how Solvency II has taken capacity from the insurance market.
- How the recent stock market crash will make capacity issues worse.
- How insurers have struggled because of the Ogden rate change and soft rates.
- How Insurers have probably had the worst start to a year from an underwriting perspective ever, and what this will mean for rates and coverage.
- How the market will change following Covid-19 and what insurer's and brokers alike will need to do to respond.

It is being shouted from everywhere

- **Coronavirus will be the largest loss on record for insurers, as per John Neal CEO Lloyd's of London**
- In a broader economic assessment report on the impact of Covid-19 for the non-life insurance industry, Lloyd's of London estimated that the 2020 underwriting losses covered by the industry will hit \$107 billion (on par with the worst ever losses like Katrina in 2005) BUT Add to the claims the loss of investment income of \$96 billion and the overall bill will be \$203 Billion, almost double the worst previous event ever!
- The British insurance and reinsurance market projected that its own Covid-19 casualty and property (C&P) claims could reach up to \$4.3 billion as at June 30
- "The chances of the market making anything other than a notable loss in 2020 are zero,"
- **Oliver Bate CEO Allianz ' virus has hit insurers like a Meteorite'**

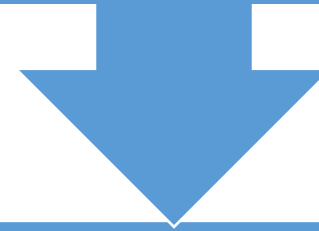
Bad times have hit the UK insurance industry before

- 1953 North sea storm surge through the Thames Estuary
- 1987 Great storm
- 1992 Baltic Exchange



2020 could end up being even worse!

Let's explore why by looking at seven factors that will cause an extremely hard market



To start with we go back to 2016 – no not Brexit!

Factor one

- Solvency II took away a lot of spare capital
- Became a significant barrier to entry
- Was certainly needed!

What are Solvency Margins

- In The UK and indeed right across Europe there has been a history of Insurance companies going bankrupt during the years.
- One of the main reasons for this is the business model and accounting of insurance companies.
- Most businesses cite their greatest challenge as cash flow not so insurance companies.

Having lots of upfront cash can mean big dividends are often paid



Then reality catches up! Lack of claims reserves, lack of unearned premium, lack of IBNR, lack of IBNER and lack of unearned risk provision – insurance accounting is complicated!



List of recent bankrupt insurance companies

Company	Date
AA Mutual International Insurance Services Ltd	01/05/2007
Andrew Weir Insurance Company Ltd	12/11/1992
Anglo American Insurance Company Ltd	10/03/1997
BAI Ltd (Builders Accident)	30/07/1998
Balva AAS Insurance	04/07/2014
Bermuda Fire and Marine Insurance Company Ltd	16/12/1994
Black Sea and Baltic General Insurance Company Ltd	24/08/1998
Bryanston Insurance Company Ltd	23/03/1992
Chester Street Insurance Holdings Ltd	09/01/2001
Continental Assurance Company of London plc	27/03/1992

And here is some more

Drake Insurance plc	11/05/2000
English and American Insurance Company Ltd	19/03/1993
Eurolife Assurance (International)Ltd	24/04/2009
European Risk Insurance Company hf.	28/04/2014
Highlands Insurance Company (UK) Ltd	01/11/2007
HIH Casualty and General Insurance Company Ltd	16/03/2001
Independent Insurance Company Ltd	18/06/2001
KWELM Group of Companies	17/11/1993
Lemma Europe Insurance Company Limited	05/10/2012
Marina Mutual Insurance Association Ltd	14/11/1997

And some more!

Millburn Insurance Company Ltd	11/12/2013
Municipal General Insurance Ltd	09/03/1994
North Atlantic Insurance Company Ltd	06/03/1997
OIC Run Off Ltd / London and Overseas	21/10/1994
Pacific and General Insurance Company Ltd	15/11/1985
Paramount Insurance Company Ltd	24/06/1996
Scan Re Insurance Company Ltd	10/03/1994

And some more again! Remember this list does not include many foreign insurers who pass ported in like Quinn and this was why Solvency II was introduced

Sovereign Marine and General Insurance Company Ltd	11/07/1997
The Aldgate Insurance Company Ltd	12/11/2009
The Exchange Insurance Company Ltd	06/10/2010
Trinity Insurance Company Ltd	23/03/1992
UIC Insurance Company Ltd	12/08/1996

