The Newsletter of the Association of Insurance and Risk Managers October 2004

airmic NEWS

News • Technical • Events • Market information

Risk managers gaining in sophistication and importance, survey finds

Growing sophistication, leadership from senior management and increasing detachment from the insurance buying role emerge as trends in the latest survey of risk managers.

The results of the biennial benchmarking exercise, unveiled by FERMA (the European Federation of Risk Management Associations) at their October conference, confirm the rapidly evolving nature of the profession.

The findings help to quantify the changes that many AIRMIC members have experienced on an anecdotal basis, and they show how risk management is changing both in the way it is organised and how it is perceived.

For example, the risk management and insurance buying functions are diverging in many organisations, according to the poll. Overall, 42% of companies have placed these roles into separate departments, though this is more common in the UK and Germany than in France. 62% of British and German companies today separate their risk management and insurance departments, whereas in France more than two thirds still have a combined operation.

When separation takes place, the risk manager sometimes has no involvement in buying insurance. The primary role for the risk management department is to advise and suggest improvements to operational practices and to verify compliance with the defined risk management policy.

Regulatory changes are a key factor driving both the nature and profile of risk management within companies. Where such legislation as the French financial security law (LSF), Kontrag in Germany and the UK's combined code applies, 60% of the risk managers surveyed are involved in the development of internal control policy.

Other trends identified include growing use of the Risk Management Standard, in which AIRMIC played a leading role.

Interestingly, although it was developed in the UK, the Standard has enjoyed significant uptake in the other two countries surveyed.

The researchers questioned risk managers at 269 companies in the UK, Germany and France, varying in size from 500 to 10,000 employees. 30% of the sample work for publicly listed companies.

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Is there any real difference between insurance and gambling? No say risk analysts

Bet Your Shirt – page 7

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News from FERMA

The FERMA benchmarking survey provides a snapshot of the position of risk management in many European countries, including the UK. Ernst & Young and AXA Corporate Solutions, who were responsible for the research, plan to repeat the exercise in 2006. Below is a summary of this year's findings.

Position of risk manager

67% of the risk managers surveyed report to the president, chief executive or chief financial officer.

57% deal with an enterprise-wide scope of risks.

32% deal with operational risk.

12% deal with insurable risks.

60% of quoted companies say the risk manager makes a direct contribution to the work necessary to meet corporate governance requirements.

Position of risk management

78% of companies surveyed say they have a defined risk management policy.

16% say they plan to have a defined risk management policy.

47% identify risk mapping as the first step in implementation.

36% say the risk management process is documented and embedded.

42% have separated risk management and insurance into different departments.

45% of respondents said that their board or audit committee deals with risk management at least once a year.

Risk management concerns

- The greatest concerns relate to commercial, operational and production risks, all identified by 55% of the sample.
- Legislation, policy and regulation were named by 41%.
- Corporate governance, data systems and the environment are the issues that will most increase in importance.

Insurance

84% mentioned claims management as an important insurance service.

57% cited international programmes.

53% cited loss prevention engineering.

75% say financial security is a determining factor in choice of insurer.

57% are prepared to pay "a little more" to have a financially strong insurer.

Who participated in the survey?

Sample size: 269

Job title:
- Risk and/or insurance manager 60%
- CEO or managing director 5%
- CFO or related position 19%
- Other with responsibility for risk 16%

Country: France (44%), Germany (22%), UK (20%), Others 14%.

Sectors:
- Industrial 54%
- Commercial 20%
- Service 16%
- Others 10%

Turnover: 100m Euros p.a.–10bn Euros p.a.

Employees: 500 – 10,000

Listed companies: 35%.

Regulation Update

The subject of the FSA continues to reverberate, in the emails, phone calls and letters AIRMIC receives and in the press. By way of example, here are extracts from two recent emails, indicating a certain amount of continuing concern over the status of risk managers who buy insurance on behalf of joint ventures. Please keep your comments coming!

From Blair Thomson

I have a couple of points regarding the draft Statement of Practice relating to the Energy Industry.

1(a). The Joint Venture approach to purchasing insurance has historically been driven by capacity considerations. The issues we have in the offshore area have frequently required a joint approach to maximise world capacity.

1(b). Your words may broadly cover it but the J-V agreements into which we enter contractually require the Operator to obtain insurances required by law and otherwise as the Operating Committee may determine. You should also be aware that any party, including the Operator, may opt out of such programmes.

I still find it extraordinary that it has been necessary to perform such a dance to resolve a point which is so self-evident!

It seems a shame that the FSA could not have approached this from the "what are we really trying to prevent" perspective but perhaps that is naive. Or do they have another agenda?

Well done on your perseverance and consequent achievement.

Regards, Blair Thomson

From Peter McBrien, AIRMIC Vice-President

It would seem that "the Market" is getting a little worried about JCT wordings. The Market's worry clearly relates to the requirement in e.g. the Standard Form of JCT contract which when clause 22A operates calls on the main contractor to secure CAR cover in the names of the Contractor and the Employer and also to provide specified perils cover within that CAR policy for sub-contractors.

I admit I have not read, let alone seen the FSA regulations but from what I can gather the FSA's concern relates solely to the person purchasing an insurance policy i.e. going into the Market and buying the cover for an insured/client. So if say for example a JCT contract is let to Harry Smith (Builders) Ltd. who then ask its broker to secure the cover I have outlined above and Harry takes no commission kick back or any other financial incentive there shouldn't be any problem.

