

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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A Reinsurance Perspective

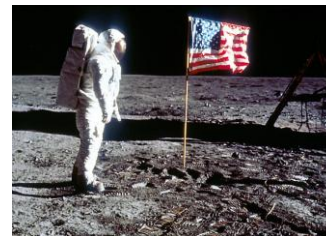
Ty Birkett – Willis Re Australia

Interesting Times

The U.S. Federal Government has pledged more money to bail out the financial services industry than it spent on:

- the Louisiana Purchase
- the New Deal
- the Marshall Plan
- the Apollo Moon
- the Savings and Loan Crisis
- the War on Iraqi Freedom
- and NASA's lifetime budget...

Combined



Other Governments including China are also making unprecedented efforts to stimulate their economies

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Depends on Your Perspective



AFL TOYOTA
PREMIERSHIP 2009

Pos	Team	P	W	L	Pts
1	St Kilda	11	11	0	44
2	Geelong Cats	11	11	0	44
3	Western Bulldogs	11	7	4	28
4	Carlton	11	6	5	24
5	Collingwood	11	6	5	24
6	Brisbane Lions	11	6	5	24
7	Hawthorn	11	6	5	24
8	Port Adelaide	11	6	5	24
9	Adelaide	11	6	5	24
10	Sydney Swans	11	5	6	20
11	Essendon	11	5	6	20
12	North Melbourne	11	4	7	16
13	West Coast Eagles	11	3	8	12
14	Fremantle	11	3	8	12
15	Richmond	11	2	9	8
16	Melbourne	11	1	10	4
+	SMS me ladder				

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Today

- Technical Considerations
- Demand for Reinsurance
- Supply of Reinsurance
- Near Future
- Implications for Insurers



Technical Considerations

Covered today in detail

BUT FOR REINSURANCE

- Longer claims tail than direct business
- More uncertainty around pricing
- Leveraged impact of large claims
- Lag nature of proportional business
- Larger exposure to systemic risks

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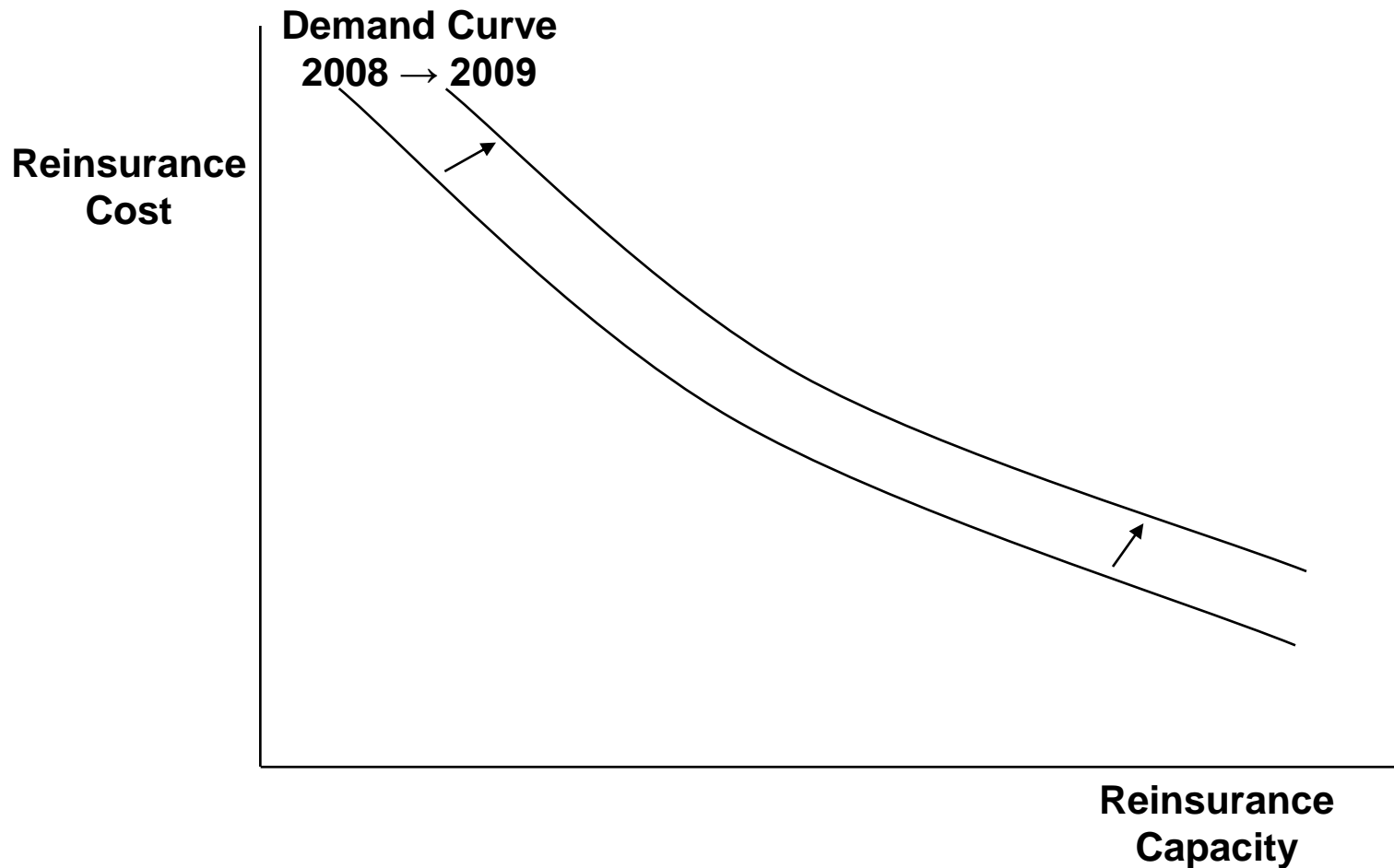
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Demand↑





