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Germans unveil rival war risks consortium

Host of prominent names providing backing for alternative facility to London and Oslo

Herbert Fromme, Cologne

GERMANY has established a war risk consortium, through which it hopes to compete with the traditional offerings in London and Oslo.

The move means, for the first time, shipowners in Germany can buy insurance cover against war risks in their home market providing protection against the consequences of war, terrorism and pirate attacks.

These risks are excluded from standard hull policies.

Up to now, German shipowners have obtained war cover

mostly in London or Oslo. The consortium "German War Cover" is now trying to win business competing with these rivals.

One argument in its favour: the policies will be written in the German language, jurisdiction is Germany.

The high number of pirate attacks has risen in demand.

"With this special policy, we are putting the stress on giving advice to the shipowners and on the prevention of piracy attacks," said Hans-Christoph Enge, head of Lampe & Schwartze Marine Underwriting in Bremen, which is leading the consortium.

The group covers losses of up to \$55m per ship. It offers war coverage in hull and machinery,

protection and indemnity and loss of hire.

Risk evaluation is based on analysis of dangers from piracy undertaken by specialised advisers. In case of a loss event, another specialised company will take over negotiations with pirates.

Lampe & Schwartze is not acting as broker, but as managing agent. It will conduct the underwriting, collect premiums, arrange for the advice, and pay out claims.

The company itself does not, however, take over any risks. Enge was not prepared to give the names behind the consortium.

However, according to market sources, Basler, Gothaer, R+V, Nürnberger and Württember-

gische are involved. Other names mentioned include companies from Bermuda, the German-Russian Sovag, Nationale Suisse from Basle, Siat from Italy, and Munich Re's subsidiary GreatLakes.

Munich Re, through its group member Ergo, already offers kidnap and ransom policies for ships' crews, which would be competition for the war risks cover of the new consortium.

Ergo is not part of German War Cover. When it comes to the question of when a region can be regarded as a war zone, the consortium will follow the decision of the Joint War Committee in the London insurance market Lloyd's.

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Brokers examine migration moves

UK INTERMEDIARIES are considering following their underwriting cousins and redomiciling to cheaper European jurisdictions, while for smaller London market brokers, other cost-saving options are gaining credence.

The practice of shifting to lower tax jurisdictions became popular among underwriting firms last decade, with centres such as Bermuda, Switzerland (pictured) and Ireland emerging as popular destinations.

More recently, a briefing session on broker migration hosted by law firm Clyde & Co attracted more than 40 people.

Partner David Coupe, who organised the event, explained that, for many brokers, the cost of doing business in the UK was becoming prohibitively expensive.

Cheaper options are presented in other European jurisdictions with a lower tax demand.

However, he suggested Switzerland, a favourite destination for risk carriers seeking a low-tax place of incorporation, would not be as appropriate for the broking community.

"I don't think Switzerland works for the brokers," Coupe told *Insurance Day*. "It's outside the EU and you need the EU passport. Insurers have kept their operations here but have put their headquarters and international operations in Switzerland because it's cheap."

"But if the brokers wanted to do business in the UK, they're still going to have to passport and Switzerland doesn't work. But there are other jurisdictions in Europe that offer a lower tax rate than the UK."

Redomestication is an option for larger, listed brokers, but according to Coupe, smaller players are also looking for ways to reduce expenses. Becoming a limited liability partnership (LLP) has re-emerged as a popular consideration, he said, adding the increase in the national insurance contribution level introduced last week was a further incentive.

"Companies are looking to save costs – the market is soft, they're not making any profit – and the LLP route gives them a bit more capital flexibility and allows them to reduce their national insurance cost. But it's not going to be appropriate for the really big boys."

Richard Banks

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Pirate danger: A naval boarding party from HMS Cornwall guard Somali pirates in the Indian Ocean

Historical flood data vital for Australian insurers to issue cover

Scott Vincent

DATA on historical flood activity must be made available to insurers in Australia if the market is to deliver flood cover on a wide scale, the head of Insurance Australia Group (IAG) has warned.

Mike Wilkins, managing director and chief executive at IAG, said the cost of damage following a flood event increases rapidly according to the depth of water, making it vital for insurers to have detailed riverine flood map-

ping and data before they can accurately price cover.

"In Queensland, this data – which is the responsibility of local councils – has largely been unavailable, despite the industry seeking access to it over many years," Wilkins said.

He added more than 90% of Queensland catchments have little or no data made available.

"While some local governments have been proactive and forthcoming with the data, unfortunately there are many who simply do not have it – and others who have not been

willing to provide it," Wilkins said.

"This is a serious abrogation of responsibility and must be addressed as a priority if we are to build resilience to flood – particularly in Queensland."

In an address to the Committee for Economic Development of Australia, Wilkins said IAG had made a clear commitment. "Once we are provided with the data, we will deliver flood cover."

He said this commitment was borne out by the fact this data is already provided in states where information has been made available, such as New South Wales.

Flood of claims in Queensland it is vital for insurers to have detailed riverine flood mapping and data before they can accurately price cover



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Insurance Day is published five times a week (Monday to Friday).
Hard copy subscriptions are available at the following annual rates:
£1,795*; €2,244*; US\$3,231. Cover price: £7.50. Telephone: +44 (0)20 7017 5532.
Prices marked * excluding VAT

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ISSN 1461-5541. Registered as a newspaper at the Post Office. Published in London by Informa UK Ltd, Mortimer House, 37/41 Mortimer Street, London, W1T 3JH

Printed by Newsfax International, Unit 16, Bow Industrial Park, Carpenters Road, London E15 2DZ

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INSIGHT



Insurers say draft implementation measures include elements that will be to the industry's detriment, as well as Europe's economy as a whole

Industry 'is unprepared' for Solvency II deadlines

Latest survey shows concern about regime developments, writes **SCOTT VINCENT**

Survey results – in brief

FINDINGS from the latest survey of UK insurers' preparedness for Solvency II include:

- Fewer than half of UK insurers surveyed are confident the industry will meet the December 31, 2012 Solvency II deadline. Only 46% are confident of meeting the deadline – compared with 63% when surveyed last year;
- However, 73% said they were confident their company would meet the deadline;
- 40% of insurers have 40% or less of their dedicated Solvency II personnel in place;
- Training programmes are scheduled at 58 of the 60 insurers surveyed;
- More than one-third of non-life insurers are contemplating restructuring or reorganising operations as a result of Solvency II. The figure is even higher for life insurers, where 57% plan a restructure;
- Two-thirds of insurers surveyed said they expect to introduce new risk mitigation techniques due to Solvency II; and
- Insurers ranked implementation planning and personal incentivisation as the highest priorities for the next six months.

The research was conducted by the Economist Intelligence Unit on behalf of Deloitte and surveyed 60 UK-based insurers to ascertain their latest views on Solvency II and readiness for the new regime.

The latest research has been published less than a week after an eruption of dismay from industry associations at the latest plans for Solvency II implementation.

The letter to Michel Barnier, European commissioner for internal market and services, warned the latest draft implementation measures included "excessively conservative and prescriptive elements" that will be to

the industry's detriment, as well as Europe's economy as a whole.

"The genuine and valid concerns of the industry have been largely ignored or remain undressed," the letter warned, adding the latest draft measures had intensified concerns, rather than addressing them.

Peter Vipond, director of financial regulation and taxation, at the Association of British

Insurers, voiced his concern that although 10 years have now passed since the principles of Solvency II were proposed, the rules have still to be agreed.

"This is bad news for all. For regulators and firms, it makes a proposed start date of January 2013 difficult," he said.

"For insurers, the current draft of the rules are poorly thought through in places, leading to them holding unnecessarily high levels of capital, ultimately penalising consumers," Vipond added.

There is also continued concern about the standard formula for catastrophe risks.