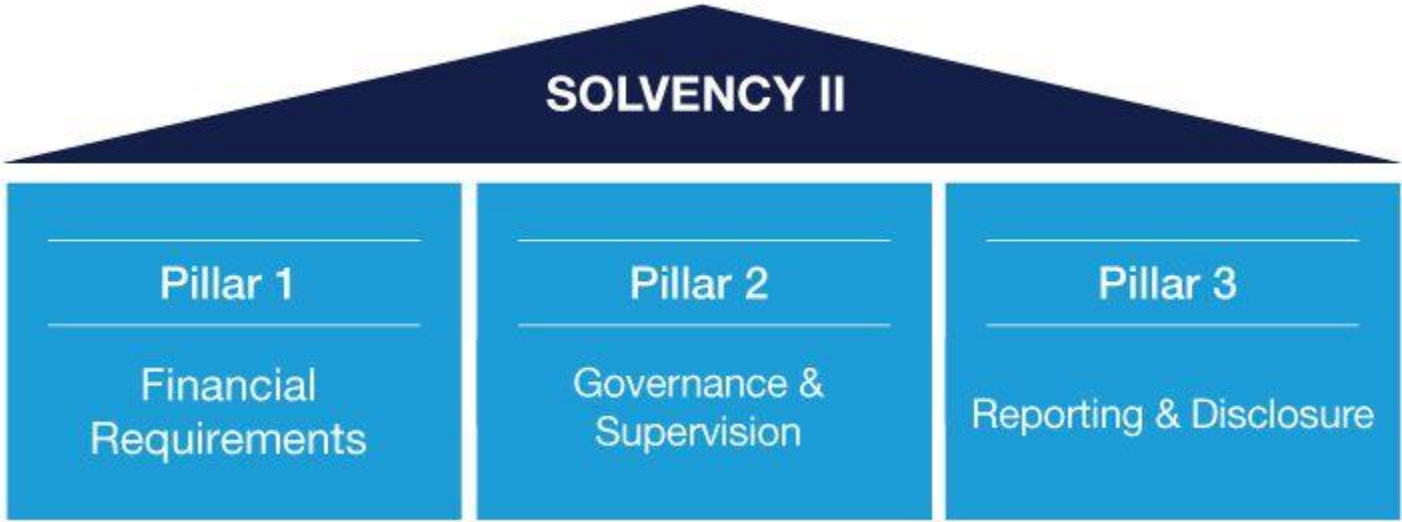
What are solvency margins

- A solvency margin is the amount of surplus assets insurance companies have to hold over and above their liabilities.
- Solvency margins are set by regulators and stipulate the minimum surplus assets the insurer has to hold over and above their liabilities.
- Example if an Insurer has to hold a solvency margin of at least £500M and their liabilities are £400m, they will need to make sure they hold assets of at least £900m

Solvency II

- The EU had originally planned to roll out new solvency requirements in 2005 but due to a combination of politics and the financial crash Solvency II never saw the light of day until the beginning of 2016.
- From January 2016 Solvency II applies to all EU insurers and there is no longer hiding places in the EU to obtain soft touches
- It is estimated that it cost the UK insurance industry £3 Billion to implement !

The Three Pillars of Solvency II



Solvency II

- The new capital requirement under Solvency II is known as the Solvency Capital Requirement (SCR)
- This has to be at a confidence level of at least 99.5%
- Insurers can use the EU generic formula or use their own formula which has to be signed off by the PRA
- It is also compulsory that insurers have an actuarial function, believe it or not certain EU insurers existed without one until Solvency II.

Solvency I (Red card) and Solvency II (Yellow card)



Solvency II was a massive challenge for almost everyone – some have got to the top of the solvency mountain ,some are working with their regulator and some have given up!



So having used up most of their spare capital to become compliant, the last thing the insurance industry needed was a large claim hike!



Factor Two Ogden Table change

- In 2017 Liz Truss made a decision to move the Ogden table rate from 2.5% to -0.75%
- This meant most motor and EL books had to be increased by a rate increase of between 9 and 15%
- When premiums go up so does an insurers capital requirement - fine if you had spare capital, not if you used it all up being compliant with Solvency II

Example of an Ogden settlement

Serious Brain injury to a person of 21 years of age at date of settlement.

At 2.5% rate

Claim would settle at £9,072,028 with a future loss element of £8,242,086.

At – 0.75% rate

Claim would settle at £20,020,103 with a future loss element of £19,193,161

This is an increase of 121%

Think about policy limits – EL, PL, Products are probably now all too low!

What's next for
Ogden

England and
Wales set rate
at -0.25%

Scotland set
rate at -0.75 %



Factor Three Property rates woefully low!