Demand↑

Demand for Capital or Need for Preservation

- Asset-side Impairment
 - Equity and fixed interest
- Increased volatility
- Reduced risk appetite
- Increased regulatory scrutiny
- Potential increase losses

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Demand↑

Sources of Capital

EQUITY

TOUGH TO SOURCE

DEBT

EXPENSIVE

REINSURANCE

RELATIVELY CHEAP
EASY TO SECURE
BUT VOLATILE

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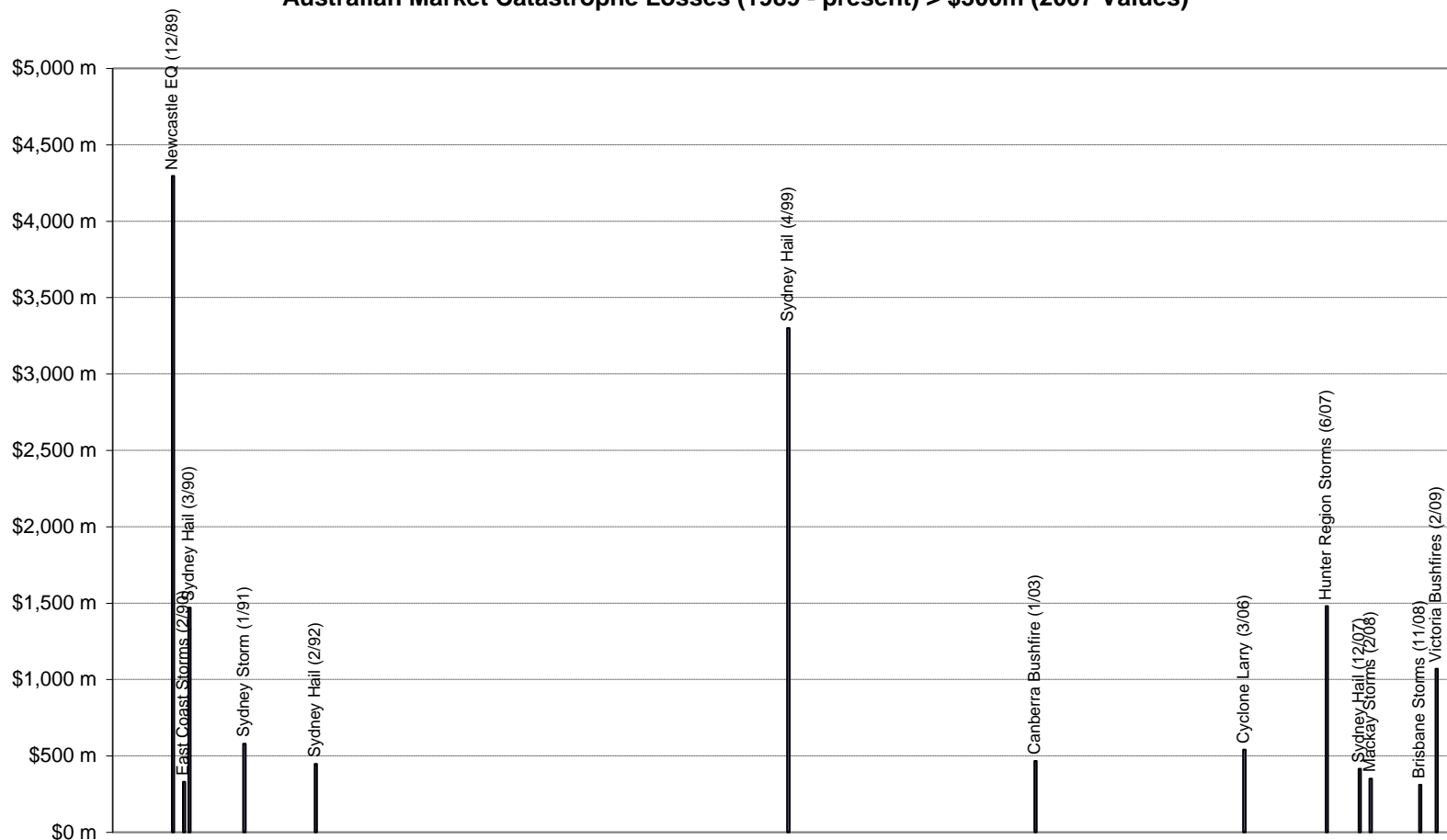
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Demand↑ - non-GFC Impacts

Australian Market Catastrophe Losses (1989 - present) > \$300m (2007 Values)