During the past 24 hours, at a Lloyd's Old Library briefing, hosted by Pitney Bowes Business Insight, Adam Podlaha, head of the international arm of Aon Benfield's Impact Forecasting unit, warned in more than 80% of cases, the standard formula for catastrophes is overestimating losses.

"The Solvency II standard formula is not appropriate for most companies, which need to consider internal models," he said.

Amid these continued concerns, the UK regulator, the Financial Services Authority, has scheduled a conference for next Monday to outline its proposed implementation methodology.

Insurance Day Global Markets

incorporating Alternative Insurance Capital, The ReReport and World Insurance Report



Insurers focusing on Asian expansion

Bancassurance restructurings, plus continued efforts to gain greater exposure to growth markets in Asia, were among the mergers and acquisitions highlights last month, reports **GRAHAM VILLAGE**

AXA'S reorganisation of its businesses in the Asia-Pacific region and activity at AIG subsidiary Chartis were among the highlights of corporate developments affecting the international insurance and reinsurance industry in March.

Mergers, acquisitions, disposals and bids

Acadia Acquisition Partners has agreed to buy **Hamilton Risk Management Co** and its subsidiaries, including **Kingsway Amigo**, from **Kingsway Financial Services**. Kingsway will act as the general partner and hold a limited partnership investment.

Achilles declared its offer for **Brit** wholly unconditional after exceeding the required 75% threshold of acceptances from Brit shareholders. As at March 23, Achilles had received shareholder acceptances representing 97.86% of Brit's shareholder capital. Achilles said it intended to acquire the remaining Brit shares by means of squeeze-out proceedings. Achilles reached agreement with the independent directors of Brit on the acquisition in October last year.

Axa's delayed restructuring and part-divestment of **Axa Asia Pacific (Axa APH)** was due to close on April 1. Australian group **AMP** acquired 100% of Axa APH for A\$13.3bn (\$14bn), buying Axa's stake in the company for A\$7.2bn in cash. In turn, Axa bought Axa APH's Asian operations from AMP for A\$9.8bn in cash. Axa's net outlay for the series of transactions was therefore A\$2.6bn. Axa APH's Australian and New Zealand businesses, remaining with AMP, were priced at A\$3.5bn.

Axa has appointed John Dacey as vice-chairman for Asia-Pacific and Mike Bishop as chief executive of Axa Asia. Both report to Henri de Castries, chairman and chief executive of Axa.

Axa Life Ltd, a Swiss subsidiary of the Axa group, has received regulatory approval to transfer its entire 15.6% in **Taikang Life** to a consortium of new and existing shareholders for a consideration of \$1.2bn. Taikang is China's fourth-largest life company. Axa said the transaction would generate a positive impact of about €800m to its net income. Axa acquired its stake in Taikang as a result of the French group's acquisition of Winterthur in 2006.

Axa said it continued to develop its life operations in China through **Axa-Minmetals**, a joint venture with **Minmetals Corp**. Axa is now waiting for regulatory approval to transform the company into **ICBC-Axa**, a joint venture with China's largest bank by assets and clients. The divestment of Taikang was mainly to satisfy Chinese regulations restricting the ability of foreign investors to hold multiple interests in the Chinese life insurance sector, Axa said.

Baloise has acquired Belgian insur-

ance group **Nateus**, which operates through **Nateus SA/NV** and **Nateus SA/NV Life**. Together the two companies wrote premium in 2009 of €342m (\$494.5m), with 53% relating to life risks. The two companies are based in Antwerp and employ about 450 people. The previous owner was **Ethias SA/NV**.

Baloise is already active in Belgium through subsidiaries **Mercator Verzekeringen** and **Avéro Schadeverzekeringen**, offering insurance and pensions for private customers and some small and medium-sized businesses. Mercator wrote premiums in 2009 of €543m, of which non-life business represented 71%. Last year, Baloise acquired Avéro. The two businesses employ about 1,000 people in Belgium. Baloise said after the acquisition of Nateus, it would be one of the five largest insurers in Belgium.

Bayside Capital Partners, a private equity company, has pulled out of its planned merger agreement with workers' compensation provider **Majestic Capital**. Bayside cited a material deterioration in Majestic Capital's surplus, an inability to secure regulatory approval for the merger and failure to satisfy lease termination agreements to Bayside's satisfaction as the reasons for the collapse of the deal.

Majestic Capital said following Bayside's withdrawal, rating agency AM Best was likely to downgrade Majestic Insurance Co's financial strength rating of B++ and the California Department of Insurance might initiate conservation proceedings. Majestic has now entered into a non-binding letter of intent that would see the company sell its renewal rights to **AmTrust**, while AmTrust would assume Majestic's loss reserves and in-force insurance through a loss portfolio and 100% quota share reinsurance.

Berkshire Hathaway has adjusted the price it will pay to acquire the 19.9% of **Wesco Financial** it does not already own to \$556.6m. Wesco owns direct and indirect subsidiaries active in insurance, furniture, steel and other business sectors.

Separately, **Berkshire Hathaway** has agreed to acquire chemical company **Lubrizol** for an estimated \$9.7bn, making it one of the largest acquisitions in Berkshire Hathaway's history.

Canopus has acquired the businesses of **K Drewe Insurance Brokers and Look Insurance Services**. Drewe is a wholesale broker specialising in UK leisure risks such as caravans and holiday homes. It has been a coverholder for caravan business to Canopus syndicate 4444 for many years. Look, an appointed representative of Drewe, is a retail broker focusing on the direct leisure insurance market.

Chartis, the main non-life subsidiary of **AIG**, has acquired an additional 43.59% of the shares of Japanese insurer **Fuji Fire & Marine** to increase its total holding in the company to 98.25%. Char-



Berkshire Hathaway has agreed to acquire chemical company **Lubrizol** for an estimated \$9.7bn, making it one of the largest acquisitions in Berkshire Hathaway's history

AP PHOTO/MARK DUNCAN

is intends to acquire the remaining 1.75% in Fuji. Subject to required legal proceedings, Fuji will be delisted and become a wholly-owned subsidiary of Chartis, although it will continue to operate under the Fuji brand.

Compre, active in the insurance run-off market, has completed a restructuring and reorganisation that has entailed the creation of a new holding company, **Compre (1) Ltd**. The majority shareholder in the group is now private equity partnership **Milestone Capital Partners**. Nick Steer, previously joint owner of Compre, has carried forward much of his investment to become the chief executive and main individual shareholder in the new Compre. He is joined by two other investor-directors, Rhydian Williams and Will Bridger. Former chairman Mikko Sinko has reduced his shareholding and becomes a non-executive director of Compre and non-executive chairman of the group's Nordic risk carriers.

Fondiarria-SAI, one of Italy's largest insurers, is set to have a revised ownership structure after **UniCredit** bank and **Premafin Finanziaria** agreed a recapitalisation plan for the insurance group. UniCredit has agreed to invest €170m to take a 6.6% stake in Fondiarria, which has announced its intention to raise a total of

€450m in new capital. Premafin's stake in Fondiarria will reduce to close to 35% from 37.6%. France's **Groupama** held discussions about acquiring a 20% stake in both Fondiarria and Premafin, but the Italian financial regulator ruled the size of the shareholdings would require Groupama to launch a full bid for both companies.

Generali has disclosed it holds an option to buy out its joint venture partner, **PPF Group**, in the central and east European insurance group **Generali PPF Holding**. Generali currently holds 51% in the company, with PPF taking 49%. Generali said it had the right to buy out its partner in 2014.

Hallmark Financial Services has agreed to buy **TBIC Holding Corp**, including its subsidiaries **Texas Builders Insurance Co** and **TBIC Risk Management** (collectively **TBIC**), for an initial purchase price of \$1.7m, with additional amounts depending on future performance. TBIC writes small and middle market workers' compensation within Texas.

