

## MARKET CONDITIONS

**There may be signs of recovery in the economy and financial scandals aren't as prominent on the front pages of the press as they have been, but for the insurance market specialising in financial institutions the green shoots of a flatter market are not so forthcoming. On the whole the insurance market moves slowly as rates, terms and conditions are only reappraised annually. Also, typically insurance claims arising from the financial scandals emerge gradually, sometimes taking years to fully reveal quantum. The exception to this rule is the after-effects of reinsurance renewals, which can sometimes cause spikes of premium increase at the beginning of the year.**

So whilst investment returns for insurers may be picking up, and for many 2009 is already returning some strong results, their loss ratios from 2007 and 2008 are still very much at the forefront of their minds and still having an effect on current renewal rates.

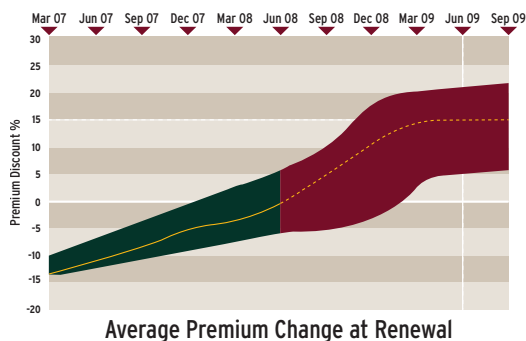
Throughout 2009 insurers have maintained a tough stance by looking to increase premiums at renewal by a minimum of 10 - 15% and actively applying additional premium increases for growth, policy wording improvements and claims experience. The market is delicately poised as, despite the fact there is no shortage of alternative markets (unless the limit being placed is significant), accessing them is no simple matter given that almost all are underwriting very conservatively.

The question that everyone wants to get an answer to is how long will these conditions last? To generate the conditions necessary for a 'softer' market there needs to be both an excess of capacity and a willingness from insurers to compete for business. At the moment most financial institutions insurers are committing their capacity with great care and caution and will continue to do so until they have the

confidence that the number of losses emerging is going to reduce considerably, and stay that way. They are not soothsayers so it will take time and a period of low claims volumes before this trend is reversed. In addition, this cautious approach is likely to be mirrored by reinsurers when many insurers' treaties are renewed at the end of the year, especially considering that some reinsurers are seeing loss ratios up to 300% from the 2007 and 2008 years of account. Hence it is unlikely that the underlying cost (i.e. reinsurance premium) of providing insurance will be reduced at least until the end of 2010.

However, before we resign ourselves totally to more than a year of expensive renewals, it is likely that in the medium term some green shoots may emerge to a limited extent. Small to medium sized financial institutions with claim free histories will always be attractive long-term business for insurers and it is likely that this will be the first sector of business where brokers will be able to drive successful competition between insurers again. On the basis that the sector can keep a 'clean sheet' of claims for the first half of 2010, we might start seeing premium reductions next spring or summer.

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# DIFFERENT METHODS FOR PLACEMENT OF INSURANCE COVERS COME UNDER THE SPOTLIGHT

The placement of your insurance programme has become more technical and regulated than you may have thought.

The EU Competition Directorate (known as DG Comp) has been reviewing the subscription method of placing the larger and more complex insurance and co-insurance policies, especially in the London market.



Traditionally, where a number of insurers are required to complete the placement of a policy, the broker would produce a slip and submission to present the risk information, loss history and cover requirements to underwriters and would share details of the expiring terms and conditions, underlying layer pricing (if applicable) and the guide pricing expected to complete the placement.

The sharing of information is currently permissible thanks to the Insurance Block Exemption Regulation (BER), which is due to expire in March 2010.

The DG Comp felt that common policy conditions, selection of the leader process, sharing the leader's price with followers, and vertical placements were not in themselves problematical. It was, however, concerned that in the traditional subscription market, there was an absence of an opportunity for the following market to compete and invited the industry to change its procedures or face possible enforcement action.