For the life of me I cannot see that Harry Smith can be ruled as buying insurance for a third party and, as his broker is bound to be registered, can anyone say Harry Smith has also to be registered?

Regards, Peter

Comment

*September's **Professional Broking** criticised AIRMIC for its "naivety" in asking the Treasury to exempt all risk managers from regulation under the Insurance Mediation Directive.*

The basis of the article was that such a move would require further primary legislation, and the government could not possibly find time for this with an election coming up, so why was AIRMIC wasting its time in this way?

In fact, the editorial was 100% wrong. Existing legislation gives the Treasury the power to issue exemptions to any group it chooses, and it has done so, for example to retailers of white goods. We know that the Treasury considered doing the same for risk managers in July, but eventually declared this step unnecessary when the FSA relaxed their interpretation of the IMD.

*Rather more humorously, **Professional Broking** captioned someone else's photograph as "David Gamble".*

Britain is ranked sixth in the World Economic Forum (WEF) Competitiveness Report. The WEF said the sophistication of company operations and strategy was a decisive factor in the UK's favour.

Anthony Hilton
Financial Editor
London Evening Standard

UK thickens the Brussels red tape

It may be good politics for Tory Shadow Cabinet member John Redwood to blame Brussels for the bulk of regulation falling on British firms, but it ignores an uncomfortable reality.

A major reason why Brussels regulation is so punitive is that the British Government and regulatory bodies cannot resist gold plating it before imposing it on us.

A classic case of this has been grinding on for almost six months concerning the insurance mediation directive. Basically, this is a measure to bring in some Europe-wide regulation of insurance brokers, particularly those who have offices in the nation's High Streets and arrange house, car and household contents cover for the retail market.

When deciding how this directive should be applied in Britain, the Treasury decreed that it should also catch people who work in the insurance departments of big companies and arrange cover for the activities of different businesses in the group.

No matter that they don't deal with the general public, no matter that they are not paid commission in the way High Street brokers are, and no matter that not one of the other nations in the European Union took such a perverse view of how the directive should apply, the Treasury decided these employees received remuneration and that means they are caught. Having decided, it was not going to let common sense or reasoned argument change its mind.

The result is that since March the trade body, the Association of Insurance and Risk Managers (Airmic), has been fighting to get this overturned so its members can do their jobs for their employers without spending hundreds of thousands of pounds on needless compliance, and without having the Financial Services Authority (FSA) insert itself to regulate the services a group company provides for its subsidiaries.

Since March, it has also had the FSA saying it can do nothing because its job is to enforce the rules the Treasury lays down, and the Treasury (normally) ignoring letters and occasionally trying to bat the issue back to the FSA.

Meanwhile, the regulations which on the Continent were confined to one side of foolscap, were in Britain some 60 pages and rising. Only after Airmic spent thousands of pounds on counsel's opinion, which totally demolished the Treasury's case and postulated that the Whitehall department might even be open to a legal action for failing properly to incorporate the directive into English law, was there any sign of a wobble.

The FSA then found a loophole which, while in no way changing the Treasury's ruling, might make it possible for risk managers to be exempted.

Cynics might note this shift came conveniently enough on the eve of the FSA's annual meeting so that chief executive John Tiner could mention it in his speech as an example of his organisation's light touch. That's where the matter rests.

The result is unsatisfactory for Airmic because exemptions can be revoked or reconsidered, but at least its members are temporarily off the hook. It would much rather have it properly recognised that they should never have been swept up in the first place.

The real issue, however, is the shoddy approach of the Treasury. Its initial misjudgment might be forgiven, but it is inexcusable that it would rather enforce a wrong judgment than put its hand up and admit to an error.

To avoid losing face it was willing to see a panoply of pointless legislation imposed with no regard for the cost and inconvenience to British business and which would deliver no regulatory benefit whatsoever. And this from the department that bangs on about the need for the nation to improve its productivity.

If John Redwood really wants to do something useful, rather than tilt at Brussels windmills, he could seek to change attitudes in Whitehall.

Jim Schiro and Gyles Brandreth to speak at AIRMIC Dinner

Zurich chief executive Jim Schiro is to be the principal speaker at the AIRMIC annual dinner on December 1, while former MP and TV presenter Gyles Brandreth is the guest speaker.

From Lord Commissioner of the Treasury in John Major's government to Baron Hardup in Cinderella, Gyles' career is as colourful as his jumpers. Editor-at-large for the *Sunday Telegraph Review,* Gyles has also published a political diary described as the most sensational since Alan Clark's.

Gyles is a hugely experienced and talented after dinner speaker with a wealth of stories from the worlds of politics and entertainment. The event takes place at the Royal Lancaster Hotel, London.

Jim Schiro

Gyles Brandreth

EL cover 'to rise 5% if NHS proposal goes ahead

The Association of British Insurers has criticised a government plan to allow NHS hospitals to make insurers pay the costs of treating workplace accident victims.