Harbinger Group, a private equity investor, has signed a definitive agreement to buy **Old Mutual (OM) US Life Holdings** for \$350m, a price that represents 39% of US Life's statutory capital at December 31, 2010. After closing, **Front Street**, a new reinsurer formed in Ber-

muda, may reinsure certain policy obligations of **OM Financial Life Insurance Co**, a subsidiary of US Life, under a \$3bn reinsurance transaction.

Mapfre and **Caja Madrid Cibeles** have reached an agreement that will see the Spanish bank acquire the 48.97% stake the insurance group holds in **Banco de Servicios Financieros Caja Madrid-Mapfre** and the insurer will acquire the 12.5% shareholding held by the savings bank in **Mapfre Internacional**. Mapfre will pay Caja Madrid €186.6m, which is the difference between the market value of the shareholdings to be transferred. The agreement maintains the strategic alliance both groups signed in 1998 and Caja Madrid continues to hold its current stake of 15% in Mapfre.

Markel Corp, active in the insurance and reinsurance markets, has acquired the European and US operations of **Rohr Bagger GmbH** and its affiliates. The Rohr companies are manufacturers in the aggregates industries. Markel carried out the takeover through its **Ellicott Dredge Enterprises** unit.

Nippon Life Insurance Co is to take a 26% stake in **Reliance Life Insurance**, one of India's largest private life insurers.

Continued on p6

ID GLOBAL MARKETS

Canada life insurance and benefits market

Canada has a mature, well-regulated market that survived the 2008 financial crisis better than most, although some Canadian life companies' balance sheets came under pressure in 2008 and early 2009 from falling asset prices and cuts in interest rates

THE TREND among companies in the Canadian insurance market has been one of consolidation, spurred by a 1999 amendment to the 1991 Insurance Companies Act, to allow insurers to demutualise. The total number of life companies active in the Canadian market fell from 129 in 1998 to 96 in 2009, of which 64 were Canadian companies – either federally or provincially regulated – and 32 were foreign branches.

Indeed, three large financial services groups have come to dominate the domestic life market: Great-West Life Assurance, Manulife and Sun Life of Canada. In addition, they have considerable international businesses, with operations in the US, Europe and Asia.

These three groups accounted for two-thirds of individual life premium and 47% of group life premium in 2009. In the annuity market, they accounted for 60% of individual premium and 53% of the group market.

So complete is their domination, one commentator remarked: "It's a long way down to number four." It remains a competitive market, however, and smaller players secure provincial or specialist product niches supported by high service standards and tight cost control.

Life insurance

Foreign influence in the Canadian market has been steadily diminishing. Foreign-owned insurance companies accounted for 13% of market premium in 2008, down from 25% a decade earlier. In 2009 alone, four of the 36 foreign branches in Canada ceased operations.

Reasons for leaving the Canadian market include a low premium growth, increased competition and the dominance of the big three groups driving down profitability.

UK-based Standard Life has a significant presence in the market, however, mounting a strong challenge to the leading players in 2009 with a 39% increase in written premium. Guaranteed interest products played a major part, with sales increasing by 228%.

Bancassurance is outlawed under the terms of the Insurance Business (Banks and Bank Holding Companies) Regulations, issued to implement the Bank Act, because it is considered to be unfair competition. However, leading Canadian banks such as Royal Bank of Canada (RBC), Scotiabank and the Bank of Montreal (BMO) also operate separate life insurance businesses.

Given the dominance of the big three life market players, further competition from these large banking institutions may prove desirable at some point in the future. Banks have been lobbying for a softening stance on bancassurance and market sources suggest it may well be in the future, although hopes of any change resulting from the next banking review in 2011 are not high.

With such a mature, well-regulated market, Canada was robust enough to shrug off the 2008 financial crisis and subsequent recession better than many comparable developed life markets, not least the US. It was ranked the world's 11th-largest life market in 2009.

Written premium continued to show modest growth in 2008 and 2009, of 0.4% and 1.9% respectively. Total life market premium, excluding personal accident (PA) and health, in 2009 was C\$51.7bn (\$45.3bn).

Life company balance sheets came

under pressure in 2008 and early 2009 from falling asset prices and cuts in interest rates, but there were no company failures. Manulife, however, with substantial international and guaranteed business – especially in the US under the John Hancock brand – was forced into a public capital raising and exceptional reinsurance operations in its efforts to address short-term liquidity requirements.

Growing personal wealth and the ageing demographic profile has influenced the strategy of life companies towards more investment-oriented products.

Annuities are the most significant product class and accounted for more than half of the total market premium (including PA and health) in 2009.

For more than a decade, the market shares of annuity and health business have expanded at the expense of life business, which accounted for more than 30% of the total in 1996.

Individual life products accounted for about 40% of the total life insurance market premium in 2008.

While lapse rates were higher, three-quarters of individual premium income was renewal premium. Insurers encouraged persistence with concessions such as "premium skip" and permitting the payment of life cover cost only.

Life products offered in the Canadian market include a range of term insurances and permanent life insurance, including whole life and universal life. Other protection products include critical illness and long-term care insurance.

Pensions

In addition to state pension benefits, the Canadian pension market offers considerable opportunity for further provision under both defined benefit (DB) and defined contribution (DC) plans.

At the beginning of 2008, the Canadian Life and Health Insurance Association (CLHIA) recorded 19,185 DB plans with just over six million members and C\$1.2trn in assets. Insurers focus on DC-structured smaller group and individual plans. The smaller group market accounted for half of all plans with assets of C\$45.7bn.

Individual pension and annuity premiums totalled C\$17.1bn in 2009, up 1.7% over 2008, while group pension and annuity premiums totalled C\$19.3bn, an increase of 7.6% over 2008.

The principal DC personal pension plan is the registered retirement savings plan (RRSP), which can be set-up individually or on a group basis. Total RRSP assets at year-end 2008 were C\$318bn, plus a further C\$124bn in self-directed RRSP assets.

Insurers accounted for only 22.5% of the insured provider market in 2008, after investment (mutual) funds with 42.6% and chartered banks and trust companies with 23.9%; the rest were credit unions (10.9%) and the Canada retirement savings plan (0.1%).

An established strategy of life insurers has been to position themselves as wealth managers in order to capitalise on reliable trends of growing personal wealth and an ageing workforce led by the baby boom generation.

Pensions, often referred to generically as annuities in Canada, have been central to this repositioning and accounted for more than half of total market premium income in 2009 including PA and health, split fairly evenly between individual and

group business, according to data from the CLHIA. Insurers are experienced in setting up and administering pension plans and have also sought to attract assets under management.

As a result, segregated funds have developed since they were first permitted in 1961 and have become popular with policyholders. They offer increased choice and the potential for excess return over the lower risk general funds traditionally offered by insurers, where participation rates have been falling in recent years along with interest rates.

Segregated funds

Two-thirds of insurer pension assets were segregated funds in 2008, according to the CLHIA. Segregated funds are similar to mutual funds because they offer diversified risk in a range of assets, typically equities, bonds and cash. However, they are an individual variable insurance contract offering certain financial protection, mostly by offering guaranteed returns at death or maturity, usually at least 75% of premiums paid. They also have certain tax advantages over mutual funds such as loss relief. Segregated funds can be registered or unregistered.

Segregated funds are employed for a wide range of pension plans and variable annuity contracts for individual policyholders. Up to 1998, equities were the largest asset class, but they have since been surpassed by mutual funds. The risk-based nature of segregated funds means their popularity is closely linked to the fortunes of financial markets.

While all types of pension plan are generally referred to as "annuities", the market also offers a broad range of conventional annuity products. These are broadly divided between immediate and deferred (accumulation) annuities, the latter accounting for the bulk of market premium. Immediate annuities exchange capital for income, deferred annuities roll up to a target date then commence income.

Income may be for life or a given term.

Often there are guarantees protecting policyholders. guaranteed minimum withdrawal benefit plans (GMWB), for example, guarantee an income floor but permit the policyholder to invest in segregated funds.

This caused stress on life insurer balance sheets during the financial crisis as asset values slumped, requiring further regulatory capital to support these products.

