

First Enterprise Risk Management Seminar



Institute of Actuaries of Australia

Beyond The Global Financial Crisis

How the Financial Services Industry Will Change

Tuesday, 29 September 2009

Business Impacts of the GFC Risk Management Implications Australian General Insurance

Jefferson Gibbs, KPMG Actuaries

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Crisis? What crisis!

Jefferson Gibbs, KPMG Actuaries

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Overview

- GFC: GI perspective – What changed?
- Material items
 - Yields
 - Equity values & Investment Allocations
 - Reinsurance
 - Inflation & Unemployment
- What crisis
- Risk Management Implications



GFC: What changed

- Equity values fell dramatically
- Yields fell dramatically
- Major FS institutions failed

- Australian GI companies carried on

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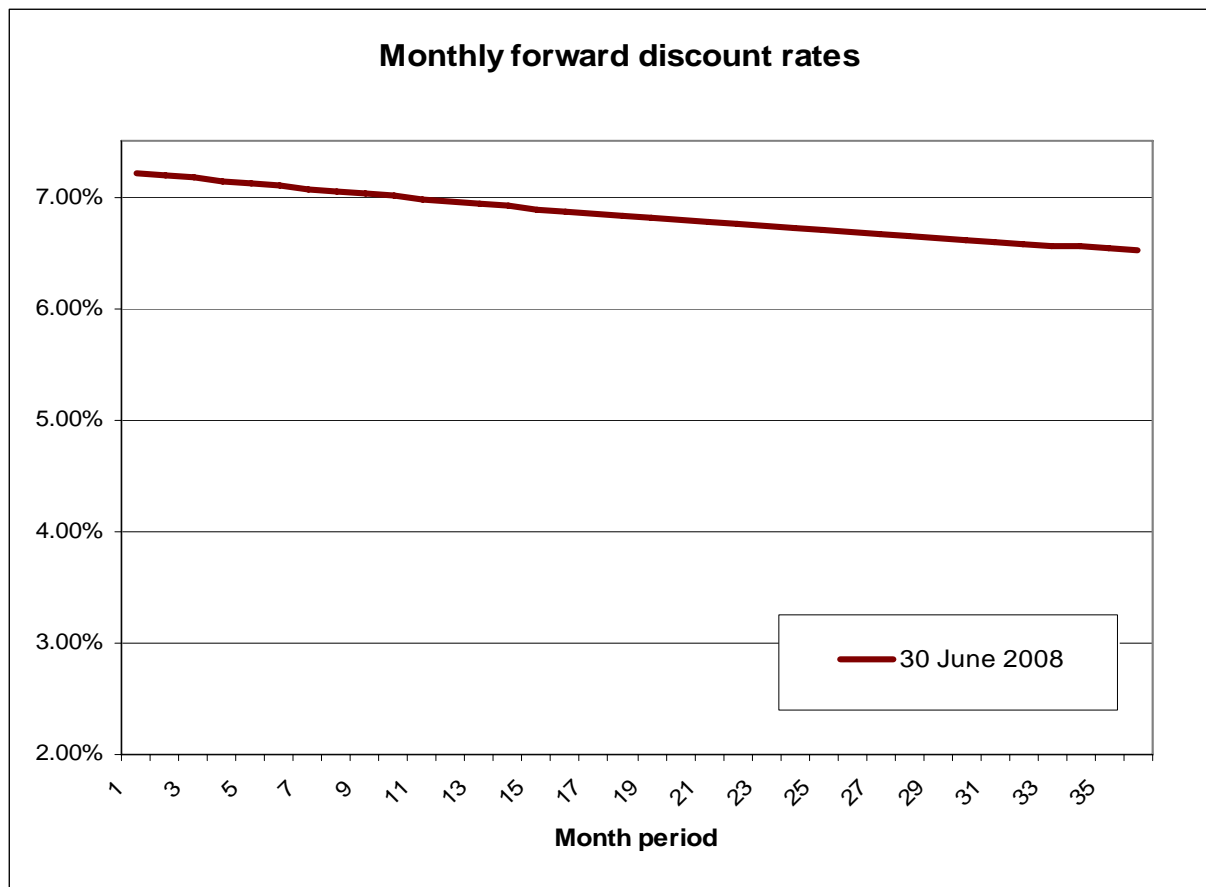
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Yields (30 June 2008)