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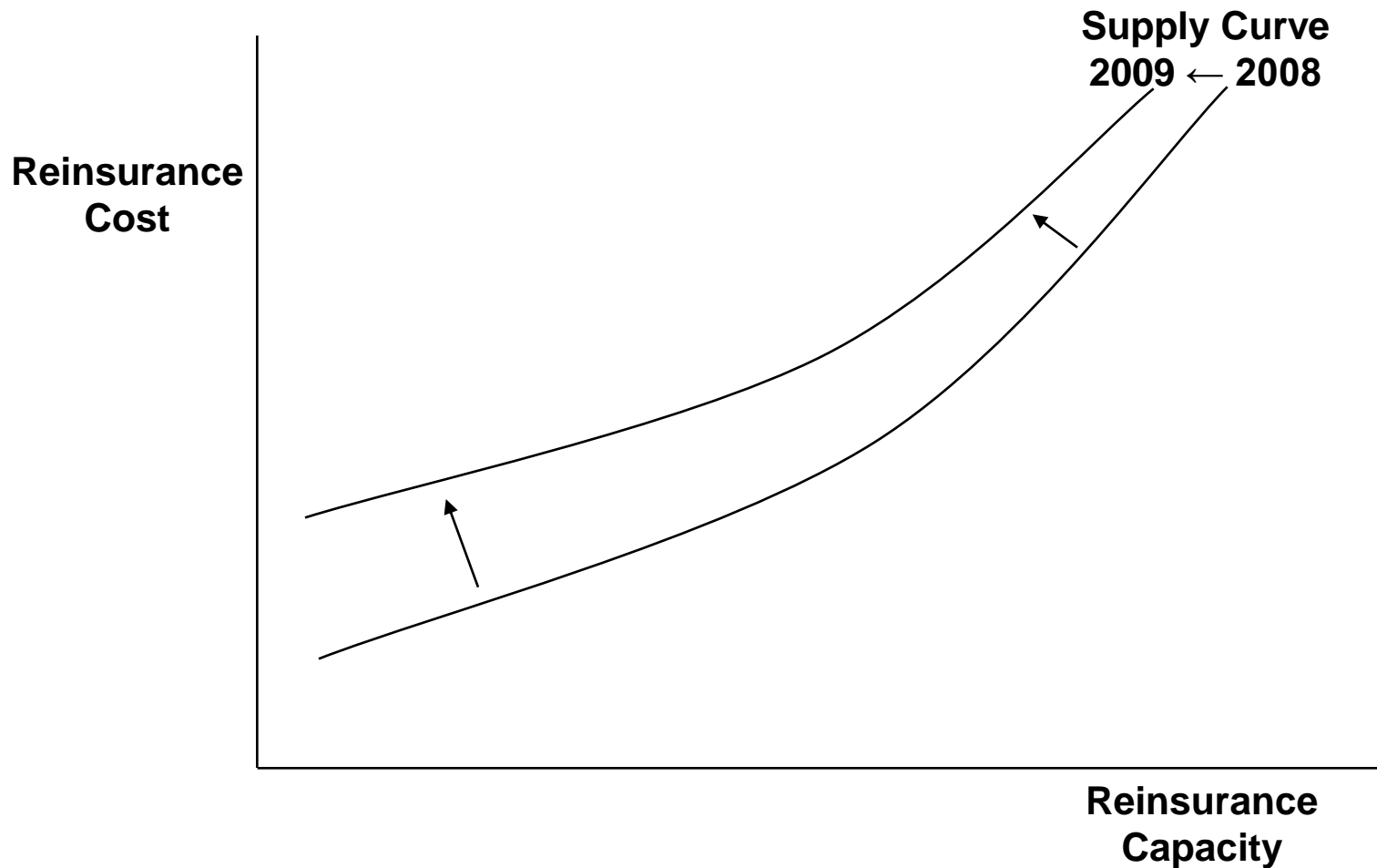
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Supply ↓





Supply ↓

Demand for Capital or Need for Preservation

- Asset-side Impairment
 - Equity and fixed interest
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- Reduced risk appetite
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SAME ISSUES FOR REINSURERS!

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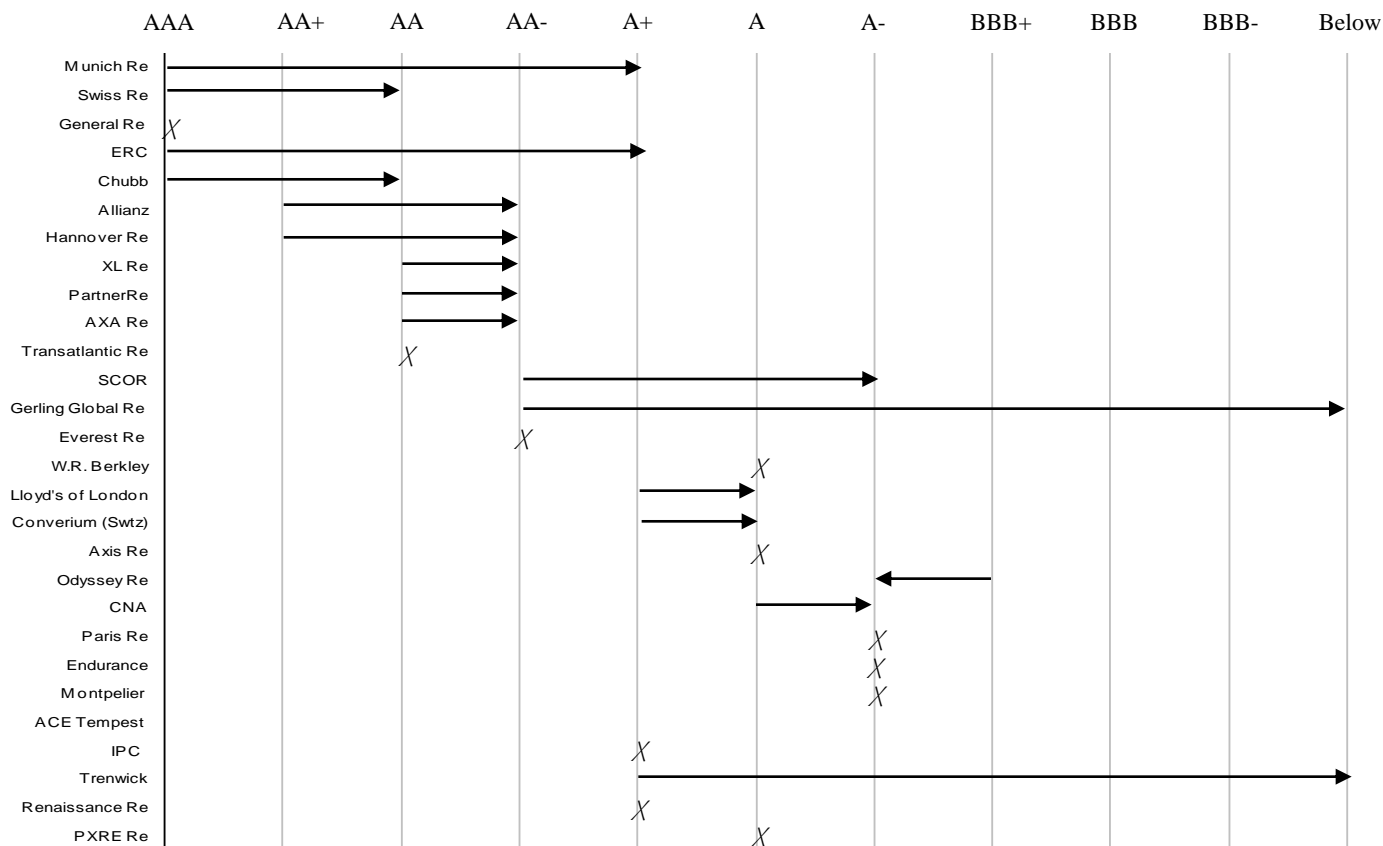
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Supply ↓ - Quality



