

GI in a GFC World

General Insurance Impacts of the Global Financial Crisis



Institute of Actuaries of Australia

Wednesday, 24 June 2009

THE WESTIN SYDNEY 1 MARTIN PLACE, SYDNEY

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The Impact of the GFC on Claims Experience

– CCI, LMI and TC

Jim Qin

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Agenda

- Consumer Credit Insurance (CCI)
- Lenders Mortgage Insurance (LMI)
- Trade Credit (TC)



Recent Experience

- Overseas

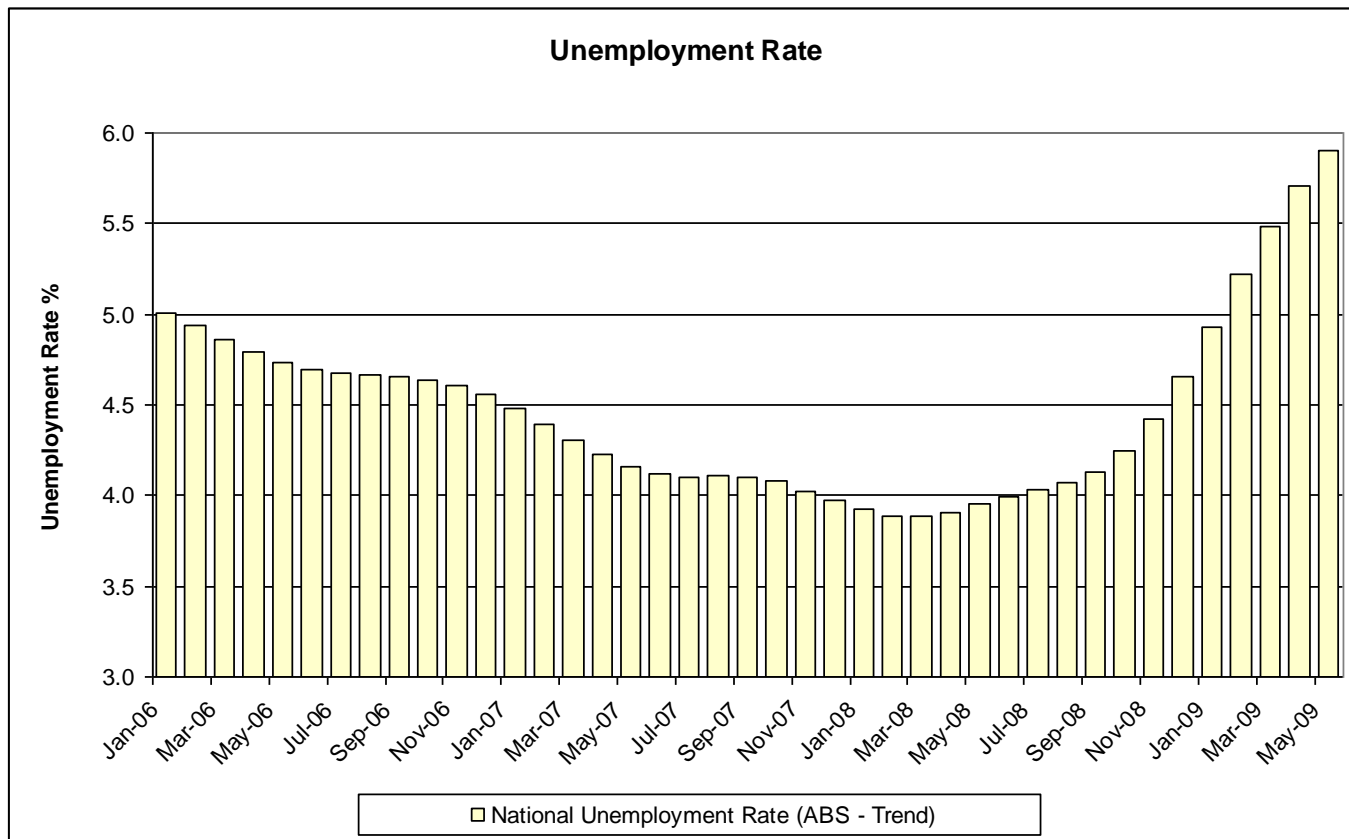
- US Mortgage and financial guarantee insurers running at 300% combined ratio in 2008 and 150% in 2007.
- Credit ratings downgraded

- National

- Latest APRA statistics shows a slight deterioration in (mortgage and credit insurance) claims experience compared to 2007.
- Further deterioration expected but not as severe as US / UK

Consumer Credit

- Unemployment has direct impact on claims experience





Consumer Credit

- **Impact on Claim Frequency**
 - Increase in number of unemployment claims
 - Minimal impact on the number of sickness / accident claims
- **Impact on Claim Size**
 - Lower claim size due to lower interest rate
 - Change in mix of claims (more unemployment claims) expected to reduce average claim size
- **Overall claims cost expected to increase**