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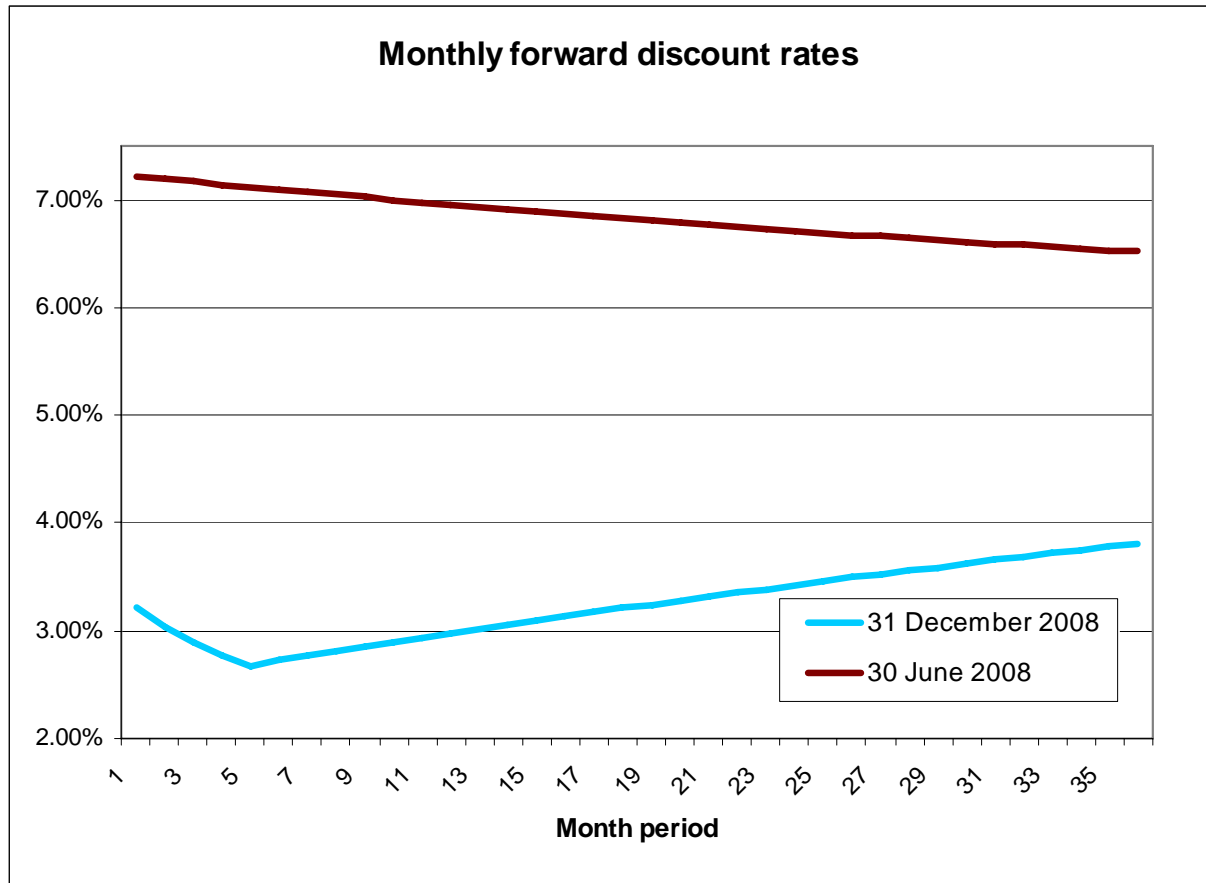
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Yields (31 December 2008)