Black lines denote movement between 9/11 and Sept 03

Standard & Poor Ratings

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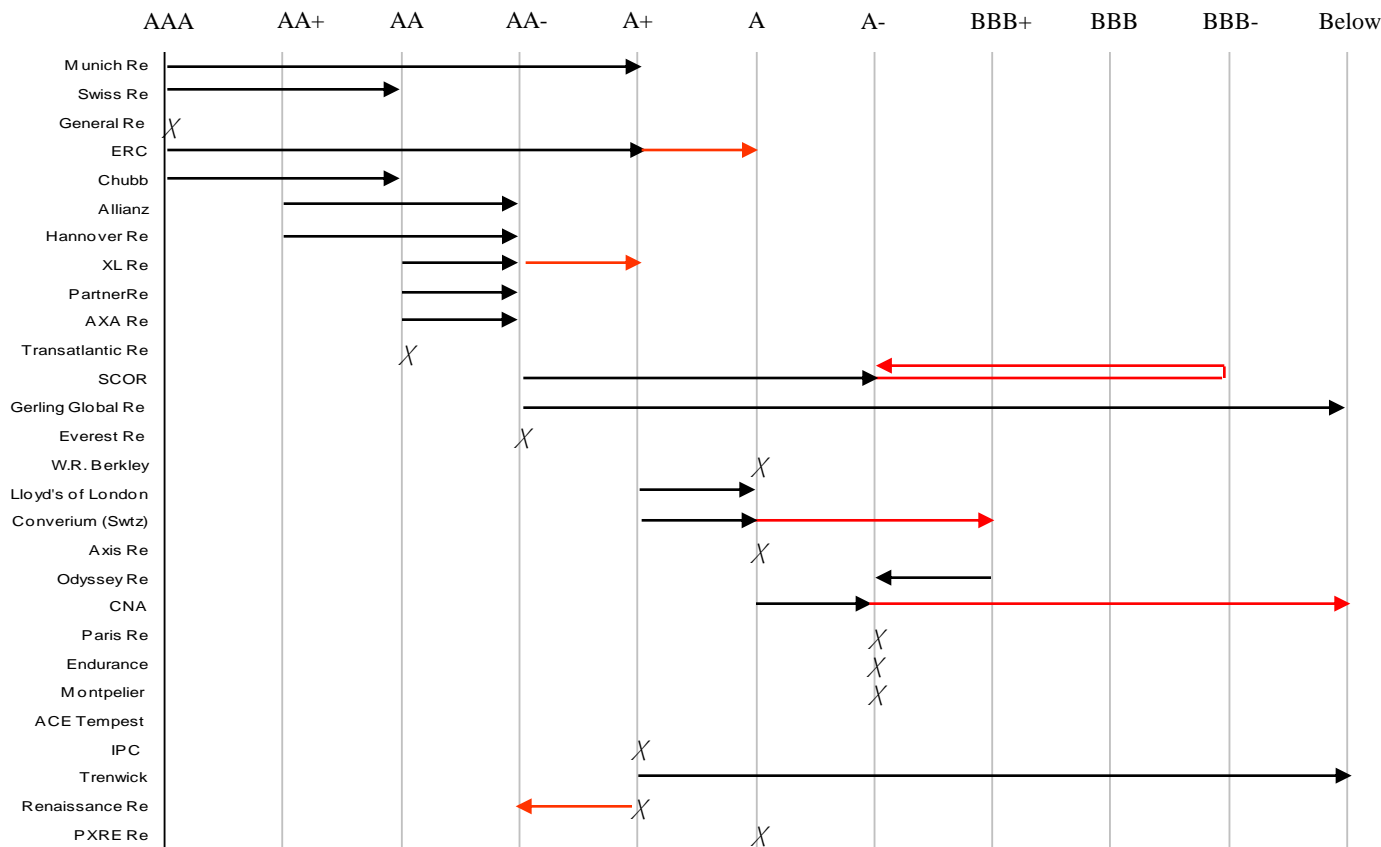
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Supply ↓ - Quality