Annuities may be "registered", in which case they are suitable for investment in RRSPs, registered retirement income funds (RRIFs) or deferred profit sharing plans (DPSPs). They may also be "unregistered" and set up as free-standing investments outside a tax-advantaged savings wrapper.

Healthcare

Canada provides a publicly-funded healthcare system free at the point of use.

The principles guiding the healthcare system are contained in the Canada Health Act and national coverage is devolved to a provincial system of 13 Medicare insurance plans.

Private sector health and accident insurance, known as accident and sickness insurance, is written by both life and non-life insurers. It is a growth market and has expanded both in terms of premium income and market share, at the

expense of traditional protection business. It provides ancillary benefits not provided under Medicare, such as dentistry, optometry and prescription drugs.

Cover may also extend to long-term disability and care, accidental death and dismemberment, travel health, critical illness, ambulance, travel health and student and sports accident.

Health insurers are quick to expand care in areas where Medicare withdraws cover, with sales of travel healthcare more than doubling in the decade to 2008, according to the CLHIA.

Long-term care cover is more than 80% provided under group plans and has proved an increasingly popular benefit. Membership under such plans more than doubled between 2006 and 2008 from 125,590 to 338,700.

The majority of Canadians have some form of private health insurance, predominantly through their employment. Group health insurance accounted for 90% of total premium in 2008.

The life companies dominate this business and accounted for 97% of premium in 2008. Health insurance as a class accounted for 35% of total life market premium, including administration services only income.

Total PA and healthcare insured premium in the life market in 2009 was C\$18.4bn. In addition, income earned from uninsured health insurance premiums accounted for a further C\$9.4bn, an increase from C\$8.9bn in 2008. Larger employers tend to prefer these self-insured plans for reasons of cost control.

A criticism of the Canadian healthcare system is that those willing to pay privately for core medical care are unable to do so. These are usually the most affluent, who contribute most to the funding of the public system through taxes. Such individuals often look to the US for urgent private care to bypass possible delays in treatment in Canada.

Ruling

A significant legislative ruling in June 2005 addressed the question of a citizen's right to obtain private healthcare.

In the case of *Chaoulli v Quebec (Attorney General)*, the Supreme Court of Canada ruled in 2005 that prohibiting residents from private healthcare services when there was public healthcare for the same item was contrary to both the Canadian Charter of Rights and Freedoms as well as the Charter of Human Rights and Freedoms in Quebec.

The judgment made clear this was not an encouragement of private insurance, but rather a call to the provincial and federal government to remedy the circumstances that gave rise to the case and cut long waiting lists.

"Access to a waiting list is not access to healthcare," wrote Chief Justice Beverly McLachlin.

The province of Quebec subsequently legislated Bill C-33 in 2006 as an Act to amend the Act respecting Health Services and Social Services and other Legislative Provisions.

The legislation aims to improve access to specialist medical services and reduce waiting times in the public system. It amends Quebec's Hospital Insurance Act and the Health Insurance Act to open the door to the limited provision of private medical services and private health insurance in Quebec.

It also leaves open the possibility of

additional services being added in the future by regulation. The legislation is controversial, with opponents arguing it will initiate a two-tier health system and undermine Medicare.

Reinsurance

The Canada life and health reinsurance market is strong and well established, but rather narrowly held.

Of the 10 reinsurance organisations active in the individual market in 2009, three foreign-owned names dominate. Munich Re, RGA and Swiss Re accounted for almost 94% of the assumed market share in 2009.

The financial crisis further enhanced their dominance, as direct insurers sought the strongest possible counterparties for their reinsurance dealings.

Leading direct insurers, such as Axa Equitable, Canada Life, Manulife, Pacific Life and Sun Life, are also writers of individual and/or group reinsurance business. They have decreased this capital-intensive activity significantly since 2007, as the financial crisis has increased solvency pressures. Manulife, for example, decreased its individual life assumed reinsurance by 14% in 2008 and a further 75% in 2009.

The demutualisation of a number of life insurers in the late 1990s and early 2000s saw a surge in reinsurance business volumes as these companies sought to boost capital and increase the return from their portfolios through block transfers to reinsurers. Significant block business since has been occasional.

Aurigen Re is the newest market entrant in the individual life reinsurance market, having secured significant financial backing and been approved in August 2008. Top management comes from former GE Insurance Solutions – formerly Employers Re Corp – which had put its Canadian business into run-off and eventually sold it in 2005 to Swiss Re.

Aurigen got off to a good start in 2008, when it secured a C\$19bn piece of block-business.

A slow-growing mortality market has seen some reinsurers look at the longevity market. One market source commented the market is huge, but finding a price is proving difficult. Some degree of success has been achieved in this area in other markets, notably the UK.

When reinsurance is required, reinsurers are on hand to accept treaty and facultative placements.

Other than the relatively recent launch of Aurigen Re, Optimum Re is the only other domestic Canadian reinsurer.

Scor Global Life Canada, which bought Revios Re in 2006, had 2.6% of the assumed individual market in 2009.

Premium statistics in Canada are quoted as net premiums, meaning direct premiums, less reinsurance ceded, plus reinsurance accounted.

Distribution channels

The traditional Canadian distribution model for individual life products centred on career agents.

This has been superseded by independent agents and brokers placing business through managing agents ("broker consolidators"), with commodity products being sold by direct mail and via the internet.

Managing general agents (MGAs), together with corporate advisors, accounted for 48% of distribution in

Table 1: Top 10 life, pension and health insurers in Canada in 2009 ranked by premium revenue (\$m)

Company	Premium income
Manufacturers Life Insurance Company (Manulife)	5,099.7
Sun Life Assurance Company of Canada	4,660.1
London Life Insurance Company	2,295.2
Industrial Alliance Insurance	1,759.7
Canada Life Financial Corporation	1,538.8
Desjardins Financial Security Life	1,026.6
Standard Life Assurance Company of Canada	1,024.3
Great-West Life Assurance Company	995.2
Munich Reinsurance Company	791.6
Empire Life Insurance Company	529.4

Source: Axco Global Statistics based on data from Rogers Publishing

Table 2: Total insurance market size in Canada, 2009

Category	Life	Non-Life	Personal accident and health	Total market
Premium in C\$m	51,744.00	36,846.85	19,059.00	107,649.85
Premium in \$m	45,266.38	32,234.15	16,673.08	94,173.61
% of total market	48.07	34.23	17.70	100.00

Source: Axco Global Statistics

Table 3: Development of premium income in the life, non-life and personal accident and health markets in Canada, 2005 to 2009 (\$m)

	2005	2006	2007	2008	2009
Life	33,725.0	38,126.8	45,340.3	46,528.6	45,266.4
Non-life	30,807.5	34,129.5	33,255.0	33,694.3	32,234.1
Personal accident and health	13,036.9	13,699.8	15,484.6	16,651.4	16,673.1

Source: Axco Global Statistics based on data from the Canadian Life and Health Insurance Association and Rogers Publishing

Table 4: Market share of the main classes of life insurance and health business in Canada in 2009 (%)

Business class	Market share
Group pension and annuity	27.5
Group risk	5.4
Individual pension and annuity	24.3
Individual life	16.5
Personal accident and healthcare	26.3

Source: Axco Global Statistics based on data from the Canadian Life and Health Insurance Association
Note: premium totals in this table include income from Administration Services Only health plans**Table 5: Annual growth rates of long-term insurance (including personal accident and healthcare written by long-term companies) in Canada in local currency compared with the nominal GDP growth and inflation rates over the five years to 2009 (%)**

Category	2005	2006	2007	2008	2009
Premium growth	9.81	4.27	11.13	3.11	5.17
Nominal GDP growth	6.09	5.16	6.4	4.64	(4.67)
Inflation rate	2.21	2.00	2.14	2.37	0.30

Source: Axco Global Statistics

Table 5: Aggregate market share in percentages of the top five and 10 life insurance companies in Canada over the five years to 2009 (%)

Category	2005	2006	2007	2008	2009
Top five companies	68.9	62.0	65.8	78.4	68.0
Top 10 companies	86.5	83.4	82.4	92.6	87.2

Source: Axco Global Statistics based on data from Rogers Publishing

2009, according to data from Munich Re. They serve as go-betweens between direct insurers and independent intermediaries.