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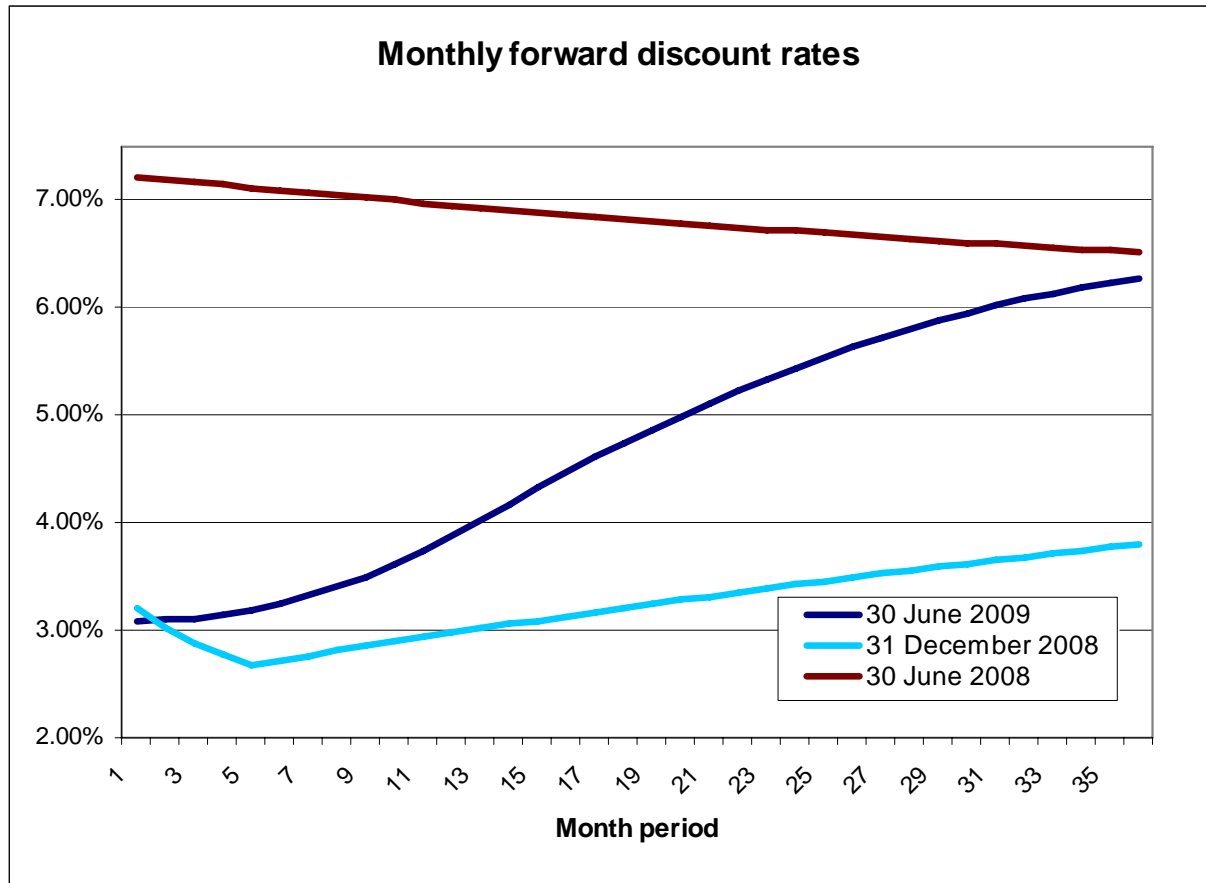
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Yields (30 June 2009)