Black lines denote movement between 9/11 and Sept 03
 Red lines denote movement between Sept 03 and Aug 05

Standard & Poor Ratings

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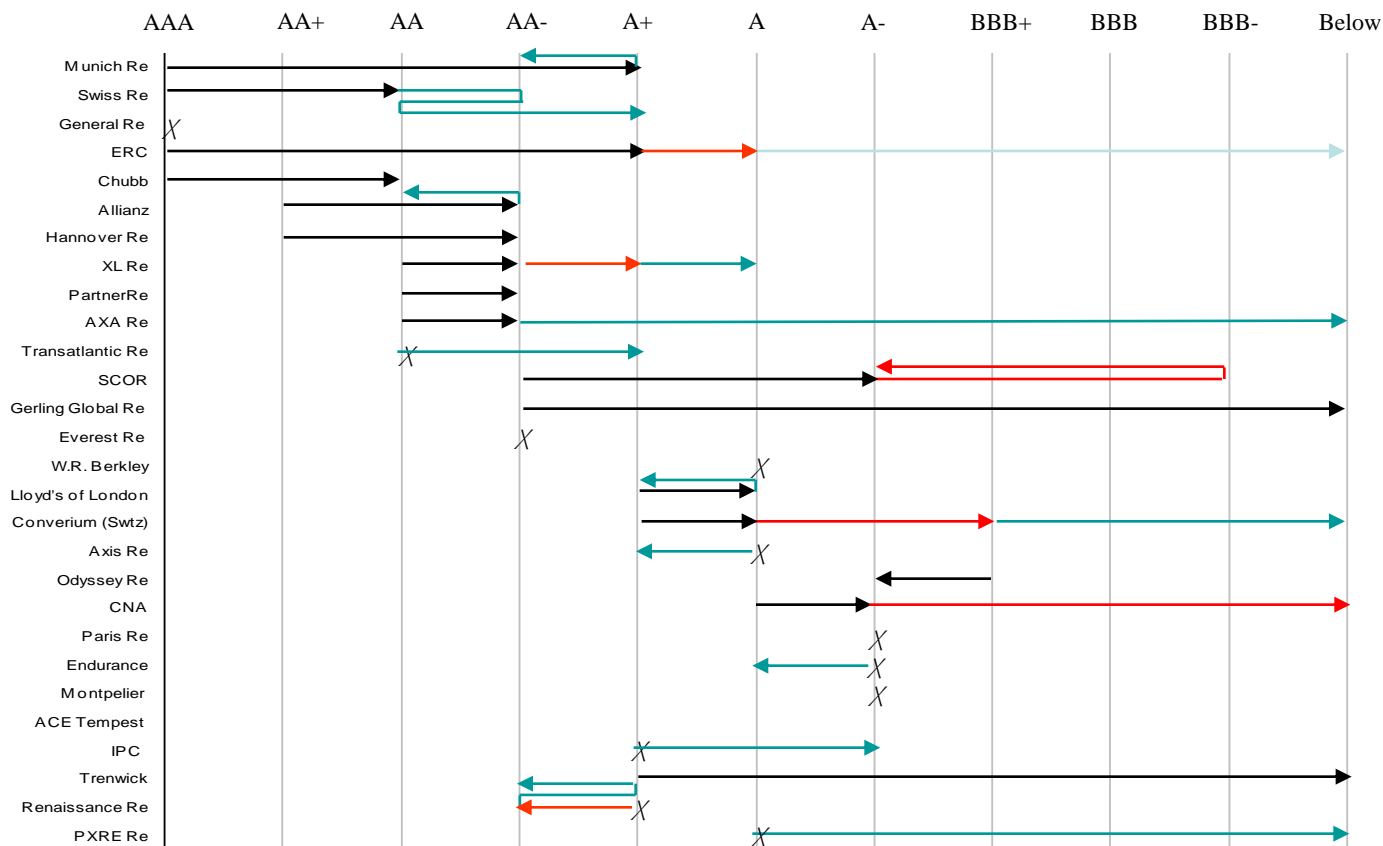
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Supply ↓ - Quality



Black lines denote movement between 9/11 and Sept 03
 Red lines denote movement between Sept 03 and Aug 05
 Green lines denote movement post-Katrina to March 09