Health Minister Rosie Winterton said: "This policy will encourage employers to take steps to prevent employees being injured," Ms. Winterton said in a statement. "It is unacceptable that taxpayers have to pay for the medical treatment of someone injured at work simply because employers fail to take adequate steps to protect their workforce." The ABI estimates that the proposal would drive up the cost of employers' liability insurance by 5%, on average. Organisations have until December 17 to comment. The scheme is due to come into force next year.

The proposal is available at: www.dh.gov.uk/Consultations/fs/en.

Risk managers deserve high status - IFRIMA

The International Federation of Risk and Insurance Management Associations (IFRIMA) has released a position paper explaining how and why enterprise risk management should be implemented.

The document points out that risk professionals need to be positioned high enough in their organisational structures to ensure the success of the program, suggesting a high status for risk managers in different industries.

"It is time to get risk professionals in charge of mitigating the risks they are trained to identify and thereby leverage opportunities that benefit the whole of the company," said IFRIMA president, Susan Meltzer.

According to the document, posted on www.ifrima.org, the value of risk management can and should be achieved by developing policies and activities in three significant areas:

For full details, visit www.ifrima.org

Study finds wide variation in U.S. risk manager pay

Risk managers' salaries in the United States and Canada vary considerably depending upon their position and geographic location, according to a recent survey.

The "2004 Risk Management Compensation Survey," a joint project between Mercer Human Resource Consulting and the Risk & Insurance Management Society (RIMS), contains detailed information on pay levels for risk management data. Survey data was derived from information submitted by 582 organisations in the United States and Canada.

Among the survey's findings were that safety and claims managers' median combined base pay and annual incentives total approximately $70,000. Pay levels for risk management professionals in Pacific states, such as California and Oregon, are more than $13,000 higher on average than those for risk managers in New Jersey, New York and Pennsylvania.

AIRMIC Focus Groups

The past month has seen two new AIRMIC focus groups (formerly known as special interest groups) hold their inaugural meetings.

The recently merged Liability, Environment, Health and Safety group attracted fourteen members, who heard a talk on corporate governance and social responsibility from Rob Williams of the Sancroft Group. Peter Berring, who chaired the meeting, said the event went off very well with people having plenty to discuss afterwards. The topic proved highly relevant in view of forthcoming regulatory changes.

The Operational Risk group, chaired by Julia Graham at the offices of DLA, received a scene-setting presentation from Christian Nelisson of PA Consulting. Julia said the talk was useful in clarifying the meaning of operational risk, which can otherwise be different things to different people, and sparked a lively discussion. There were ten at the meeting, and a number of other members have indicated they will attend in future. The next meeting will be at the offices of DLA and thereafter the venue will alternate between DLA and AIRMIC. Topics for future meetings will include: case studies, success stories, selling operational risk management to the Board, embedding operational risk management as part of good management, risk metrics and key performance indicators.

Captive SIG

The next meeting of this group will be on 21st October when Alan Burton from BT will speak on the new BT Virtual Captive. This should be a very interesting session as the costs and benefits of different methods of risk financing are increasingly topical.

Leonardo project appointment

Anna Kingsmill-Vellacott has been appointed co-ordinator for the Leonardo Project, the joint venture between AIRMIC and other risk management bodies and academic institutions in France, Germany, Italy and the UK to develop risk management training for European small and medium sized ventures.

Memorial Service

A Memorial Service to celebrate the life of Roger Miller will be held on Tuesday 19th October at St Olave's Church, Hart Lane, London EC3.

This will be followed by a Luncheon Reception at The Tower Room, 10 Trinity Square, by kind permission of Willis.

All AIRMIC members and past colleagues of Roger are very welcome to attend.

R.S.V.P. to Helena Grillo at the AIRMIC Office on 0207 480 7610 or email helena.grillo@airmic.co.uk

News & View

Contributions to AIRMIC NEWS are always welcome.

Please send your news, views, comments, questions or articles to:

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Bet Your Shirt: What's the difference between insurance and gambling?

Is there any difference between insurance and gambling? Only a risk manager who was tired of his job would tell his board that gambling had become a major part of his risk transfer strategy. Yet there is often little or no effective difference between gambling and insurance, argue ask Ian Harris, Sam Dibb & Michael Mainelli of Z/Yen Limited.

Who would have bet, a few years ago, that the insurance and gambling sectors would converge? Gambling was, until recently, limited to a fairly restricted set of biased odds products (e.g. lotteries) or specific sporting events (e.g. horse racing). Today, gamblers can bet on rarer sporting events, financial markets, the weather or indeed anything in which they can interest other gamblers. The advent of on-line betting (be it internet, mobile phone or interactive television) and the growth of spread betting (as opposed to simple fixed odds betting) has transformed the sector. The risk and return profile of many such betting products is often almost indistinguishable from equivalent financial products, but with greater flexibility and tax advantages. Insurers – beware. Derivatives merchants – beware. Risk managers – sit up and notice.

Given the sums involved (current estimates for worldwide betting vary enormously, but £100bn per annum is a reasonable punt) this sector should concern financial institutions and in particular insurers. Consumer gambling markets may well transform wholesale finance as we know it by removing some of the venerable intermediary institutions in markets such as banking and insurance – allowing consumers to hedge directly other consumers' risks. Robert Shiller, writing in The Economist on 20 March 2003, said "information technology will allow us to produce large international markets for a complex array of aggregated risks that today are not traded at all."