Following discussions between DG Comp and the European Federation of Insurance Intermediaries (BIPAR) – see side bar article – the BIPAR high level principles were agreed. DG Comp stated, "Implementation will now be key but if practices change in accordance with these high level principles, it will remove our immediate concerns. We are calling on market parties to develop new and creative ways of completing placements at the most advantageous terms for clients. We will closely monitor the situation going forward."

## European Federation of Insurance Intermediaries (BIPAR) Principles

1. The intermediary shall, based on information provided, specify the demands and needs of the client as well as the underlying reasons for any advice.
2. Before placing a risk, an intermediary will review and advise a client on market structures available to meet its needs and, in particular, the relative merits of a single insurer or a multiple insurer placement.
3. If the client, on advice of the intermediary, instructs the latter to place the risk with multiple insurers, the intermediary will review, explain the relative merits and advise the client on a range of options for multiple insurer placement.<sup>\*</sup> Intermediaries will expect insurers to give careful independent consideration to the option requested.
4. In the case of a placement of a risk with a lead insurer and following insurers on the same terms and conditions, the previously agreed premiums of the lead insurer and any following insurers will not be aligned upwards should an additional follower require a higher premium to complete the risk placement. Indeed, the intermediary should not accept any condition whereby an insurer seeks to reserve to itself the right to increase the premium charged in such circumstances.
5. During the placement of the risk, the intermediary will keep the client informed of progress.

<sup>\*</sup> There are a range of options for multiple insurance placements.

Two examples of which are the following:

- a) Selection of a lead insurer through a competitive process and subsequent invitation to potential following insurers to cover part of the risk on the same contract conditions and premium, it being understood that nothing should prevent following insurers quoting a different premium;
- b) Selection of lead insurer through a competitive process followed by a series of negotiations between the broker and potential following insurers for the coverage of part of the client's risk not covered by the lead insurer with identical contract conditions and different premiums across all or some of the participating insurers.

So what is a BIPAR placement? The slip would not show competing follow underwriters the premium calculated by the lead underwriter and following underwriters could set higher or lower premiums and request different terms and conditions.

There are advantages and drawbacks to the BIPAR methodology, especially if the programme is for a higher limit, involving a higher percentage of the available market. There may be the opportunity to achieve an overall lower premium, but at the risk of alienating underwriters and not completing placement or placing at a higher premium due to the generally conservative nature of some underwriters.

In the context of the current hard market for financial institutions' insurance covers, a BIPAR placement may be seen as a method of cost containment. In a future soft or benign market, BIPAR could be a tool for driving competition between insurers.

Certainly, we would look to engage with our clients to discuss your requirements, the methods of marketing your covers, and to establish your instructions for BIPAR or traditional subscription placements.

# UNIVERSITY OF OXFORD JOINS WILLIS RESEARCH NETWORK (WRN)

## The University's Smith School of Enterprise and the Environment Forms Centre of Catastrophe Risk Financing and Public Policy with Support from WRN

The Willis Research Network (WRN), part of Willis Group Holdings Limited has strengthened its position as the world's largest collaboration between academia and the re-insurance industry by announcing the addition of Oxford University to its roster of leading academic institutions. In keeping with its focus on groundbreaking, industry-relevant research into catastrophe risk, the WRN will sponsor the creation of a Centre of Catastrophe Risk Financing and Public Policy at Oxford University's Smith School of Enterprise and the Environment.

The first of its kind, the centre will examine ways in which the costs of catastrophic events can be shared across society, equitably and sustainably, via catastrophe risk financing and sound public policy on a local and global basis.

Commenting on the rationale behind the centre's creation, Rowan Douglas, Managing Director, Willis Re and Chairman of the WRN, said, "Governments worldwide are struggling to share the costs of natural catastrophes across populations at local and global levels via public and private mechanisms. Climate change and expected increases in extreme events make this an acute concern in developed and emerging economies. And yet, until now, no academic centre existed to provide governments and others with the science, support and solutions to confront these issues." The new Smith School of Enterprise and the Environment at the University of Oxford, led by former U.K. Government Chief Scientific Adviser,

Professor Sir David King, provided the ideal platform to create such a centre, which fosters collaboration among leading environmental science, economics, quantitative finance, legal and business experts to meet these challenges.