By attracting brokers and agents, they negotiate improved commission terms

with a wide range of insurers. They also provide administrative, technical and compliance support, advanced technology and training to intermediaries, while intermediaries retain client ownership and are paid direct by the insurer. MGAs

are not recognised within the present regulatory regime and have no capital requirements imposed on them. They are paid by insurers and related providers on a commission override basis for business placed through them.

Hub Financial is the largest Canadian MGA, with offices in eight cities and access for its 3,000 active advisers to more than 80 product suppliers across a range of insurers.

Corporate advisers focus on the group market and dominate the employee benefits market. Individual business tends to be incidental to this core activity.

Career agents accounted for 29% of distribution in 2009. While Canada has traditionally been a career agency market for individual life products, they have declined in number and lost ground to the MGAs. Fewer life offices run proprietary sales forces and have instead focused their attention on more economically efficient distribution through the independent intermediary market.

National accounts had a 13% market share in 2009 and independent agents, personal producing general agents (PPGAs) – effectively multi-tied agents – accounted for a further 10% of the market.

Bancassurance

As mentioned earlier, the Canadian market remains resistant to the concept of bancassurance. While its leading banks run life insurance divisions and continue to push for permission to sell life insurance products within their banking operations, they have not yet been successful.

The Canadian rejection of the bancassurance distribution model runs counter to many other insurance markets. It is based on the official view its admission would put existing market participants at a competitive disadvantage.

Also, under the Insurance Business (Banks and Bank Holding Companies) Regulations under the Bank Act, banks cannot merge their insurance with their banking operations to provide a broader financial services proposition to customers.

Canadian brokers, too, are reported to be assertive in their opposition to bancassurance. Occasionally, banks have set up their insurance operations next door to their bank branches, but the businesses must be independent of one another and banks themselves are not allowed to offer customers any recommendations.

The ban is strictly enforced. In 2010, finance minister, Jim Flaherty, forced banks promoting insurance sales via their websites to take down the content.

So, direct marketing – particularly online – while present in the market, has had no impact on the structure of market distribution. No official annual distribution statistics by channel are published.

The CLHIA is pushing for the modernisation of provincial insurance acts, which were last updated in 1962. Alberta and British Columbia are updating their legislation in 2011 and it is hoped other provinces will follow.

While new legislation is due to bring greater disclosure requirements for retail customers, the present non-disclosure commission regime is likely to remain unchanged for individual business.

A number of credit unions sell insurance. The most prominent life insurer is Caisse Populaire Desjardins Financial, based in Quebec, whose agents sell both life and non-life insurance within their branches. Insurance representatives are allowed to sell insurance in credit unions but have no access to the files of credit union customers.

Intermediaries are also strongly opposed to the concept of bancassurance being permitted in the market. The Inde-

pendent Financial Brokers of Canada (IFBC) have argued the provincial insurance acts forbid persons in positions of discretionary authority from selling life insurance.

Banks have prior knowledge of their customers' finances that would run counter to this precaution and allow potentially coercive and unfair practice.

Existing bank insurance operations presently account for small market shares and have a reputation for offering a restricted range of "vanilla" products. RBC Life probably has the most significant operation in the life market and is a leading provider of disability benefits, following its purchase of the Unum Insurance Company operation in Canada. Policies sold are life, health and investment-linked where an adviser is suitably licensed.

The independent agent

The one-time backbone of life insurance distribution in Canada, the career agent, is in decline.

Leading insurers have been cutting or disbanding their direct sales operations in favour of cheaper and more profitable distribution methods. The most significant market participants retaining sales forces are London Life, part of the Great-West group, and Clarica Life, which, while bought by Sun Life, has retained its brand. Products sold are individual and group products offered by the company and its affiliates to which they are tied are life, health and investment-linked (universal life, segregated funds) where advisers are suitably licensed.

The traditional career agent, tied to a single life company as a salaried employee, is in decline. In its place has come the independent agent. The level of independence within this category, however, can refer more to adviser employment status than freedom of choice in product recommendation.

One-time career agents are now more likely to operate as self-employed operatives affiliated to an insurer, with access to multi-ties to complete a product range offering. Some may act as master agents, managing other agents in their area.

Sun Life's adviser programme, for example, offers affiliated agents a range of marketing, training and administrative support together with financial and related incentives, but advisers are self-employed and work out of their own office. In addition to the Sun Life product range, affiliated advisers can sell Great-West and RBC's disability insurance, plus access tie-ups for investment and mortgage-related business.

Life insurer Desjardins Financial Security has sought to expand its presence in the independent adviser market beyond its home province of Quebec via a franchise strategy.

Desjardins Financial Security Independent Network is a subsidiary distribution business, where independent planners are associates who enjoy network benefits but are not restricted to a single product line or insurer when making recommendations to clients.

Other agents will be more genuinely independent of ties with a single insurer in offering a greater range of product choice to their clients.

Independent agents control over 50% of the Canadian market, according to Life Insurance Market Research Association (LIMRA), up from 34% in 1993. This compares with a drop in career agents over the same period from 60% to approximately 10%.

While independent agents can administer their businesses wholly independently, many choose to access the services provided by a managed general agent.

As an example, Sun Life's product range would include both individual and group protection products (such as life, health, dental and disability) and investments (such as pension, savings, annuities, mutual and segregated funds). In 2008, there were 78,000 independent agents.

Insurance brokers

In relation to life insurance, the term "agent" and "broker" are often used interchangeably.

Genuinely independent agents may present themselves as insurance agents, insurance brokers or independent financial advisers and will offer clients a wide range of protection and savings products from across the market.

Insurance brokers per se may be active in life, non-life or both.

Where the distinction is important, is brokers have a duty to work on behalf of their clients and not the insurer.

Also, brokers are usually paid on commission, but may also work on a fee basis. They tend to focus on corporate business and are not particularly active in the individual market: their employee benefits departments may provide employee benefit advice on a fee basis.

With the average age of life brokers in Canada estimated by a managing partner of a Toronto-based firm as being around 50, there is a need for the life broking system to develop and implement programmes to attract, recruit, train and develop new brokers into the profession.

The life market insurance brokers' association is the Independent Financial Brokers of Canada (IFBC).

All intermediaries must be registered and licensed at the provincial level. In Ontario, the largest province by economy and population, this is with FSCO.

In general, brokers require professional indemnity cover (errors and omissions insurance) only, although requirements for licensing at provincial level may vary.

Other distribution channels

Research by the CLHIA, conducted in 2008, found insurance premiums generated by "alternate distribution" totalled C\$5.8bn. It defines alternate as the distribution of insurance products without the traditional face-to-face contact between the consumer and the agent.

Within that total, almost half were generated through in-branch lending institutions sales, close to one-third from call centre telesales and direct mail operations and only 6% through a mix of the internet, mortgage brokers and in-store point of sales channels.

Credit life products accounted for three-quarters of total alternate distributions sales at C\$4.2bn. Such products are a natural fit for credit institutions and are the only insurance products banks can sell. As such, two-thirds of these sales were completed as in-branch sales by lending institutions.

A further initiative has seen the warehouse club chain Costco offering life, accident, income protection, health and dental insurance, underwritten by Manulife Financial.

This article is based on material supplied by Axco Insurance Information Services (www.axcoinfo.com). Axco is a leading insurance market research organisation and web publisher that provides market reports and statistics on more than 160 countries. The field research teams deliver regular updates on all aspects of non-life (property/casualty) and life and benefits markets including regulation and compliance, market conditions, hazards, reinsurance, market backgrounds and business directories.