Lender's Mortgage Insurance

- **Impact on Claim Frequency**
 - Interest rate peaked in Aug 2008, driving up claim frequency.
 - Sharp decline in interest rate since September 2008.
 - Unemployment on the rise, likely to impact 2009.
- **Impact on Claim Size**
 - Collapse in US / UK property prices not seen in Australia
 - Property prices weakened in some areas
 - Potential risk of property valuation fraud

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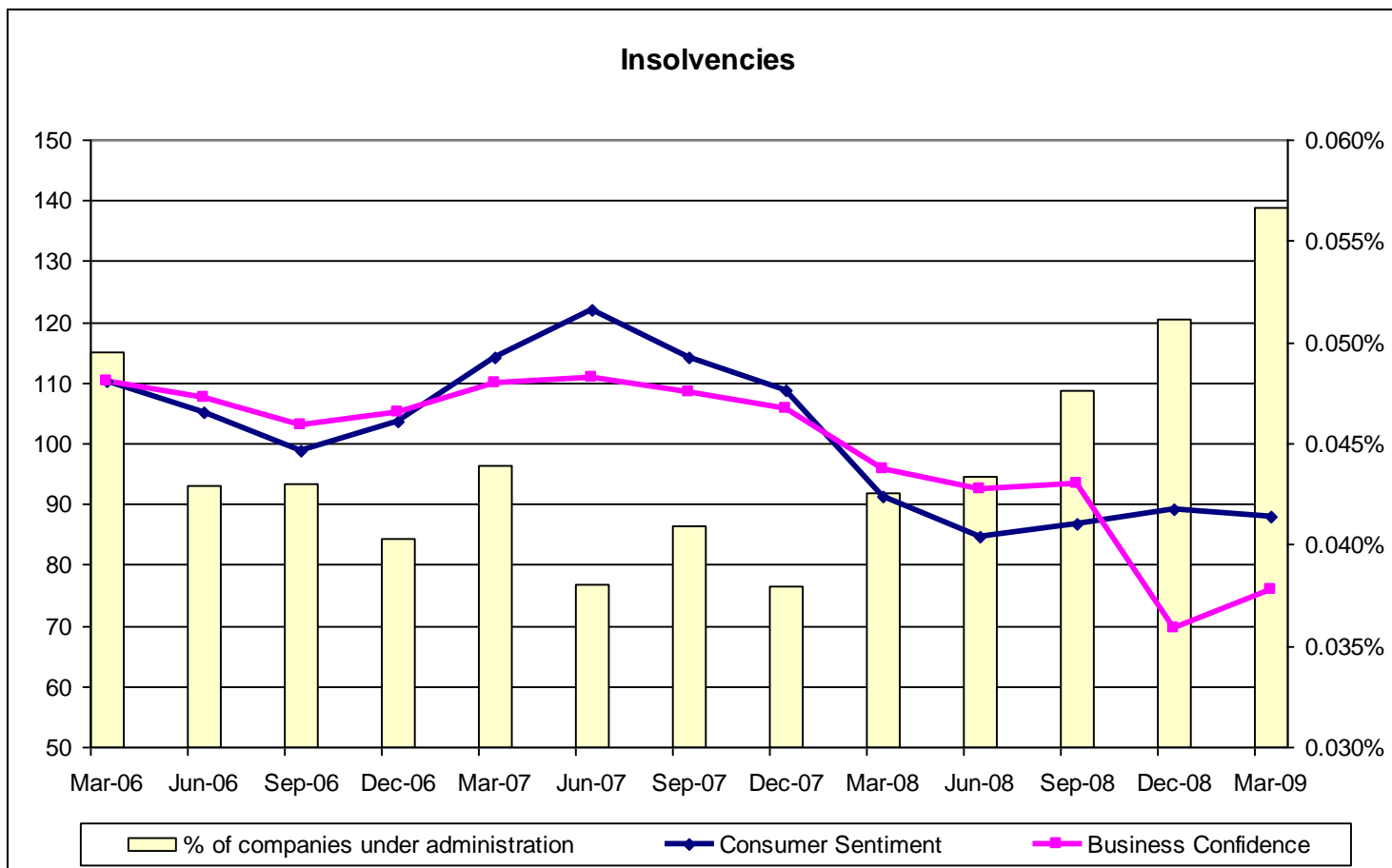
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Trade Credit



Sourced from ASIC (insolvencies), Westpac – Melbourne Institute – Consumer Sentiment Index, NAB Business Confidence Index



Trade Credit

- Rising business insolvencies increases claim frequency
- Some industries more affected than others
- Availability of credit affecting business operations



Summary

- Impacts of the GFC
 - Higher claim frequency
 - Impact on severity is mixed.
 - Claim experience vary by state / industry segment
 - Multi-year policy period
 - *Rate of Change* in economic conditions
- Value of mortgage / credit insurance: helping business / individuals through turbulent times