At a conference last November at the Centre for the Study of Financial Innovation, a number of ideas were discussed showing the overlaps between betting and traditional risk transfer products, for instance:

- *weather derivative markets might function better with consumers or SMEs taking the opposite side of wholesale contracts with utilities for outdoor events, weddings or utility bills;*
- *sports contingency insurance for relegation or players' bonuses might be held directly by opposing fans' bets;*
- *individual mortgage insurance based on indices of local house prices*
- *film hedging based on bets of opening audience numbers or take.*

The market is getting large enough to warrant a look at consumer protection through increased regulation. In any event, tax efficiency and low cost of transactions will only attract substantial business if the risk transfer betting offerings are also secure and from a trusted source.

Our key bet is that on line gambling markets will soon be quite analogous to financial markets. We believe that in the next 3 to 5 years:

EVENT	ODDS
Fringe insurers will see gambling products eat away at lucrative, small business lines such as sports contingency insurance for players bonuses	4-5 on (favourite)
Insurance premiums will be pried with reference to a betting exchange quote	3-1
There will be a major scandal fixing results (e.g. tampering with a weather station) on a weather bet)	4-1
News reports will commonly cite betting market prices alongside traditional FX and share indices	5-1

Would you bet against our predictions? Would you insure against them?

Ian Harris

Michael Mainelli

Sam Dibb

Ian Harris and Michael Mainelli are Directors of Z/Yen Limited, a risk/reward management practice, dedicated to helping organisations prosper by making better choices (www.zyen.com). Z/Yen clients include blue chip companies in banking, insurance, distribution and service companies as well as many charities, non-governmental and public sector organisations. Sam Dibb is a gambling and betting industry consultant, focussing on betting-related projects and business ventures.


Colin Pillinger


John Adams

Bad luck happens

A report on the annual conference of the Institute of Risk Management, by By Lee Coppack

Bad luck happens, says an eminent professor on risk. Maybe, but not often, says a man whose job is to investigate when things go wrong in the public sector. These comments sum up the varying thoughts of two keynote speakers at the Institute of Risk Management (IRM) annual Risk Forum held in September at Keele University.

Prof John Adams of University College, London argued the complexity of real life means that a project or a business may develop in many different directions, and even the most complex risk models have to make assumptions about possible results. "All risk is subjective, because it takes place in the future and the future only exists in our imaginations," he says.

Britain's Mars lander Beagle 2, was lost on the surface of the planet in December 2003 despite extensive and complex risk analysis. This, says Prof Adams, was "a splendid case of bad luck."

He told the Forum, however: "Bad luck is not evoked with much success with courts. Something happens, and everyone develops hindsight. Some barrister will isolate one line in the fault tree and you are left with culpable negligence. That explains risk aversion."

In his talk to the Forum on space exploration and risk, the leader of the Beagle 2 team, Professor Colin Pillinger, showed how human desire for discovery chaffs against risk aversion. He likened the possibility of finding evidence of life on Mars as akin to Charles Darwin's discovery of evolution, which has transformed our understanding of life on earth. "I always thought that the rewards of this particular project outweighed the risks."

Implied criticism of the management of the project by European Space Agency (ESA) following the loss of the Mars lander had not discouraged the team but instead spurred them to start again. He hopes to get funding for another attempt in 2007 or 2009.

Nevertheless, true examples of bad luck are hard to find, said Jeremy Colman, assistant auditor general at the National Audit Office (NAO). The NAO reports on the economy, efficiency and effectiveness with which government bodies have used public money, and Colman told the Forum: "We support well thought-out risk taking and innovation, and for that to have any meaning, it must apply to cases where things have subsequently gone wrong."

"IRM chairman Ian McNeil asked participants whether they believed that society was becoming too risk averse. He got an almost unanimous positive response"

In the work of the audit office, however, forensic examination usually uncovered predictable reasons for failures. Risk management, he said, is not yet well integrated into government departments. "What we want to find is an example of 100% bad luck, so we are looking for cases."

Colman then considered a selection of four large projects that might have been true examples of bad luck: a visitor centre, a very large central government database, a new military helicopter and the acquisition of a private hospital by an NHS hospital. He concluded that, although there may have been elements of bad luck, all but one had involved foreseeable reasons for the problems they developed. There had been no follow-up study of the fourth project, but in any case the NHS hospital involved had acquired assets that were worth nearly as much as the price of the whole deal, even if its original plans appear not to have worked out. That is, he said, as close as he could get to bad luck, and he appealed to risk managers for examples from their own experience.

The Forum theme was Risk and Reward, and following the talks by Prof Adams and Prof Pillinger, IRM chairman Ian McNeil asked participants whether they believed that society was becoming too risk averse. He got an almost unanimous positive response.

Developments in education

This was the IRM's most successful Risk Forum to date with a record number of participants - 290 compared to 210 in 2003- and sessions and workshops. The IRM also took the opportunity of the Forum to announce the addition of two further courses to its education programme and the creation of a global academic panel to ensure that it has a diverse gene pool from which to grow its educational programme.

Chaired by Peter Young of St Thomas' University, Minnesota, the panel will be an on-line community of about a dozen leading thinkers and researchers from universities and business schools around the world. The IRM is in the process of confirming participation by experts in governance, safety, reputation and many other areas.