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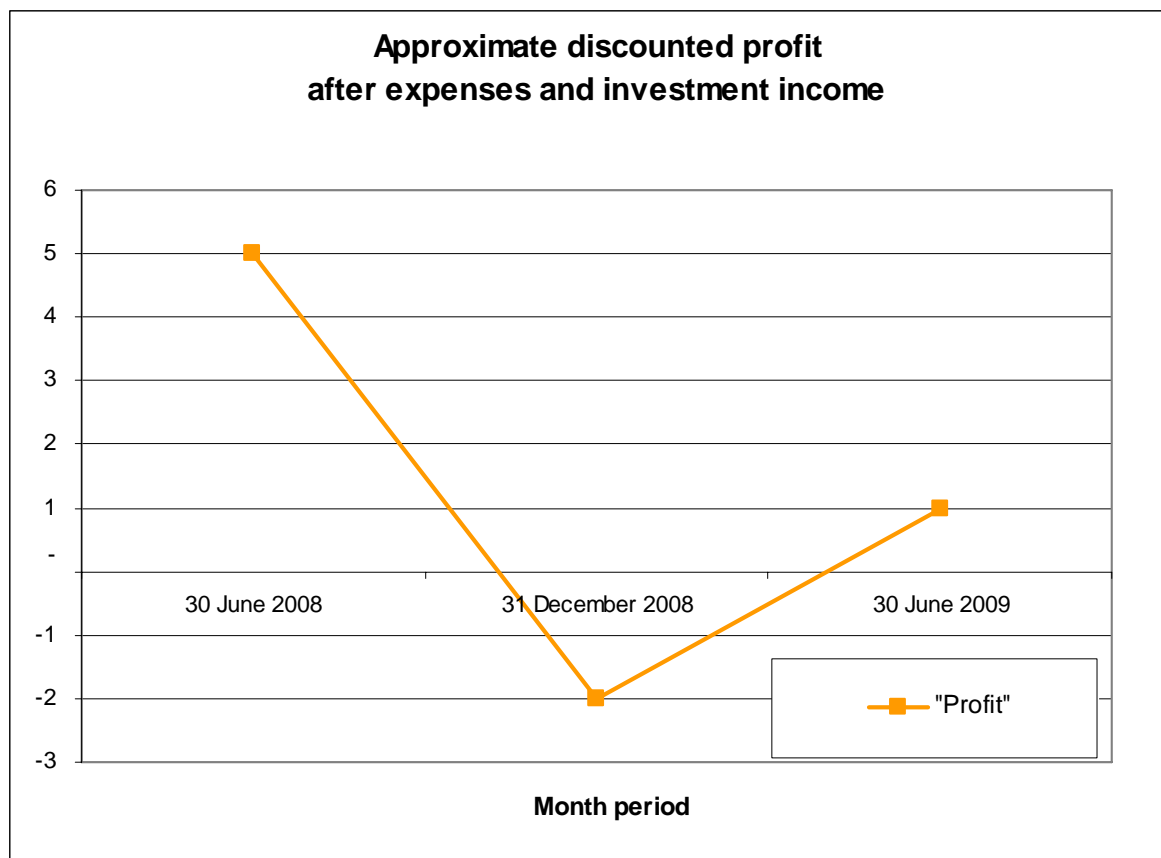
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Example of Impact of the Yield Curve



Premiums = 100: Undiscounted claims = 78: Expenses = 30

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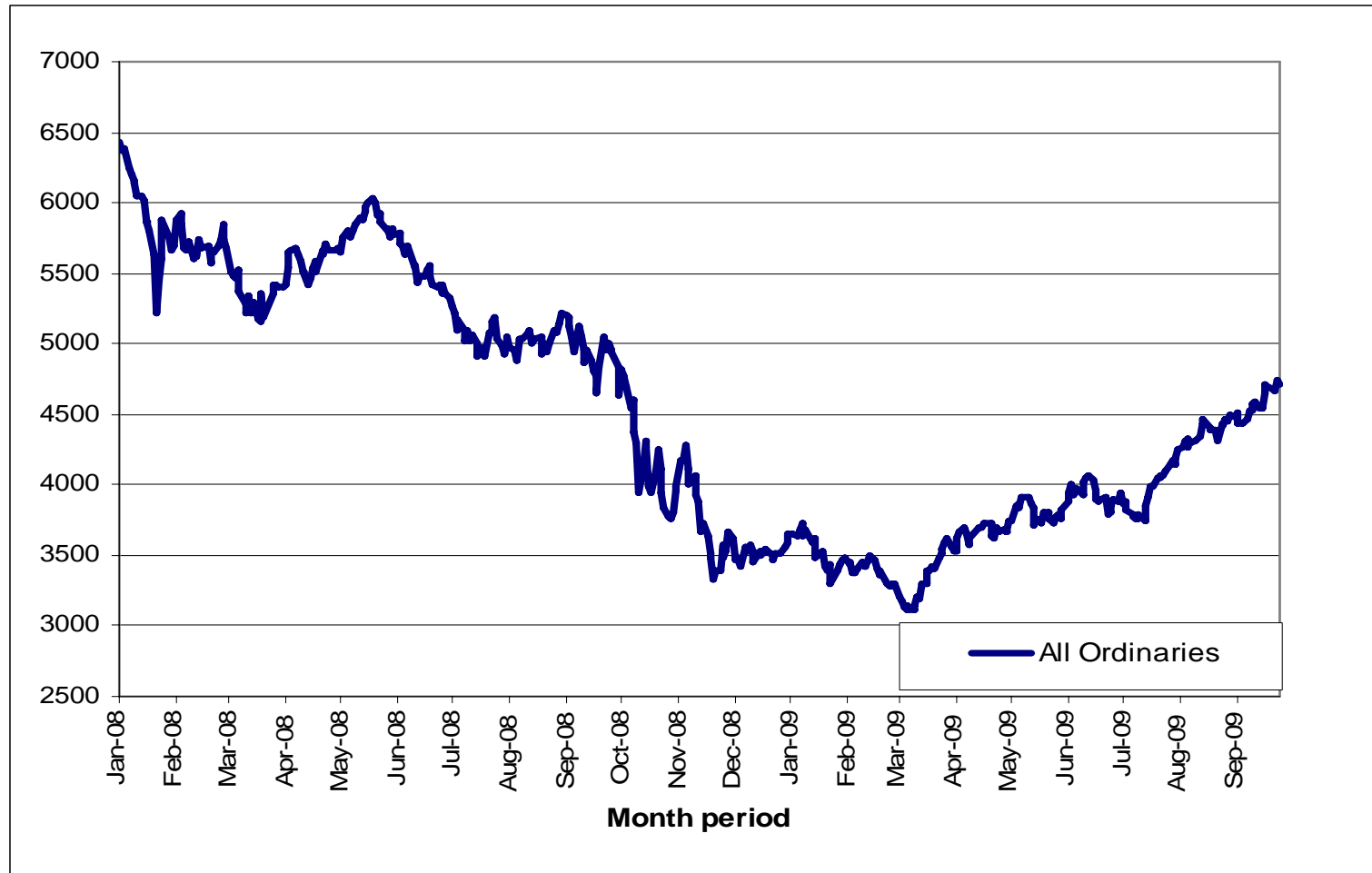
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Equity Values (ASX All Ords)