Standard & Poor Ratings

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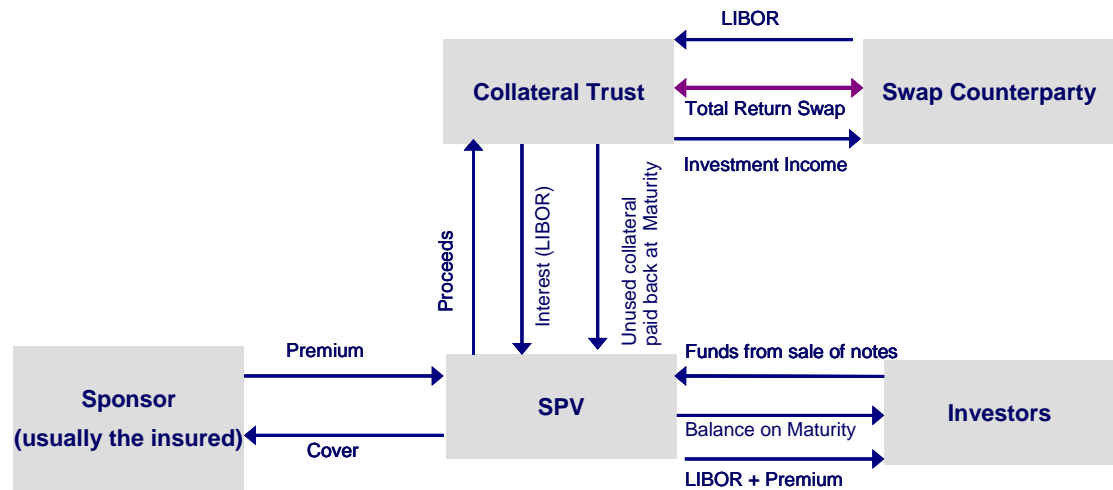
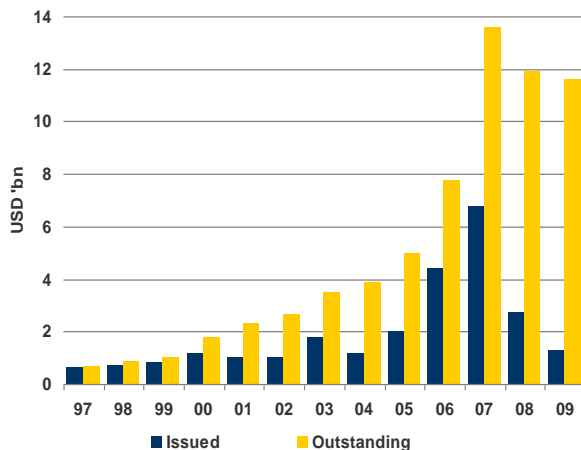


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Supply ↓

Reduction in Alternate Sources

Value of Catastrophe Bond Capacity



- Role of Investment Banking
- Withdrawal of Hedge Fund capacity
- “Capital Reload” occurred in mid-90s, 2001 and 2005. 2008/09 ?

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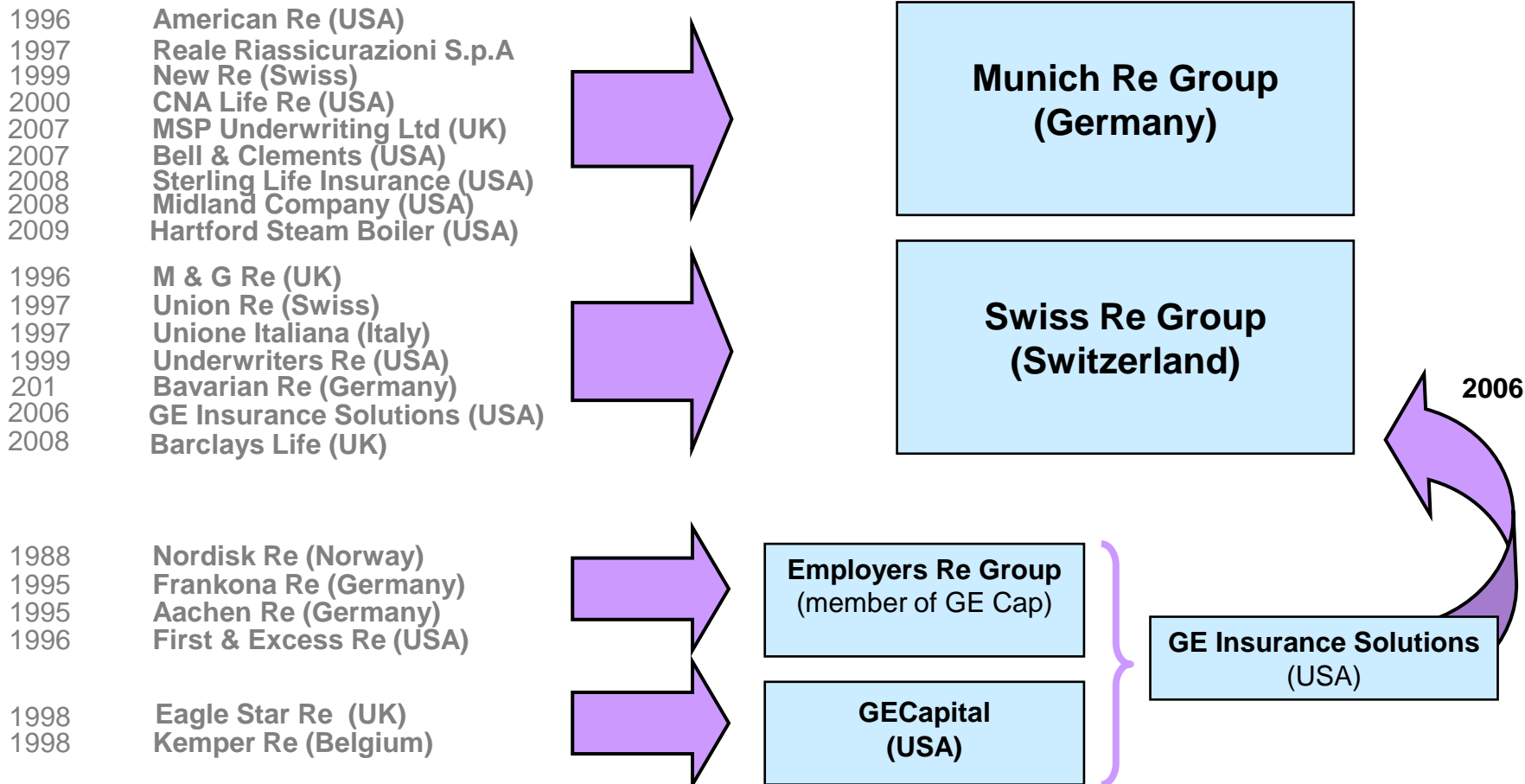
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Supply ↓