The new education programmes will be rolled out over the six months.

- *A two-day course, 'Management of Risk and Uncertainty' providing baseline training in risk and opportunity management for organisation leaders and those requiring a short overview.*
- *The 'Introductory Certificate in Risk Management', a one-year course providing an introduction to risk management at a practitioner level.*

IRM Executive Director Steve Fowler says, "We have recognised that there is a huge demand for a broad introduction to risk and uncertainty issues, and this programme has been built to meet that need."

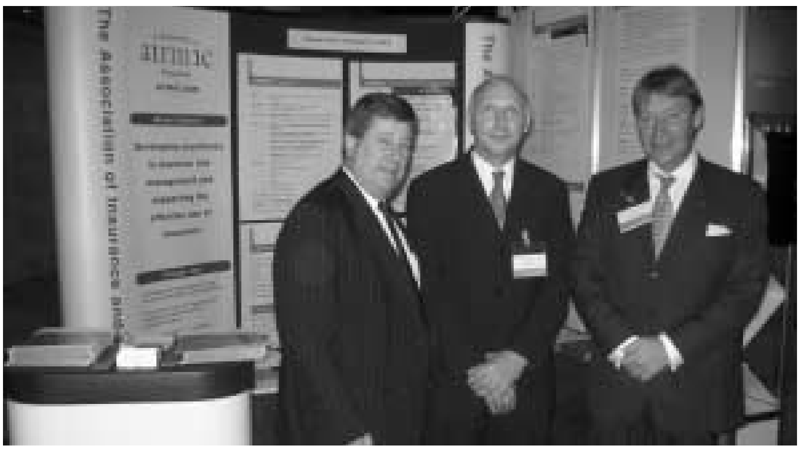
"It is specifically aimed at individuals in leadership roles, whether in commercial life or the public sector, and also specialists in individual risk disciplines."

The one-year Certificate in Risk Management is part of the IRM's increasingly modular approach to risk management.

McNeil explains, "The student can move a step at a time from short courses to the certificate and then on to the Associate Diploma and ultimately Fellowship of the IRM, with the ability to stop at any stage and still gain a valuable qualification".

Both programmes are fully compatible with the joint IRM/AIRMIC/ALARM Risk Management Standard, which has now been adopted throughout Europe and has increasing prominence worldwide.

Lee Coppack is editor of the IRM journal, InfoRM, and a freelance writer on risk management and insurance topics. The IRM conference took place on September 20-21 at Keele University, Staffordshire.



AIRMIC's Richard Clements with Steve Fowler of the IRM and Dr Sandy Scott Director General of the CII at the IRM's annual conference.

Chris Jelfs, Senior Consultant, Aon Risk Consulting

Better captive management, better insurance decisions, better investment outcomes

The pain caused recently by under-reserving is by no means confined to conventional insurers. Many captives have had exactly the same problem, undermining their effectiveness as a risk management tool. As Chris Jelfs of Aon explains, captive managers are often so concerned with day-to-day operations that they fail to give the issue of reserving the prominence it warrants.

Once a captive is operational, much of the emphasis is placed on the day-to-day management, handling of claims and management reporting. One area that can sometimes be a lower priority is the ongoing area of captive reserving, yet accurate reserving is crucial to obtaining a clear financial position of the captive and of the underwriting result.

Reserving is an actuarial assessment of ultimate retained loss costs. The purpose of a captive reserving study is to estimate the anticipated liabilities from historical underwriting years and to assess whether the current assets are sufficient to fund those liabilities. The captive's liabilities are inherently uncertain and it is often prudent to consider the likely downside risk if liabilities are higher than expected. Most actuarial assessments will consider a best estimate and a range around that estimate.

As part of this assessment, it is key to understand the impact of adverse claims development and to make adequate allowance for latent claims/emerging claims.

In the early years of a captive it is important to establish whether the initial capitalisation is appropriate. The claims experience for these years will be sparse which means that reserving assessments are likely to be less stable unless suitable external claims data is available. Despite this volatility, reserving for these years can provide a useful early indication of the suitability of the initial captive funding levels.

In general, the level of a captive's liabilities are particularly uncertain with longer tail liabilities (such as employers' liability), in the early years of a captive, or where the nature of the liabilities are of a particularly volatile nature.

How can the results of a captive reserving study be used?

Ensure sufficient funds are available to pay claims

The most obvious rationale for a reserving study is simply to ensure that the captive has sufficient assets to pay for the liabilities when they arise. In reality, for a captive writing ongoing business and hence receiving ongoing captive premiums, a direct comparison of captive assets vs captive liabilities may be prudent due to the delay between receiving premiums and making claim payments.

An alternative approach would be to consider the expected liability outgo in a given period and to ensure that the incoming premiums and asset proceeds are sufficient.

If liability outgo exceeds a captive's assets at any time then at best the captive management would be required to recapatilise the captive with corporate capital and at worst it would be declared technically insolvent.

Ensure excessive capital is not held in the captive

On the face of it, holding too much capital in a captive may not seem a problem. However, if the capital could be used in a more efficient manner in the running of the core business of the corporate, this would be a sub optimal use of the shareholders' capital. For example, if the funds within a captive could achieve investment returns of 5% p.a. this would be sub optimal if the return on capital for the corporate was 12% p.a.