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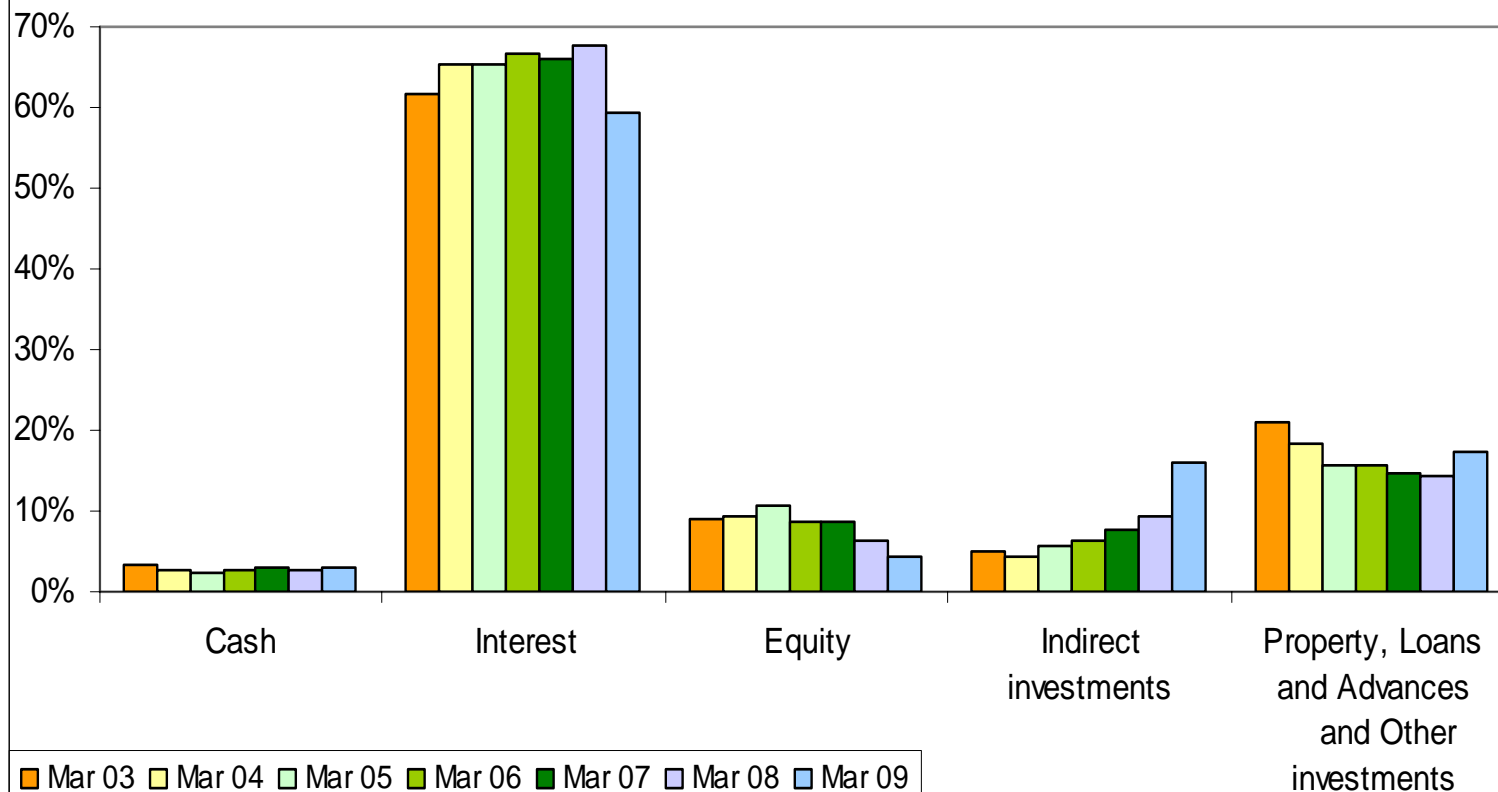