ID GLOBAL MARKETS

Continued from p3

Nippon Life will invest about \$680m in the Indian company, valuing the whole business at \$2.6bn. Nippon Life is the largest life insurer in Japan and the sixth-largest life company in the world.

Reliance Life Insurance started operations in 2005 and has 22 million private customers in India. It managed assets of over \$3.7bn at December 31.

Omega Insurance Holdings confirmed it had received approaches that may lead to an offer for the company. Omega disclosed in January it had received an unsolicited offer from **Canopus**, made up of cash and unquoted share consideration.

QBE has closed the acquisition of **RenaissanceRe's** US admitted insurance business, including a US crop and small specialist programme insurance operation. The purchase price was about \$275m and QBE said it expected the acquired business would generate gross premiums of \$375m this year and deliver net profit of more than \$30m.

RenRe said it would continue to participate in the US insurance market on a non-admitted basis through its Lloyd's syndicate, number 1458.

Tawa, a run-off specialist, has completed the acquisition of 100% of **Oslo Reinsurance Co (UK)**, previously ultimately owned by Norwegian insurance group **Storebrand**. Oslo Re (UK) has been in run-off since 1994.

Separately, Tawa has set up **QX Reinsurance Co** as a Bermudian special purpose insurer to provide reinsurance for a book of lead paint-exposed business. The account was written by Pennsylvania National Mutual Casualty, mostly between 1991 and 1997, and protected properties around Baltimore. The maximum reinsurance liability arising from the reinsurance contract of \$100m has been collateralised by a trust fund in QX Re that has been financed by the reinsurance premium received and an equity injection from Tawa of \$90m.

Tower Hill Insurance Group has completed the purchase of **Royal Palm Insurance Co**, a Floridian personal lines insurer. Tower Hill said its domestic personal lines carriers closed 2010 with a surplus of \$123m, written premiums of \$567m and a policy count of 348,000.

United Fire & Casualty has completed the acquisition of **Mercer Insurance Group** for \$191m. Mercer is a commercial and personal lines provider active mainly in New Jersey, Pennsylvania, Arizona, California, Nevada and Oregon, operating through four insurance companies. The group recorded a net profit of \$14.7m from net premiums of \$132.7m last year. United Fire, based in Iowa, has no non-life insurance agencies in the six states that are Mercer's main target markets. United Fire said the Mercer acquisition should contribute to net profit and return on equity no later than 2012.

Zurich has closed the sale to **Unnim** of its 50% stakes in Spanish life and non-life bancassurance companies **Caixa Sabadell Vida** and **Caixa Sabadell Generals**, jointly owned with Unnim. The sale follows the merger of **Caixa Sabadell** with **Caixa Terrassa** and **Caixa Manlleu** to form **Caixa d'Estalvis Unió de Manlleu, Sabadell i Terrassa** last July.

Expansions and new units

Ace USA has reorganised its medical liability business into two operating units, **Ace Medical Risk** and **Ace Life Sciences**. The group has appointed Caroline Clouser as executive vice-president and leader of Ace Medical Risk and Lee Farrow, senior vice-president, as leader of the new Ace Life Sciences unit. Both are based in New York and report to Ross Ber-



Funding Nemo: Aegis London's new livestock underwriting unit will cover risks ranging from farmed animals, such as cattle and poultry, to exotic and aquatic species, such as this clownfish

tossi, president of Ace USA casualty lines.

Aegis London has moved into livestock underwriting with the appointment of Sophie Dunkerley, previously with Markel International Service. The new Aegis London unit will cover livestock risks ranging from farmed animals, such as cattle and poultry, to exotic and aquatic species.

Allianz and Spanish banking group **Banco Popular** have set up a joint venture company to strengthen their partnership and to unite all existing joint operations under a single entity. Both companies will contribute their interests in the various subsidiaries that currently distribute through the network of Banco Popular life insurance (**Eurovida SA**), pension plans (**Europensiones SA**) and investment funds (**Popular Gestión**). The new platform, called **Allianz Popular**, will manage assets of about €11bn, as at the end of 2010. Distribution will be on an exclusive basis for an initial term of 15 years. Allianz will own 60% of the joint company and Banco Popular the balance. The total value of the businesses concerned is €1.06bn.

Allied World's Lloyd's syndicate 2232, operating through Capita Services 2232, has received authorisation to write direct and facultative liability and professional lines business from Lloyd's Asia in Singapore, in addition to treaty products, as previously announced. Ronak Shah, vice-president for direct and facultative casualty in Asia-Pacific, will be responsible for writing the two new lines of business and will report to Bruce Ford, principal officer of Capita 2232 Service, writing on behalf of syndicate 2232.

Separately, **Allied World** is now offering environmental liability cover focusing on risks throughout the Asia-Pacific region. The initial product offerings include contractors' pollution liability and pollution liability for scheduled sites. Jota Shohtoku, vice-president and head of general casualty for Asia-Pacific, will lead the new line of business, as well as managing the general liability portfolio in the region.

Aspen US Insurance has set up a surety insurance unit based in Connecticut and headed by Michael Toppi, executive vice-president. Joining him are

Mathew Raino, vice-president of commercial surety, and Ryan Field, assistant vice-president, commercial surety.

Atrium has proposed a merger of syndicates 570 and 609 under the leadership of Richard Harries, active underwriter of syndicate 609, for the 2012 underwriting year. The move follows the decision of Kevin Wilkins, underwriter of syndicate 570, to retire next year.

Beazley has set up a team to write fidelity and crime insurance for the US market, recruiting Bill Jennings from Axis to head the unit. He is joined by Juliet White, formerly with Chartis. Beazley will provide limits of up to \$25m for fidelity bond cover for financial institutions and commercial crime cover for non-financial organisations.

Canopus has recruited Simon Low as head of a new division, political risk and crisis management, covering the new lines of political risk, aviation war and trade credit insurance, as well as the group's existing lines of sabotage and terrorism, kidnap and ransom, and product contamination. Low will also oversee Canopus's accident and health lines. He was previously with Ark syndicate 4020.

CNA Europe has formed a dedicated transportation and logistics industry team, headed by director Steve O'Gorman. He was previously head of CNA Europe's French operation. CNA Europe has also formed a combined operational unit for France and Italy, headed by Danilo Saitta. He will be responsible for operations in Paris, Lyon and Milan, heading a team of 42. The new regional operation has been formed to reflect the structure of CNA Europe's businesses in Scandinavia and the Benelux countries.

Euler Hermes has received regulatory approval to set up a subsidiary in Turkey, called **Euler Hermes Sigorta**. The new company, based in Istanbul, will provide trade receivable management services to Turkish companies.

Separately, Euler Hermes has entered into partnership with **China Pacific Insurance (CPIC)** to offer dedicated risk transfer for outstanding commercial invoices of Chinese clients. Allianz, the parent of Euler Hermes, has a 2.8% stake in CPIC representing 10.4% of the Chinese group's shares listed in Hong Kong.

The partnership will see CPIC clients receive commercial credit insurance in case of the bankruptcy of their buyer or non-payment of the invoice. Euler Hermes has appointed Xi-zhen Wang as chief executive of its Chinese subsidiary.

Foundation Financial Group, based in Florida, has launched an insurance division offering non-life and life cover.

Ironshore has increased the capacity limits offered by its political risk insurance unit to \$25m gross for risks maturing in up to five years' time. Separately, the group has launched a lead umbrella policy for agriculture risks. And in another development, **Ironshore Canada** has set up a specialty casualty division to write general liability, as well as umbrella and excess liability programmes. Ironshore has appointed Stephen Stewart as vice-president and head of the new division. He was most recently commercial underwriting manager for Lombard Canada in Toronto.