Ensure assets are chosen in a way to match the expected liability outgo

Ideally assets should be selected to enable the anticipated asset proceeds to match the expected liability outgo. If assets are not consistent by term then it is likely that some will be realised at inappropriate times or that more assets will be held in liquid forms than would otherwise be necessary.

Captives with significant assets and liabilities may carry out a dynamic financial analysis (sometimes called asset/liability modelling) to ensure that they maximise their investment income whilst ensuring asset proceeds are available to pay for expected claims outgo.

The investment strategy of many captives is simply to invest in cash or very short dated stocks. In some cases the investment strategy could be more flexible and better returns achieved by simply understanding the future liability outgo.

The results of a captive reserving exercise would be the precursor to carrying out these studies.

More stable pricing of future captive premiums

Regular reserving studies can provide advice on the required future funding. This will ensure that captive premiums are calculated on a consistent and rational basis. This will avoid large funds accumulating and make sure that significant variations in the year on year captive contributions are avoided.

Independent assessment

From a corporate's perspective it is important to have an independent assessment of the captive's financial position.

Actuarial reserving studies provide such an independent assessment. Following recent accounting scandals, audit firms are much more interested in the financial position of captive insurers and in some cases insist on independent reviews of their liabilities.

What are the dangers of not carrying out actuarial assessments?

Many captives carry out regular reserving assessments, however there are some captive managers who have never carried out an assessment.

For some classes of business it may be difficult to justify carrying out a reserving study every year. For example, it may not be appropriate if a captive simply writes classes such as property damage with only a short period between incidents occurring, claims being notified and settlements being made. However with longer tail liabilities, captive reserving studies should be carried out as a matter of course.

In recent years, the use of captive insurance companies has become a key component of many a corporate's insurance and risk management strategy. Their rise in popularity has been driven by a number of factors including:

- the hard insurance market;
- the lack of availability of cover for certain risks;
- the wish to retain more control over the claims process;
- the desire to focus more on risk management and to ultimately reduce the total cost of risk;
- to improve the consolidated tax position; and
- to enable long term premium stability.

Demand for standalone directors' & officers' (D&O) coverage from US executives continues to grow and the London market is showing a growing appetite to write the business, according to broker Willis. A-side has become increasingly popular in recent years as directors and officers worry about derivative claims brought against them by their own company and the general increase in D&O costs caused by the recent hard market?

The FSA has been widely criticised for a series of newspapers ads warning that people who fail to comply with the Insurance mediation Directive face possible prison. In their defence the FSA said: "It is not a threatening ad. It is a call to action." (Daily Telegraph).

Where a captive has been in operation for a long period and reserving has not been carried out on a regular basis the results could be quite dramatic. In some cases they could make it possible to release reserves back into the corporate and in others there may be a need for immediate corporate capital to avoid technical insolvency.

Current Legislation

In some captive domiciles there is a regulatory requirement for captive insurance companies to obtain a Statement of Actuarial Opinion (SAO) each financial year.

- The Department of Enterprise, Trade and Employment in Ireland was the first regulatory body in Europe to require mandatory actuarial certification of general insurance reserves by an actuary holding an Irish practising certificate.
- In Vermont, actuarial opinions are required and working papers must be held on the site of the company.
- In Bermuda, actuarial opinions are required signed by authorised loss reserving specialists.

Future Legislative Changes

There are no current published plans to change legislation in any other domiciles.

However the driving force behind the change in the regulations in Ireland was a review of the regulation of the financial sector in Ireland by the International Monetary Fund in conjunction with the World Bank. The IMF/World Bank expressed surprise that an actuarial approach was not mandatory for long tail insurance classes.

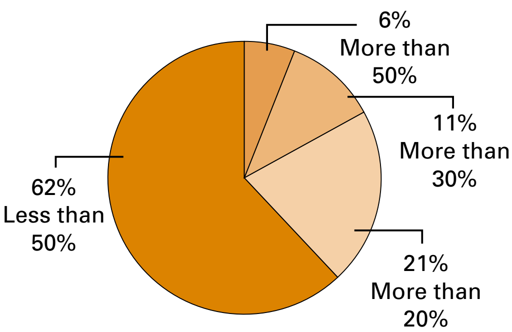
It is unclear whether this will have any influence on other domiciles, and the perceived success or otherwise of the new regulation in Ireland may be a factor in determining how widely similar requirements are implemented across Europe.

Irrespective of the legislative regime it is clear that reserving should not be simply thought of as a compliance issue but as an essential tool in the efficient management of a captive and a vital component of sound corporate governance.

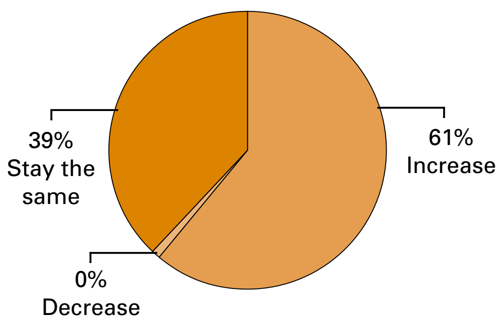
Details of Captive and ART's Review's recent alternative risk transfer survey of European risk managers – see next page.

