

GI in a GFC World

General Insurance Impacts of the Global Financial Crisis



Institute of Actuaries of Australia

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THE WESTIN SYDNEY 1 MARTIN PLACE, SYDNEY

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The Impact of the GFC on Claims Experience

– PL, PI and D&O

Stephen Wilson

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Agenda

- Public liability (PL)
- Professional indemnity (PI)
- Directors & officers (D&O)



Public liability

- Limited direct impact of GFC
- Tort reforms – why were they so effective?
- Economic conditions
- Company profitability / insolvencies
- Market cycle
- Judiciary – social conscience / sympathetic
- Claims management
- Risk management



Professional indemnity

First wave – investors / clients suing directly

- Accountants and financial planners
- Financial institutions
- Property industry

Second wave – other advisors implicated

- Lawyers
- Auditors
- Trustees
- Other advisors – analysts, brokers

PI - Recent developments

Financial advisors / services firms

– estimated amounts lost or frozen

Margin lenders - \$1.4bn

- Opes Prime (ANZ involved)
- Lift Capital

Financial planners - \$1bn

- Storm Financial (CBA admission)
- PIS (Westpoint class action and ASIC investigation, class action over Timbercorp)

PI - Recent developments

Debenture issuers – \$0.5bn

- Westpoint (pre GFC)
- Australian Capital Reserve
- Bridgecorp
- Fincorp
- Elderslie Finance
- Asset Loans

Managed Investment Schemes – \$6bn

- Timbercorp
- Great Southern

Frozen unlisted property and mortgage funds – \$20bn

- Centro Direct Property funds
- Howard Mortgage Trust



PI - Recent developments

Auditors being pursued

- MFS – collapsed with debts of \$1b
- Opes Prime – ASIC investigation, class action
- Centro – Cross claim filed by Centro
- ABC Learning – Class action
- Allco – collapsed in Nov 08 with debts of \$1.1b
- Rubicon trusts
- City Pacific
- Babcock
- Westpoint



Directors & officers

Limited class actions historically

- GIO – 1999 - \$112m
- Aristocrat Leisure – 2003 - \$136m

Three main areas of developments

- Liquidity issues – eg ABC Learning, Allco, Centro
- Insolvencies – eg Allco
- Securities class actions – non-disclosure – eg NAB, GPT

Increased regulator activity

- ASIC
- ACCC



D&O – Class actions

Refer PI – many will involve D&O class actions

IMF Website – currently funding over 30 actions - total \$1.2b

Other litigation funders, Slater & Gordon, Maurice Blackburn

Major actions with PI related actions:

- Centro Properties / Centro Retail – excess of \$200m
- Great Southern / Timbercorp – 55,000 investors, potential losses up to \$2.6b
- Lehman Bros - Councils and IMF – 600 investors in class
- Opes Prime – more than 50 investors & estimate of \$150m



D&O – Class actions

Major actions – potential maximum claim values:

- Allco – collapsed in Nov 08 with debts of \$1.1b
- ABC Learning – potential \$100m (D&O & auditor)
- GPT – alleged non-disclosure prior to 24% fall in share price
- NAB – alleged non-disclosure on CDOs – potential \$200m
- Oz Minerals – non-disclosure - refinance agreement - \$50m

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Summary

Liability

- 2001 to 2008 - Continued favourable experience
- Future outlook
 - Environment has deteriorated dramatically
 - Likely to lead to adverse claims experience

PI and D&O

- Adverse claims experience
- Extent of future deterioration depends on the economy