Coming into 2020 the Maths on most property accounts was not adding up



2020
Property
underwriters
were hoping
for a quiet
uneventful
year

Factor Four January /February Floods

- Terrible start to 2020
- £425m estimated claims payments caused by Storms Dennis and Ciara



Factor Five Covid-19

- Covid – 19 Bi losses could well run into many Billions (estimates put it as high as \$4.3 billion in the UK)



Factor Six Reinsurance rates will rise

- Louisiana restaurant seeks to side-step non-damage exclusion in court
- The test case over whether Covid-19 losses constitute physical damage could jeopardise (re)insurance industry solvency.
- Even if it does go insurers way, bi losses are estimated at \$107 billion claims plus \$96 billion investment losses = \$ 203 Billion

Factor Seven

Investment losses (**\$96 billion** worldwide)
and interest rates at an all-time record low

The Perfect Storm – leading up to 2020



LV seek out Allianz's massive cash pile despite its operation running well



Marker study are turning to the vast wealth of Qatar Re to keep them going



ERS/Amlin and many others pull of covers



Lloyd's get syndicates to take underwriting action

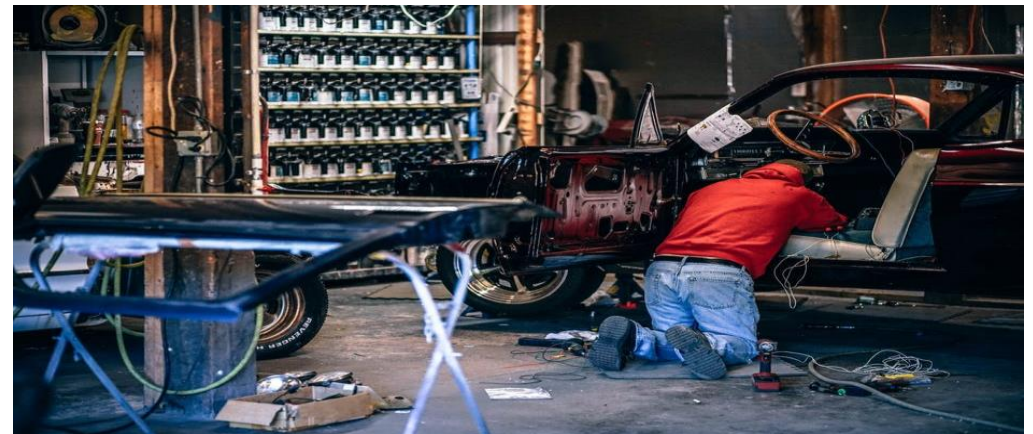


Gable and many others disappear completely

The market will get very hard

- Take a look at Ireland to see what happens when a market gets very hard.
- Almost 250 insurers have pulled out of the market in the last six years, half of those in the last two years.
- The UK insurance market will face significantly reduced capacity.

Covers under threat



How can brokers deal with the perfect storm

1. Educate clients about the affect of the very hard market about to come their way.
2. Get clients to invest in risk management – if insurers are going to write high risk business they are going to be more far more ‘picky’ going forward. Give underwriters a reason to quote on your clients business.
3. Be aware of using offshore solutions – they never had ECR/ICA requirements so the gap they have to get to solvency II has been far greater than UK FCA/PRA regulated insurers and they are far more vulnerable to the perfect storm.
4. Look to proactively work with insurers who are in a great capital position – they are in a strong place and will get more and more of market share.



Very Important Insurer's and Brokers alike - you have to get your staff qualified and exceptionally well trained, as they have to turn computer says 'no' to a 'yes'!

Alan Chandler's Training Courses Technical Training Courses

- These can be run for a day, half day or a lunchtime presentation and the content tailored to meet your needs.
- D&O in a plain English nutshell
- GDPR/Data Protection a year on
- Insurance Distribution Directive
- Vulnerable Customers
- The perfect storm - Understanding how solvency margins and Ogden are changing your insurance market place
- How broker E&O claims are increasing and how these can be mitigated
- The missed opportunity – how UK employments trends are changing yet the financial services sector is lagging behind
- Bi in plain English
- Financial awareness for account executives and handlers
- Leadership in insurance
- Examination Techniques workshop

Alan Chandler's Training Courses Technical Training Courses

- Commercial property insurance
- Business interruption insurance
- Construction insurance
- Liability insurance (EL, PL and Products)
- Professional Indemnity insurance
- Motor Trade insurance
- Directors and officers insurance
- Motor Fleet insurance
- Engineering insurance
- Package insurance
- Legal Principles of insurance
- Household insurance
- Private Motor insurance
- How liability can arise under the law of tort
- Builders Performance Bonds (1/1/2 hour course)
-

Training courses for Cii Examinations

At Certificate Level

- IF1 Insurance legal and regulatory
- IF2 General insurance products
- IF3 Insurance underwriting process
- IF4 Insurance claims handling process
- IF5 Motor insurance products
- IF6 Household insurance products
- IF8 Packaged commercial insurances

At Diploma Level

- MO5 Insurance Law
- M92 Insurance Business and Finance
- M93 Commercial property and business interruption insurance
- M96 Liability insurances
- M80 Underwriting practice
- M85 Claims practice
- M86 Personal Lines insurance

At Advanced Diploma Level (ACII)

- 530 Economics and business
- 820 Advanced claims
- 930 Advanced broking
- 945 Marketing insurance products and services
- 960 Advanced underwriting
- 992 Advanced risk management
- Basically I can set up an entire training programme to take people from nothing to fully ACII qualified.

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