

# Insurance Day

MONDAY 10 MAY 2010

## Opinion



DOMESTIC concerns largely monopolised attention as the UK general election held the country in its thrall over the past few days. But as the dust settles on the result, international economic issues loom large and very quickly the UK's chancellor of the exchequer will be called on to play his role in any global resolution. Insurers will want to make sure they do not get caught up in the recriminations as the atmosphere remains antagonistic towards the "financial services industry". In particular, proposals outlined by the International Monetary Fund (IMF) for a tax on all financial services firms have prompted particular concern among insurers.

Playing a central role in attempting to clarify the situation is international thinktank the Geneva Association. According to its secretary-general and managing director, Patrick Liedtke, it is crucial any shake-up of the system should not make it more difficult to obtain the important protection insurance offers. "Insurance companies protect people, so we want to put insurance companies in a position where they can protect people and their risk adequately. If we make that more difficult, we make to role of insurance more difficult," he tells me.

Indeed, he believes the IMF's proposal would actually have the opposite effect from what the leaders want and hurt the most risk-averse. "What will happen is what happens in every case when you increase the cost of production: the companies will do everything to roll it over to the customer, which means suddenly we get a tax on the risk-averse people," he says.

Such a tax would make it more difficult for people to search for and source protection, which is something individuals and businesses have come to value more now than before the crisis.

"People are much more risk-aware and risk-averse. If we make insurance products more expensive by adding a tax policyholders will have to bear in one form or another, then of course we're doing ourselves and society a big disservice," Liedtke argues.

And he is adamant it is never a good idea to tax people indiscriminately of what they do. "It's more efficient to target specifically what you want to achieve. If what you want to achieve is a better equilibrium between systemic risk and other non-systemic activities, then you need to make systemically activities more expensive and less systemic activities less expensive. That doesn't mean you make all activities more expensive," he claims.

The Geneva Association has conducted a good deal of research into the systemic risk posed by the insurance sector as a whole and the thinktank feels insurance activities do not pose systemic risk. Liedtke says: "The issue with the IMF's thinking is if you want a tax because the people who caused the damage should help pay for repairing it, then it should be a banking tax. If you want a tax to build some reserves and have some readiness in terms of available capital to avoid these things in the future, you're again looking at the same people."

Clearly, some insurance companies found themselves embroiled in the crisis in a high-profile way. But, as we have repeated over and over again, the financial conglomerates that got into trouble in this industry were a combination of insurance activities that were OK and quasi-banking activities that were not.

It is hard to disagree with Liedtke when he asserts it is too simplistic to start from the premise that anything that falls into the "financial services" category is the same.

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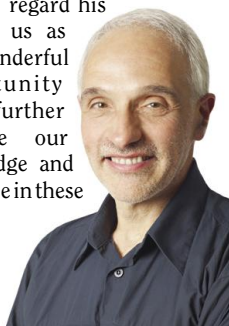
THE INSURANCE arm of Royal Bank of Scotland (RBS) has posted a £50m (\$73.8m) loss for the first quarter of 2010, compared with profit of £76m last year. That was the result of a rise in insurance claims to £1.14bn from £966m. Insurance premium income of £1.29bn for the first quarter was down from £1.36bn in the same period last year. RBS blamed the 113.3% combined ratio, up from 101.5%, on increased reserving for adverse weather conditions and bodily injury claims, which was only partially mitigated by expense ratio improvement.



## NEWS IN BRIEF

### Norton Rose appoints

LAW FIRM Norton Rose has hired professor Robert Merkin (pictured) as a consultant to its insurance/reinsurance and international arbitration teams in London. A research professor of commercial law at Southampton University, Merkin will provide advice on discrete points of law, procedure or market practice across the group and will assist with publications and lectures both in-house and for clients. Michael Mendelowitz, head of Norton Rose's contentious insurance and reinsurance practice in London, said: "Merkin is acknowledged to be one of the world's leading experts on insurance, reinsurance and arbitration law. We regard his joining us as a wonderful opportunity to further enhance our knowledge and expertise in these fields."



### Mapfre €273m profit

SPAIN-BASED insurer Mapfre has reported a 4.8% fall in first-quarter profit year on year to €273.1m (\$348.4m) from €287m, as a result of the Chilean earthquake at the end of February. The earthquake cost the company an estimated €80.8m in the quarter. Revenue increased 8.9% to €5.89bn. However, while profit in its domestic market increased 17% to €329.6m, gains from international business dropped 5% to €131.2m. The company has €540m in Greek debt and a similar level of Portuguese debt. Meanwhile, Standard & Poor's has confirmed it has revised its outlook on Mapfre and its core operating subsidiaries to negative from stable, while affirming the company's AA rating.



### Infinity income increases 44%

US MOTOR insurer Infinity Property and Casualty saw first-quarter net income increase 44% to \$15.6m, reflecting a 6% increase in underwriting income to \$17.3m and a decline in realised investment losses to \$500,000 from the year-earlier figure of \$6.1m. The combined ratio improved to 91.9% from 92.4%, as a 1.2% decline in earned premiums to \$212.1m was offset by the 3.1% drop in claims losses to \$146.6m.

### CRM Holdings' Q1 losses shrink

BERMUDIAN workers' compensation insurer and reinsurer CRM Holdings saw its first-quarter net loss narrow to \$7.9m compared with a year-earlier \$8.4m on earned premiums of \$13.6m, down 35%. The group also said it has retained Macquarie Capital for assistance in exploring strategic alternatives – which include an offering of shares, a merger or the sale of the company – in a move to strengthen its capital position.