Use of Captives and other forms of Alternative Risk Transfer is increasing and will continue to do so, despite talk of a soft market. That is one of the main findings of a survey of 71 risk managers from North America, the UK and the rest of Europe published recently in Captive and ART Review. Some of the main findings are set out below.

Graph 1. What percentage of your time do you currently spend on captive insurance and alternative risk transfer?

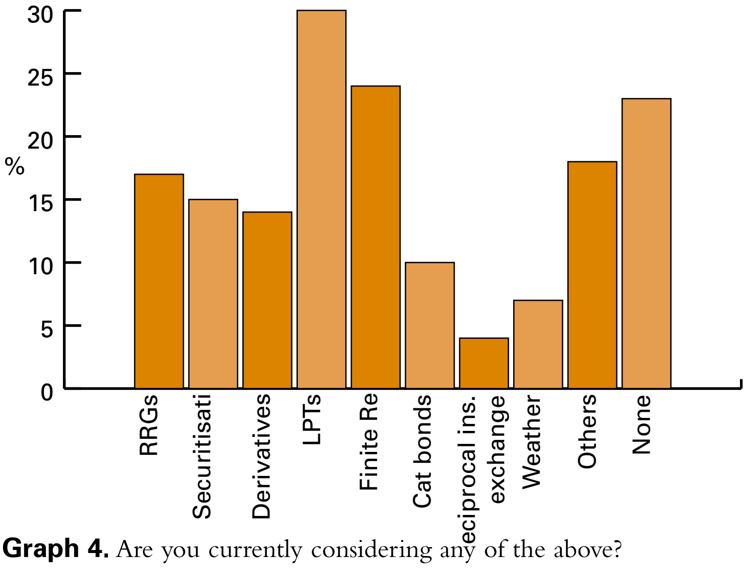


Graph 2. Is this likely to change in the future? Will time spent increase or decrease?

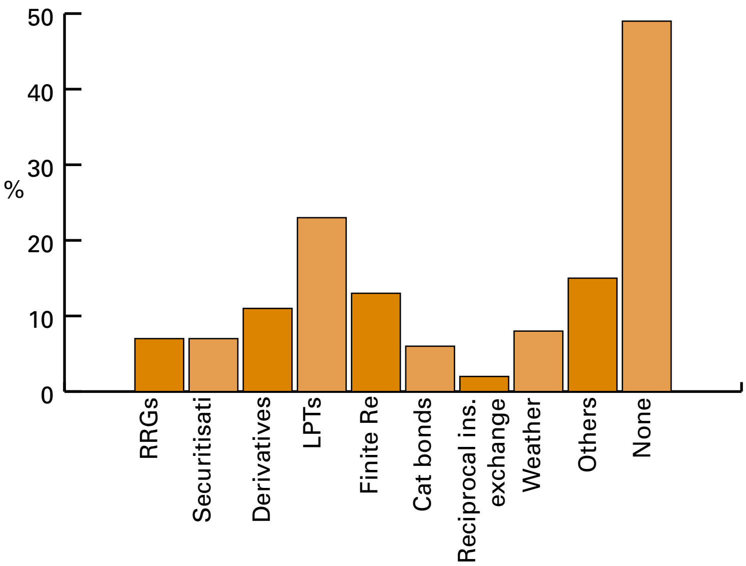


Chris Jelfs is senior consultant, Aon Risk Consulting,
christopher.jelfs@aon.co.uk
Tel: 020 7216 3972

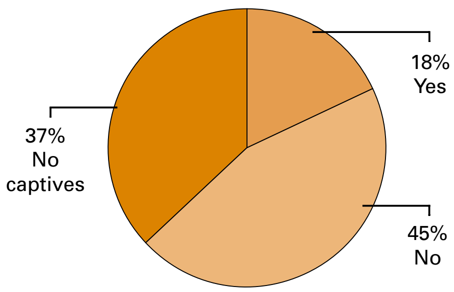
Graph 3. Beyond captive structures what other forms of ART do you use?



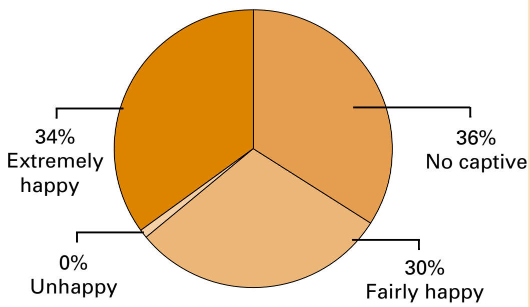
Graph 4. Are you currently considering any of the above?



Graph 5. Have you ever considered closing your captive?



Graph 6. Currently how happy are you with your captive manager?



It looks as though the EU is about to do a u-turn on the Gender Directive by allowing insurers to charge different rates for men and women. The Council for Employment and Social Affairs has agreed in principle that insurance can be treated as an exception to the general rule and member states will be allowed to choose whether or not gender will be allowed to be taken into account when setting insurance prices

The AIRMIC-ICSA outsourcing seminar on September 14 attracted more than 50 delegates, who enjoyed a high level of speaker and debate. AIRMIC would like to thank the sponsors, KPMG.

Revolution!