Professor Sir David King said, "This exciting initiative by Willis Re and the Smith School of Enterprise and the Environment could not be more timely and to the point. It is a prime example of how decision-makers in public and private enterprise can be supported in building the knowledge and understanding so necessary to managing issues such as climate change and extreme events. We are very grateful for the opportunity given by Willis Re to build this centre as one of the leading sources of information for public policy on catastrophe risk management."

The WRN-sponsored Oxford-based research programme will explore ways of employing new environmental data, models and techniques to stimulate greater confidence in catastrophe risk transactions and public policy interventions.

The centre will be led by Dr. Patrick McSharry, who is currently a member of the Oxford Centre for Industrial and Applied Mathematics and also heads the System Analysis, Modelling and Prediction Group at the University's Department of Engineering Science. His work combines research in environmental and weather modelling with applications for financial and industrial sectors. He is appointed Senior Academic within the WRN.

Dr. Cameron Hepburn, Senior Research Fellow at the Smith School and Visiting Fellow at the Grantham Institute, LSE, will also join the centre and be appointed WRN Senior Academic. Dr. Hepburn is an environmental economist specialising in climate policy and long-term decision-making.

The WRN will sponsor a research fellowship at Smith School's new Centre of Catastrophe Risk Financing and Public Policy. The first Willis Research Fellow, who will be appointed from October 2009 following a period of nomination and selection, will report to Dr. McSharry.

The Oxford team will be fully integrated with Willis Re, Willis Capital Markets and Advisory, and the other members of the WRN around the world.

The Willis Research Network (WRN) is the world's largest partnership between academia and the insurance industry. Willis has teamed up more than 20 leading institutions across a full range of disciplines from atmospheric science and climate statistics, to geography, hydrology and seismology, to evaluate the impacts on the environment via engineering, exposure analysis and Geographic Information Systems. Additional information can be found at [www.willisresearchnetwork.com](http://www.willisresearchnetwork.com).

## BREAKING NEWS

Willis Financial Institutions will be holding a breakfast briefing entitled 'One Year On' on November 25, 2009. The briefing will consider how the market has moved on in the past year since Willis hosted the 'After the Tsunami' seminar in October 2008. Willis will also be announcing some new academic research, as well as discussing the current claims environment.

This briefing is designed for Company Secretaries, Finance Directors, Risk Managers and Insurance Buyers.

**Date:** Wednesday November 25, 2009  
**Time:** 8:30am – 10:15am  
**Venue:** Willis Building, 51 Lime Street  
London, EC3M 7DQ

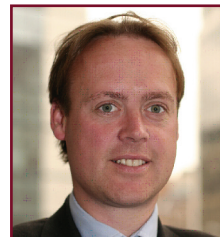
### AGENDA

08:30 – 09:00 Registration and coffee  
09:00 – 09:25 Market overview, underwriting coverage issues and predictions for the future  
**Duncan Holmes, Willis**  
09:25 – 09:50 Current claims environment  
**Claire Nightingale, Willis**  
09:50 – 10:00 Research into Risk Appetite  
**John Naish, Willis**  
10:00 – 10:15 Questions and Answers

To reserve your free place at this event, please contact:

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## MEET THE TEAM



### Jonathan Hodson

Jonathan has been in the insurance industry for 14 years specialising in the Financial Institutions sector and involved both as an Account Executive and in Broking roles for Financial Institutions worldwide, but primarily in the U.K.

Jonathan started his career in 1995 at Heath Lambert where he was responsible for the day-to-day running of the U.K. Stockbrokers scheme. He then moved on to work at specialist niche FI broker as Account Executive and Broker concentrating mainly on international business.

In 2003 Jonathan joined the Financial Institutions team at Willis as an Account Executive and Broker. Jonathan has extensive knowledge of stockbrokers, fund managers, corporate finance and banking financial lines programmes.

Jonathan lives in Fulham with his wife and four children. He enjoys playing and watching tennis and is a keen motorcyclist, frequently commuting into the office on his bike.

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To discuss your insurance arrangements with the Willis FI team please call Derek Reeves on +44 (0)20 3124 6944.