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Investment Allocations

% Total Investment (Direct Insurers)



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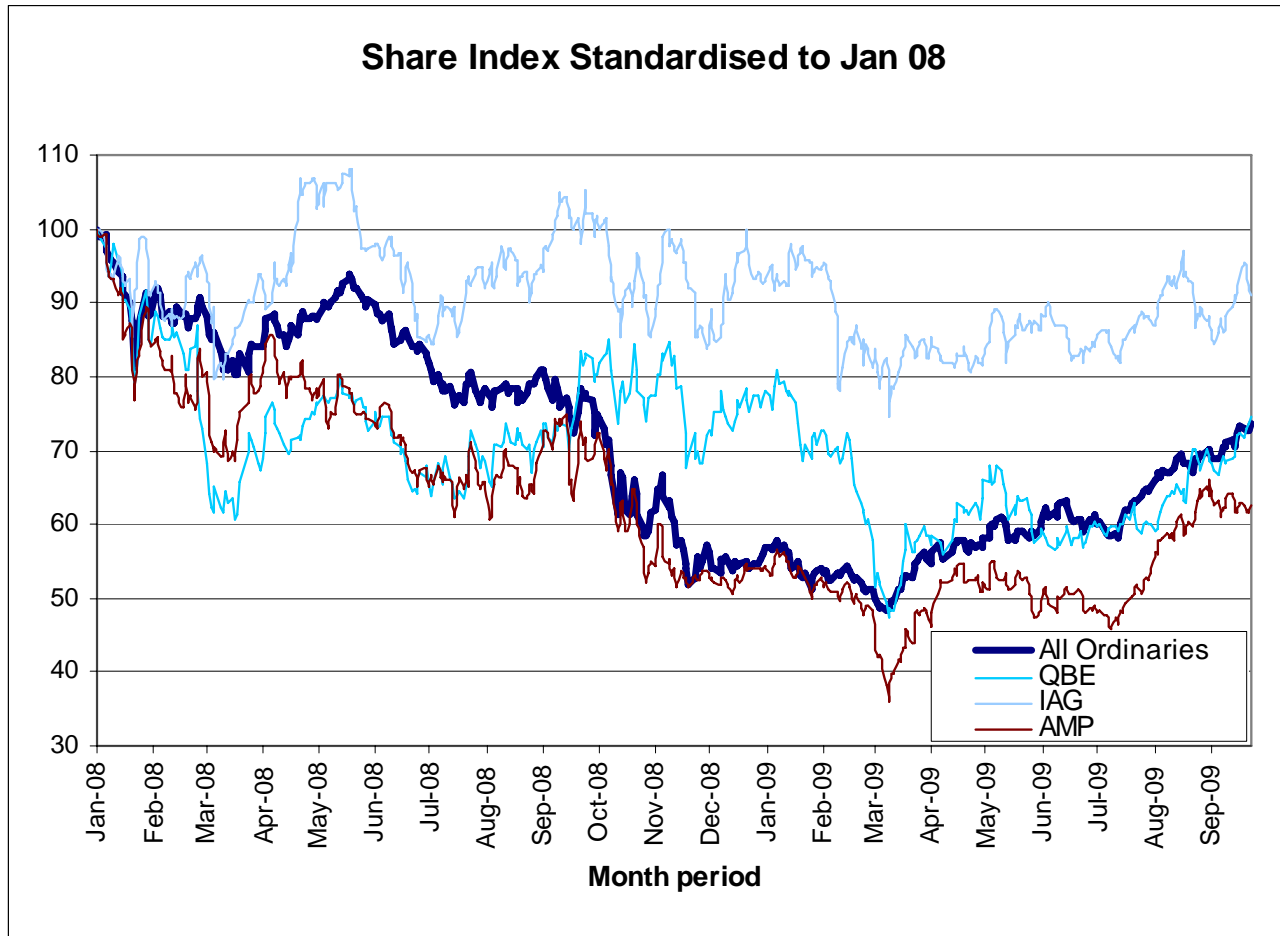
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Equity values (standardised)