The AIRMIC website as you know it is about to change. It will still have all the great features that you have come to know and love but it will be a great deal simpler to use! The site as it stands now answers questions that web users were asking a couple of years ago. Everything is signposted and elaborated on in an amount of detail that just isn't needed anymore. But why isn't it needed? As the web grows older we all learn more about how to make the most of it. For a technology that is still less than a decade old (in the mainstream) certain functions of websites have already become second nature to us. This means that with the new 'edition' of the AIRMIC site we can bring it more in line with the new AIRMIC newsletter and all other AIRMIC publications. As well as the new site looking a lot more like the AIRMIC newsletter we will also be making more of the articles from the newsletter available on the members' site as part of an improved archive.

If you would like to see the new website in it's development location please visit www.airmic.com/beta1263

I would really appreciate your comments!

Your Emails

Are you getting your weekly roundup emails? Are they in a format that you can read easily? Any problems please get in touch!

Get in touch!

Email – andrew.laws@airmic.co.uk
Direct Line – 01473 431 535
Fax – 07092 104 404

www.airmic.com

Companies in the service providers directory

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Capita Insurance Services
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Crawford & Company
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Eisenstein Malunchuck
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FM Global
GAB Robins UK Limited
Hertz Claim & Risk Management
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ICM Computer Group plc
Insurance Law Group
Jardine Lloyd Thompson Group PLC
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Kendall Freeman
Kiln & Co Ltd
Legal Costs Negotiators Ltd (LCN)
Liberty International Underwriters
Lovells
Omni Whittington Services Ltd
Riskbase
Royal & SunAlliance
Rushton International
Stewart Business Software
TRACKER Network (UK) Ltd.
XL Insurance Company Limited
Zurich London

Britain is ranked sixth in the World Economic Forum (WEF) Competitiveness Report. The WEF ABI director-general Mary Francis is to step down next year to concentrate on her non executive directorships. said the sophistication of company operations and strategy was a decisive factor in the UK's favour.

‘Adding Value for a Healthy Future’

AIRMIC Convention 2004

4th–5th November

The Majestic Hotel
Harrogate

> *A unique opportunity for risk managers to mix freely with each other in a relaxed environment*
>
> ***Colin Campbell***

Peter Power, MD, Visor Consultants

David Lacey, Director of Information Security, Royal Mail

Ben Hunt-Davis, Olympic Rower

airmic

Two day Convention with optional Golf Tournament

Aldwark Manor Golf & Country Club

The psychology of injury seminar, Nov 29

The IUA Rehabilitation Party is holding a seminar on the psychological aspects of injury at the ABI conference room on November 29. A number of medical, legal and insurance experts will discuss the practical implications of their recent report on this subject. The cost of the event: £85+vat. For further information, contact anthony.dickinson@iua.co.uk, telephone 0207 617 5443.

Maintaining a foothold in an unstable environment

Joe Simpson, the climber who starred in the award-winning film Touching the Void, is among the speakers at the AIRMIC – Jardine Lloyd Thomson Symposium on Friday 19 November. Other speakers include Clive Tobin of XL Insurance, Mike Hammond of JLT, Martin Williams of HSBC and AIRMIC Chairman Andrew Cornish.

Joe has developed a reputation on the speaking circuit, which is second to none. Having spoken to a wide variety of audiences of many nationalities, Joe has consistently exceeded expectations. His presentation is supported by an 'all action' introduction video and stunning photography.

AIRMIC members will soon receive a formal invitation to the event, which is at the Royal Society of the Arts in London.

Dates for your Diary 2004/5

OCTOBER

19 **Memorial Service for Roger G. Miller**
St Olave's Church, Hart Lane, London EC3: 11.30am-12.30pm, followed by a Lunch Reception at The Tower Room, 10 Trinity Square, by kind permission of Willis.
All welcome to attend.
R.S.V.P. Tel 020 7480 7610 or email helena.grillo@airmic.co.uk

21 **AIRMIC Captives SIG**
AIRMIC Offices
10.00am-12.00 noon
Contact David Hertzell
020 7936 2222

21 **AIRMIC Central/NE/NW Meeting 'Employers' Public & Motor Liability: Threats and Solutions**
Eversheds, Birmingham
12.30pm - 4.00pm
David Hertzell 020 7936 2222

NOVEMBER

4-5 **AIRMIC Biennial Convention**
Majestic Hotel, Harrogate
Contact Michelle Rumble
020 7480 7610

19 **AIRMIC/JLT Symposium**
Royal Society of Arts, London
9.00am-2.00pm
Contact Lorraine Cuthbertson
020 7528 4736

25 **AIRMIC Liability & EHS SIG**
(Combined E&L and H&S Groups)
AIRMIC Offices, 10.30am
Contact Peter Berring
01256 605301 or
Gary Marshall 01992 619336

DECEMBER

1 **AIRMIC Annual Dinner**
Royal Lancaster Hotel, London
Contact Patricia Dunn
020 7480 7610

2 **AIRMIC International SIG**
Nike London Offices
12.00noon-3.30pm
Contact Geoff Taylor
+31 35 626 6942

2005

DECEMBER

13-15 **AIRMIC Annual Conference**
Brighton Conference Centre
Contact Patricia Dunn
020 7480 7610

As a member you are welcome to attend any Area Meeting and are not restricted to those within your own geographical division

Please check AIRMIC Members website www.airmic.co.uk for the most up-to-date listing of events