Kiln has set up a liability underwriting capability, recruiting Chris Jones from DA Constable syndicate 386 as leader. Initially Kiln will focus on writing primary and excess business in the open market, as well as developing its position in the binding authority area. The liability unit will write lines of up to \$25m for general liability risks based in all territories except the US. Jones will sit in the property and special lines division of Kiln syndicate 510.

Liberty Mutual's subsidiary, **Liberty Insurance**, has received regulatory approval to set up a branch in Guangdong province, based in Guangzhou. Liberty said it would be the first foreign non-life insurer to offer personal lines cover and small-to-medium commercial insurance in Guangdong. Liberty currently has Chinese operations in Chongqing, Beijing and Zhejiang. At the end of last year, the group ranked fourth among 18 foreign non-life insurers operating in the country.

Liberty Mutual Insurance Europe (LMIE) is expanding its capability for commercial lines mid-market business and will extend its network of regional offices in the UK and its suite of commercial insurance products during the year. The main focus for growth will be the UK

market, although the company also writes commercial business through its Dublin branch. The company will continue to provide a range of specialty products via its London market, continental European and international operations under the **Liberty International Underwriters** brand. LMIE has recruited a business development team for UK business under the leadership of Mark Stephenson, head of business development and market relations.

Liberty Syndicates has extended its operation in Brazil, moving to larger premises in São Paulo. The business also has an office in Rio de Janeiro. Liberty Syndicates provides Brazilian brokers with access to treaty and facultative reinsurance products in property, specialty and marine lines of business.

Lloyd's has opened a Benelux office in Rotterdam to manage the legal representation and business development of the region. Lloyd's combined premium income from the three countries totalled €331m in 2009. Ralph Van Helden is Benelux regional manager for Lloyd's.

Markel International España, the Spanish operation of **Markel International**, has opened an office in Barcelona to work alongside its Madrid office. Markel International España focuses on general liability, professional liability, directors' and officers' and professional lines business. The group has appointed Carlos de Puig as head of the Barcelona office.

QBE has formed an integrated risk management service for its property, casualty and motor division, headed by Richard Thomas.

Tokio Millennium Re, the **Tokio Marine** group's international reinsurer based in Bermuda, has received regulatory approval to set up a branch in Australia. The branch is based in Sydney and has been capitalised with \$80m of assets located in Australia. The new office will write non-life treaty business from Australia and New Zealand, with all risks underwritten by Tokio Millennium Re in Bermuda. The reinsurer also has offices in London and Zurich.

XL's non-life subsidiary in Shanghai is now open for business, writing property, liability, specialty and professional lines cover. The group has appointed Zheqian (Al) Xie as chairman and chief executive of the subsidiary.

Other corporate developments (name changes, redomestications)

AIG has reorganised the operations of non-life subsidiary **Chartis**. Under the new structure, Chartis will consist of two divisions, commercial and consumer, with the supporting claims, actuarial and underwriting disciplines integrated into the two operations. Peter Hancock has been appointed chief executive of Chartis, with John Doyle running the commercial operation and Jeffrey Hayman the consumer business. Kristian Moor becomes vice-chairman. On a regional basis, Chartis's operations will be split into four covering North America, Europe, the Far East and growth economies.

Allied World has received approval from the regulatory authorities in Florida to qualify as an eligible reinsurer, subject to a reduced collateral requirement. Allied World will now be able to post 20% of loss reserves on property catastrophe reinsurance in the state rather than the 100% required by most non-US reinsurers.

Scor is to set up an insurance risk and finance research centre in Singapore in partnership with **Nanyang Technological University**. The centre aims to promote applied insurance research in insurance and related risks and to establish a platform for research projects.

Tawa acquires majority stake in Kingsway's LGIC

Peter Birks

UK-BASED specialist insurer Tawa has agreed to take majority control of Pennsylvania-based Lincoln General Insurance Company (LGIC) via the formation of LGIC Holdings LLC.

The holding company will pay \$1 for a 51% stake in Walshire General Assurance Co. The 49% stakeholder will be Toronto-based Kingsway Financial Services.

LGIC, which wrote a wide-ranging book of commercial and personal lines business, has been in run-off since May 2009. In October of that year, Kingsway

attempted to divest itself of LGIC by giving 5% stakes in Walshire General shares to 20 separate charities. The Pennsylvania Insurance Department promptly challenged this in court.

In April 2010, a court ruled Kingsway had not actually broken any laws, but Judge Dan Pellegrini observed the attorney-

generals of Pennsylvania and New York might "investigate whether Kingsway's use of charitable operations was improper or any fraud occurred" (*Insuranceday.com*, Apr 7, 2010). The Pennsylvania insurance department appealed the decision.

The new divestment solution appears less controversial. The

'acquirer' is a US holding company and Kingsway is retaining a significant minority stake.

Lincoln General signed a strategic co-operation agreement with Tawa subsidiary PRO IS in November (*Insuranceday.com*, Nov 24, 2010).

Marvin Mohn, head of US operations for Tawa and PRO IS, said

the latest agreement was a "natural development" to the November 2010 agreement. "Working closely with the Lincoln General team in the management of this challenging run-off will provide Tawa and Pro with the opportunity to develop further their joint US management services line of business," Mohn said.



London-based R&Q has announced C and D shares in a plan to return £2.4m to shareholders

R&Q plans C and D shares issue to return £2.4m to shareholders

Richard Banks

LONDON-LISTED insurance group Randall & Quilter Investment Holdings (R&Q) is planning to return more than £2.4m (\$3.9m) to shareholders through the issue of C and D shares.

In a stock market announcement yesterday, it said the move – which represents a return of

4.45 pence per ordinary share – would be paid in place of a final dividend for 2010, but it is in line with its commitment to grow total cash returns to shareholders by at least 5% a year from the base level of 7 pence per share paid for the financial year ended 2009.

Last August, R&Q unveiled a similar plan to issue B shares of 2.9 pence each, returning around £1.6m to shareholders.

In a statement, the group said

it expected weak investment markets to continue to impact its results, but insisted its service operations – which are unaffected by investment returns – would "enable R&Q to maintain its stated distribution policy".

It claimed to be looking forward to its full-year results "with some confidence", and added: "The group remains optimistic that the development of its new underwriting management and 'live' services operations and

ability to find and execute value-enhancing acquisitions will also provide further opportunities for growth in profitability."

Today's "return of value" reflects R&Q's strategy of achieving capital extractions from its insurance investments by managing down the liabilities of its insurance company portfolio and seeking regulatory approval for the release of surplus capital.

Last year, it released \$5m from Goldstreet Insurance Com-

pany – a US insurer in run-off it bought in 2009 – and in 2008 it released £11m from Chevanstell, which it had bought two years earlier from Trygg Forsikring.

R&Q shareholders will be invited to vote on the "return of value" proposals at a general meeting on April 27.

It directors, who represent nearly 28.9 million shares, or 53.7% of the issued share capital, have indicated they will vote in favour of the proposal.

Site deaths prompt call for support

Scott Vincent

DEATHS on UK construction sites rose 15% last year, prompting calls for insurers to spend more time providing legal guidance and support for clients, amid fears planned cost-cutting measures by the UK Health and Safety Executive (HSE) will leave more construction workers at risk.

The HSE's head of construction, Philip White, revealed the rising death toll this week, prompting a warning of a need for improved risk-management standards throughout the industry from insurer Allianz.

Chris Dee, casualty and construction manager at Allianz, said: "This worrying rise in construction-related deaths is a harsh reminder there remain far too many accidents that could be avoided with proper risk-management and training."

The HSE's recent construction inspection initiative saw inspectors issue more than 700 prohibition and improvement notices in just four weeks, which Dee said is another warning of the need for improved standards throughout the industry.

"Unfortunately, cuts being implemented at the HSE give cause for concern that inspection initiatives of this type and general site inspections will be scaled back, leaving the onus on construction firms to ensure the safety of their sites," he said.

"Brokers and insurers can help by ensuring clients are aware of their legal obligations and by providing valuable support and guidance to help mitigate risks.

