
Insurance Executive Review

Market Commentary on Current Developments within the P&C Insurance Industry

BITS AND PIECES ... from the world of insurance and finance

CATASTROPHE BOND MARKET HAS HICCUP

The bankruptcy filing of Lehman Brothers Special Financing Inc. had many repercussions not the least of which was being counterparty on several Catastrophe Bonds of Willow Re Ltd. (\$250 million); Ajax Re Ltd. (\$100 million); Newton Re Ltd. (\$150 million) all three companies were formed in the Cayman Islands. The unlikelihood of finding a total return swap counterparty replacement for Lehman caused a “c” rating downgrade by AM Best

CRISES HITS JAPAN

The Yamato Life Insurance Co. failed last month with \$2.7 billion of debt which had a unique business model by investing heavily in hedge funds and real estate investment trusts to boost investment returns contrary to most other Japanese financial institutions. While other insurers followed a more traditional investment path they now find that route not without its difficulty.

FOLLOW THE MONEY

Hit with investment difficulties, life insurers who sold variable annuities that guaranteed the policyholder’s principal, need to cover that shortfall. That has focused attention on the adequacy of their capital so state insurance regulators are stated to be considering lowering cash reserve requirement to help ease the situation. In the meantime Hartford Financial Services, Genworth Financial, Lincoln National and Transamerica Life’s parent Aegon NV a Dutch company all announced plans to acquire small banks or thrifts so they can qualify for “bailout funds” under the Federal TARP program passed by Congress. It wasn’t long ago the insurers fought to restrict banks from acquiring insurers but having lost that one it now looks like the shoe is on the other foot!

MORTGAGE INSURANCE CANCELLATIONS/RESCISSIONS

The huge losses being suffered by the mortgage guaranty market* are now taking a turn that will surely produce an increase in lawsuits. These insurers are cancelling policies on the basis that the banks did not follow the mortgage underwriting guidelines they said would be applied in their review and application approval process. More importantly the insurers are contending that prior claims they have paid will be recovered from banks as the policies should be set aside (rescission of contract) on the basis that insurance was obtained by fraud. The mortgage guaranty claims incurred from 2007 through the first half of 2008 is nearly \$15 Billion and counting!
*see our newsletter comments on the “Soft Market-Part I Underwriting Component”

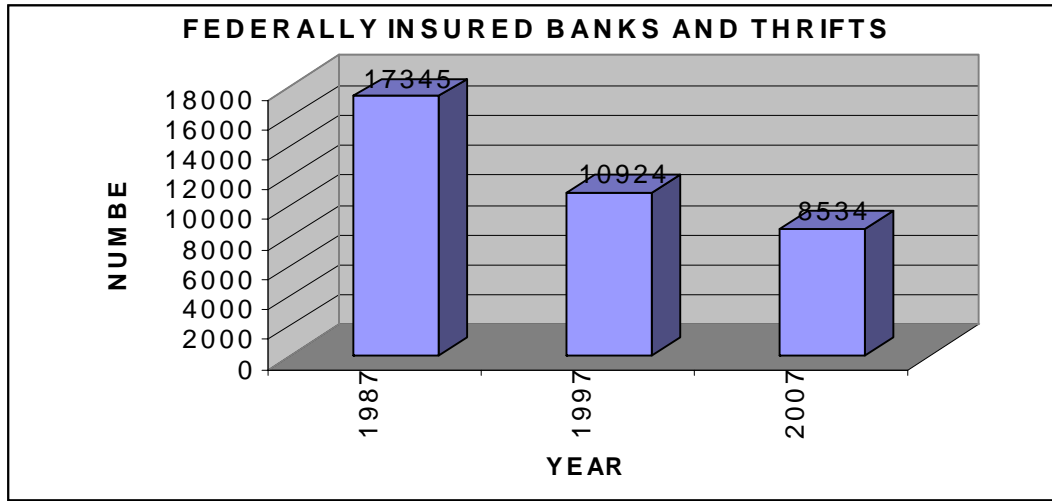
SPEAKING ABOUT LAWSUITS

The current financial crisis is quickly becoming an annuity for the legal profession and a nightmare for professional liability underwriters. The directors and officers liability and professional liability markets are bracing for a flood of lawsuits that has already been initiated from the sub-prime mortgage collapse and the credit market crisis that followed. The consulting firm Advisen estimates that these claims will amount to \$9.6 Billion over the pe-

riod 2007-2009 and will fall heavily against the financial services industry.

“MBA” NOW STANDS FOR MERGERS, BAILOUTS AND ACQUISITIONS!

The financial services industry has undergone more fundamental change in a few weeks then it did in a decade. Stand-alone investment banking is gone, “too big to fail” financial service giants have been forced to merge and others have been acquired, in some cases by the federal government. Consider the federally insured Banks and Thrifts in the table below:



Source: Wall Street Journal Sept 30, 2008

It seems clear that with government monetary intervention will come further federal regulation and it no longer seems possible for the insurance industry to escape the inevitable. The idea of an “optional” federal charter for insurance companies** may become morphed into a mandatory charter for commercial risk insurers with personal lines still being regulated by individual states. The separation will place emphasis of federal regulation on solvency matters while state regulation can continue it’s focus primarily on consumer protections.

** See our newsletters on Federal vs. State Regulation of Insurance



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Mr. Ruoff is President of CR Market Strategies Inc. an insurance marketing and risk management consulting organization based in Garden City, New York. Mr. Ruoff has been involved in insurance underwriting, international insurance brokerage and alternative risk management businesses having held executive management positions with Continental, AIG, Johnson and Higgins, Sedgwick James, and Acordia (Wells Fargo). He has been a speaker/panel member at numerous industry events during his over 40 years in the insurance industry including RIMS, CPCU and other conferences. His articles have appeared in many industry publications and is a member of the Advisory Board of St Johns School of Risk Management and Actuarial Science.