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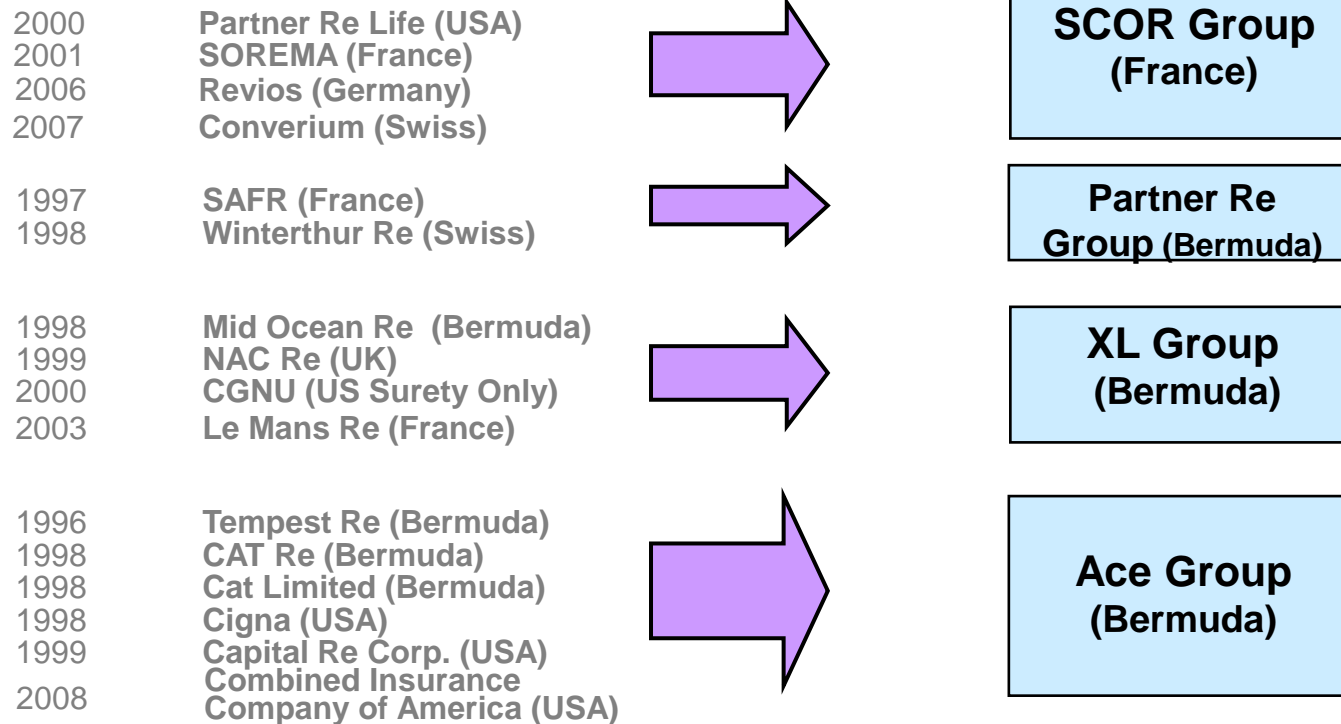
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Supply ↓ - non-GFC

Insured loss (in USD m, indexed to 2008)	Victims	Date (start)	Event	Country
71 300	1836	25.08.2005	Hurricane Katrina; floods, dams burst, damage to oil rigs	US, Gulf of Mexico, Bahamas, North Atlantic
24 552	43	23.08.1992	Hurricane Andrew; floods	US, Bahamas
22 835	2982	11.09.2001	Terror attack on WTC, Pentagon and other buildings	US
20 337	61	17.01.1994	Northridge earthquake (M 6.6)	US
20 000	136	06.09.2008	Hurricane Ike; floods, offshore damage	US, Caribbean: Gulf of Mexico et al
14 680	124	02.09.2004	Hurricane Ivan; damage to oil rigs	US, Caribbean; Barbados et al
13 847	35	19.10.2005	Hurricane Wilma; torrential rain, floods	US, Mexico, Jamaica, Haiti et al
11 122	34	20.09.2005	Hurricane Rita; floods, damage to oil rigs	US, Gulf of Mexico, Cuba
9 176	24	11.08.2004	Hurricane Charley; floods	US, Cuba, Jamaica et al
8 926	51	27.09.1991	Typhoon Mireille/No 19	Japan
7 940	71	15.09.1989	Hurricane Hugo	US, Puerto Rico et al
7 695	95	25.01.1990	Winter storm Daria	France, UK, Belgium, NL et al
7 497	110	25.12.1999	Winter storm Lothar	Switzerland, UK, France et al
6 328	54	18.01.2007	Winter storm Kyrill; floods	Germany, UK, NL, Belgium et al
5 875	22	15.10.1987	Storm and floods in Europe	France, UK, Netherlands et al
5 866	38	26.08.2004	Hurricane Frances	US, Bahamas
5 258	64	25.02.1990	Winter storm Vivian	Europe
5 222	26	22.09.1999	Typhoon Bart/No 18	Japan
4 663	600	20.09.1998	Hurricane Georges; floods	US, Caribbean
4 382	41	05.06.2001	Tropical storm Allison; heavy rain, floods	US
4 334	3034	13.09.2004	Hurricane Jeanne; floods, landslides	US, Caribbean: Haiti et al
4 087	45	06.09.2004	Typhoon Songda/No 18	Japan, South Korea
4 000	135	26.08.2008	Hurricane Gustav; floods, offshore damage	US, Caribbean: Gulf of Mexico et al
3 752	45	02.05.2003	Thunderstorms, tornadoes, hail	US
3 648	70	10.09.1999	Hurricane Floyd; heavy rain, floods	US, Bahamas, Columbia