"This should mean fewer work-related accidents, less time spent investigating incidents and, importantly, a lower chance of costly fines for the client."

Joint winners of Shin Research Award announced

TWO ACADEMIC papers have jointly won the Shin Research Award for Excellence, endowed by Kyobo Life Insurance Company in South Korea and awarded by The International Insurance Society (IIS) and the Geneva Association, writes Richard Banks.

The first paper, penned by Robert Klein, at the Center for Risk Management and Insurance Research at Georgia State University, was entitled *Principles for Insurance Regulation: An Evaluation of Current Practices and Potential Reforms*.

Also recognised by the judges was *Structure, Principles and Effectiveness of Insurance Regulation in the 21st Century: Insights from Canada*, which was co-authored by Mary Kelly, from the School of Business and Economics, Wilfrid Laurier University; Anne Kleffner, from the Haskayne School of Business, University of Calgary; and Darrell Leadbetter, from Canada's Property and Casualty Insurance Compensation Corporation.

The research programme is designed to foster practically-



The research will be published by the Geneva Association

oriented applied research in insurance, addressing subjects that directly influence business

operations. Each year, research is solicited from prominent academics worldwide and a carefully selected panel of eminent judges then determines the research that is the most pertinent to issues facing the industry.

The leading research is awarded the Shin Research Award, published in a special edition of *The Geneva Papers*, a joint publication of the IIS and the Geneva Association and presented to an audience of 500 global industry leaders at the annual seminar.

Patrick Liedtke, secretary general and managing director of the Geneva Association, said: "We are delighted to be announcing the winners of this year's research. Each year, the advances and quality of academic research in insurance are clearly demonstrated by the high quality of entries we receive and this year is no different. Insurance regulation has never been more important than now and this research shows how important and relevant academic research is to the ongoing discussions and progress of the industry."



Deaths on construction sites rose by 15% last year

Insurance Day

TUESDAY 12 APRIL 2011



Ariane 5: two launches had payloads insured for more than \$650m

ARIANE VIA BLOOMBERG NEWS

Satellite sector has space for expansion

INSURED values in the satellite insurance market have been rising in recent years, but capacity available in the sector is more than sufficient.

However, the higher sums involved reinforce the sense a single loss could wipe out an entire year's worth of premium.

According to XL Insurance's head of space underwriting, Chris Kunstadter, the number of insured launches each year has remained relatively stable over the past 15 years, with – on average – 20 to 25 satellites sent into a geo-stationary orbit each year.

Kunstadter explained the number of launches has been constrained by demand for the satellites themselves, as well as launch availability. But this is now changing, with satellite services such as broadband and television gaining prominence, as well as new launch vehicles such as Sea Launch and SpaceX's Falcon 9 coming to market.

However, he predicted this will not have much of an impact on the insurance function: "Even as demand increases and launch capability increases, we still don't expect to see much of a change. It remains to be seen how [the new launch vehicles] affect the space insurance market."

Other constraints are also at play, with the market's capacity for any one risk expected to be between \$650m and \$700m for any single launch risk in 2011. Interestingly, this exceeds some of the peak values seen in the last few years, with two Ariane 5 launches in the past 13 months having payloads insured for more than \$650m.

Looking at last year alone, Kunstadter said 28 insured launches carrying 41 satellites generated \$687m in premium income, while the in-orbit portfolio raised premiums totalling \$207m.

Some \$100m of the total was brought in during the last two launches of last year, while at \$76m, the Astra 3B and Comsat Bw2 satellites launched onboard an Ariane 5 in the middle of May brought in more premium than any other launch in 2010.

This \$76m is considerably higher than the average of \$43m paid in premium for all of the remaining satellites launched on Ariane 5 and Proton rockets last year.

But as seen with the currently postponed Ariane Flight VA201, which consists of the Yahsat Y1A and Intelsat New Dawn satellites, the premium volume generated by the market is almost matched by the insured value of just one launch. *Insurance Day* understands Flight VA201 is insured for roughly \$740m – and, should it suffer a total loss, the entire premium income for the year would be more or less wiped out.

There are some 200 satellites in the Earth's orbit, worth close to \$19bn in value, Kunstadter said. The vast majority of these are situated in a geo-stationary orbit, with just 18 in a low Earth orbit. The total insured value of the satellites in a geo-stationary orbit stands at somewhere in the region of \$17.7bn, with \$1.3bn in a low Earth orbit.

This ratio is not expected to change dramatically over the coming years, although with new constellations being launched, the number in low Earth orbit will rise slightly.

But even with the increase in the number of satellites in orbit, the level of premium income generated is not anticipated to change by too much. According to Kunstadter, annual in-orbit premium amounts to approximately \$200m to \$250m, despite the majority of space insurance losses in recent years emanating from the in-orbit book, as opposed to the launch portfolio, which has not been hit with claims.

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MUNICH RE has agreed to guarantee the performance of solar modules in France for the first time. It will work with industrial insurance broker Filhet-Allard and solar manufacturer Solairedirect. The country is home to several industrial solar plants, including the Lunel solar power plant, southern France (pictured).



AP PHOTO/CLAUDE PARIS

NEWS IN BRIEF

Ace promotes Mullins

ASHLEY MULLINS (*pictured*) has been promoted to Ace's global compliance officer with responsibility for providing ethics and business practices guidance and related education throughout the Switzerland-based insurance group. Based in New York, he will report to the audit committee of Ace's board of directors, as well as to the chairman and chief executive, Evan Greenberg and general counsel, Robert Cusumano. Mullins, who joined Ace in 2002 as legal counsel to Ace Asia Pacific, replaces Audrey Samers. A former deputy superintendent in the New York State Insurance Department, Samers has been promoted to deputy general counsel at Ace North America, and general counsel of Ace Private Risk Services.



Nippon Life to pay ¥50bn after Japan quake

JAPAN'S Nippon Life has said it expects to pay ¥50bn (\$590m) in life assurance benefits because of the March 11 earthquake and subsequent tsunami in Japan. Company president, Yoshinobu Tsutsui, who took over the post on April 1, said such payments might be payable from reserves "without shaking our financial base". He added Nippon Life would be "proactive" in encouraging policyholders and bereaved families to file claims. He noted Nippon Life had already taken out newspaper advertisements and bulletin boards at the evacuation camps. The insurer would mail notices to all policyholders and would send employees to addresses, he said. Tsutsui said Nippon Life held up to 52.8m shares in Tokyo Electric Power Co (Tepco), which could cause a fall in investment book value not much less than the life benefit liability. He promised Nippon Life would consider any loan requests from Tepco, insofar as the loans would be part of the contribution to reconstruction after the disaster.

Boost for ING-Bank of Beijing joint venture

ING HAS agreed with its Chinese joint venture (JV) partner, Bank of Beijing, to boost the capital in their co-owned insurance operation. In July 2010, Bank of Beijing bought out ING's previous JV partner, Beijing Capital Group. As a result, the insurance operation was rebranded as ING-BOB Life Insurance from the previous ING Capital Life Insurance Company. Both investors indicated at the time they intended to pump in more cash, taking the JV's paid-up capital to Yuan1.3bn (\$198.6m) from the former level of Yuan900m. An initial payment of Yuan125m is due to be made before June.



Parker joins Beazley

FORMER Bowring Marsh managing director Chris Parker (*pictured*) has joined Beazley to lead its terrorism and political violence division, which is set for further expansion as the year progresses. Beazley's head of political risk and contingency, Adrian Lewers, explained the importance of this sector for the group: "This is a critical line of business at a time when many global organisations are coming under increasing threat as a result of rising instability and political violence – particularly in north Africa and the Middle East." Beazley has a strong track record in developing creative solutions for terrorist and politically-motivated attacks on insured assets. Bolstering the team in June will be war and terrorism risks specialist, Andrew Page, who is joining Beazley on June 1.