Reinsurance

- Reinsurance is a major cost for Australian GI companies
- Weather events and cats in particular
- GFC impact yet to play out on R/I costs
- Interplay with Bushfires and ongoing weather events
- Of note that no reinsurers have failed

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Credit ratings

Company	30-Jun-08	31-Dec-08	30-Jun-09
Munich Re	AA-	AA-	AA-
Swiss Re	AA-	AA-	A+
Hannover Re	AA-	AA-	AA-
Scor Re	NR	NR	NR
Allianz (Aus)	AA-	AA-	AA-
Zurich (Aus)	A+	A+	A+
IAG	A+	A+	A+
Suncorp (Ins)	A+	A+	A+
QBE	A+	A+	A+

Source: S&P and company websites

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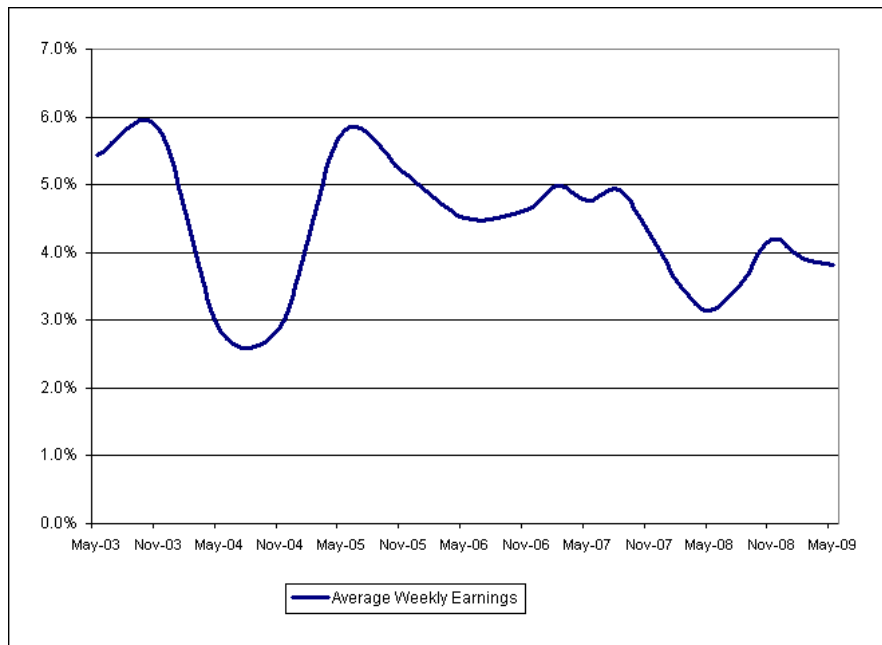
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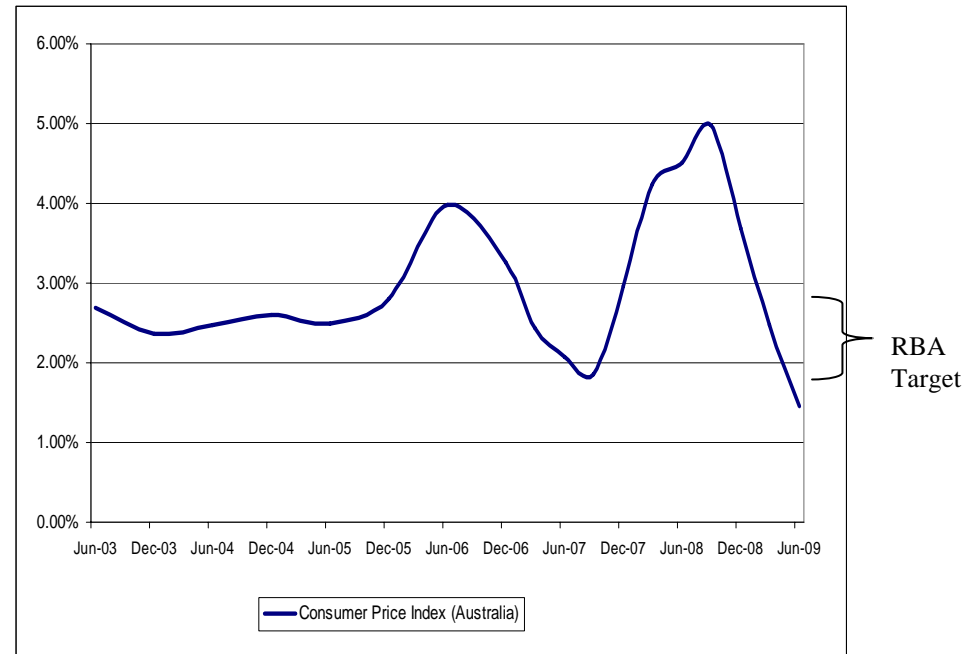
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Inflation: AWE / CPI