Source: Swiss Re Sigma 2/09 – most costly insurance losses 1970-2008



Supply

BUT some positive signs:

- Improved results – underwriting and investment
- Less required by some – e.g. Florida and Texas schemes
- Signs of new capital
- Insurance Linked Securities regaining some momentum
- General reduction in EQ models
- Non-peak versus Peak (US EQ+ WS, Jpn EQ, Eur WS)

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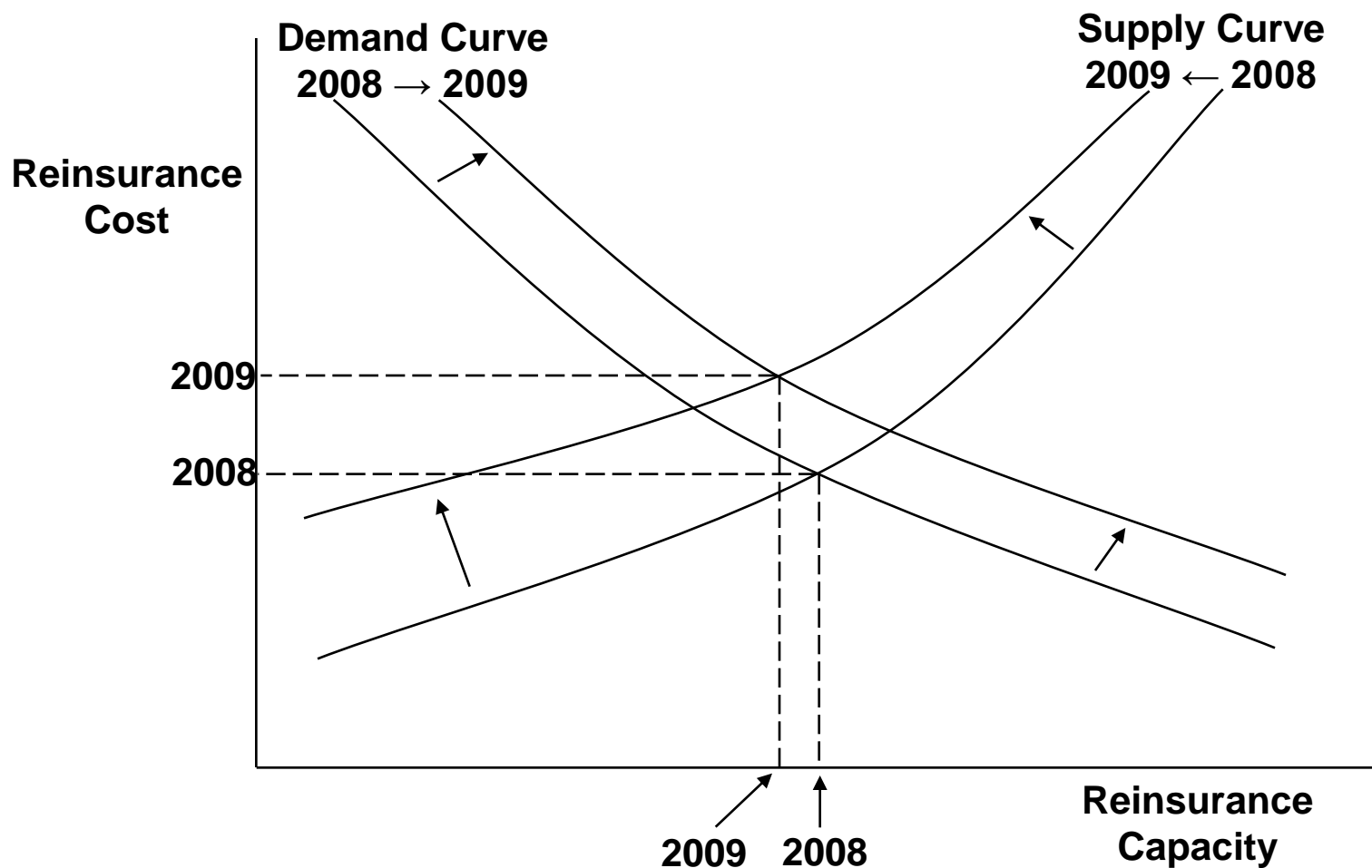
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Supply and Demand





Where to From Here?

- Market Hardening
 - GFC
 - Other factors
 - Territory specific
- Market cycle impacted by regular “one off” events
 - LMX, WTC, KRW, GFC, etc. etc.
- Flow of future capital key – traditional, alternative, self-generated
- Reinsurance remains a resilient form of capital



Issues for Insurers

- Capacity for Australia and NZ remains strong

BUT

- Need clear understanding of purpose of reinsurance:
 - Capital, earnings, compliance, etc.
 - Recent years: retain more → manage volatility → capital source
- Locked in well price capacity where possible
- Ensure large loss potential feeds through into pricing
 - all losses not just RI costs

Will remain a key risk / capital management tool