Source: Australian Bureau of Statistics



Source: Australian Bureau of Statistics

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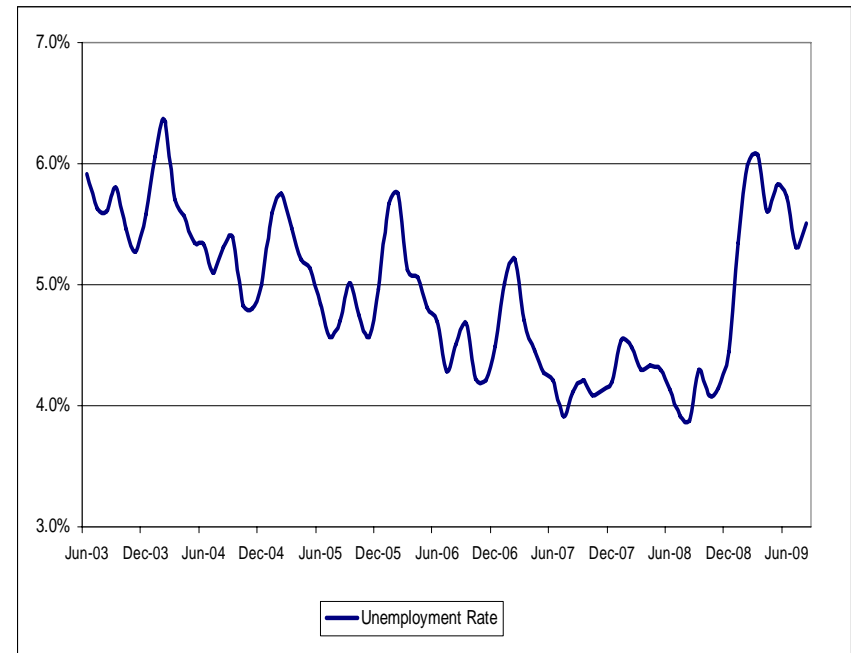


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Unemployment

- Notable rise Q4 08
- Media coverage of hidden un-employment
- Potential concern for:
 - Lenders Mortgage & Credit
 - Workers Compensation
 - Fraud claims



Source: Australian Bureau of Statistics

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What Crisis: What impact?


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Seminar**



Thriving on Change

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Tacitus

“The desire for safety stands against every great and noble enterprise”

Source: What should you make of ERM?: David Whittle and Adam Searle



Risk Management Implications

- More questions at Board level
- Matching issues more clearly on the table
- Impact – sustained or short term currency on international exposures
- Super-imposed and standard inflation impacts
- Confluence on the agenda:
 - Inflation / Super Imposed inflation +
 - Credit +
 - Unemployment +
 - Reinsurance costs.


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Marilyn Monroe

"Ever notice that 'what the hell' is always
the right decision?"

Source: What should you make of ERM?: David Whittle and Adam Searle