Presentation of Mr. Harold Wong

Senior Manager – Underwriting, Advantage General Insurance Company

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Ladies and Gentlemen.

In addressing this gathering, I am conscious that the event is being hosted by the Fair Trading Commission; a body that holds the balance between both consumers as well as the providers of goods and service. However, as the latter group is usually strongly represented by special interest groups and the former has little representation, I act on the assumption that whenever the FTC hosts an event it is usually to address the concerns of the consumer. My presentation therefore shall deal with issues and or concerns which affect consumers but, in so doing it is necessary to deal also with the response of Insurers to these issues.

The insurance industry continues to be the subject of discussion and analysis and rightly so as its operation is different from that of other commercial entities. It accepts money from its many customers in return for a promise to provide compensation, at some time in the future, against the occurrence of certain defined events which can cause damage to one's property. Customers or policy holders accept this promise because in the event of their property being damaged, in most instances, it is unlikely that repair or replacement of that property can be undertaken from customers' savings.

The result of this activity over the last five years has been that the general insurance sector has generated combined Gross Premium Income of J$113.3 billion. This represents a growth rate of 40% moving from J$18.5 billion in 2006 to J$25.9 billion in 2010. During this period, the Gross Premium Income of Motor business grew by 46.5%, moving from J$8.2 billion in 2006 to J$12.0 billion in 2010. The percentage contribution of motor business to the Combined Gross Written Period of J$113.3 billion was J$53.3 billion or 47%.

Motor Insurance is the only insurance which is mandated by law and as result of this legal compulsion, whenever motor insurance is discussed, one of the expressed concerns has to do with the price at which cover is available. Is the consumer getting value for money? It seems appropriate therefore to provide an understanding of the pricing mechanism. Consider that when a vehicle is the subject of Comprehensive insurance, the value could be $3,000,000 (a theoretical figure); the premium could theoretically be $140,000. The premium is only approximately 5% of the value.

When a total loss claim is submitted for that vehicle the Insurer is paying a sum of $2.86 million in excess of the premium which was paid by the customer: That sum cannot be met from the premium which was paid by that one customer; it has to be met from the aggregate of the premiums which is received from the many customers who have coverage with the Insurer. It is therefore the pooling of those premiums/funds which enable claims to be paid. Once this pool of funds is threatened by the frequency and/or severity of claims, there must be an adjustment to rates in order to replenish the funds to meet not only future claims but also other expenses which are incurred in the process of providing insurance.

The reality is that this fund needs to be replenished very frequently because of the many claims which are made against it by a relatively few customers or insured persons. Relative because of the total number of insured persons or policy holders, it is a minority which are involved in accidents and making claims. As a result, there is an insurance principle which states that the misfortunes of a few are met by the contribution i.e. premiums of the many. Replenishment is possible only by increasing the rate at which insurance is purchased or increasing Capital.

Given the impact of claims on the pricing mechanism, it is necessary to review loss ratios trends over the last five years. This ratio is calculated by dividing costs of motor claims by premium income. It is, as a rule of thumb, accepted by practitioners that a ratio of 70 – 75% should permit an underwriting profit.

	2006	2007	2008	2009	2010
Investment Income	$2,436,981,217	$3,007,445,305	$3,843,109,319	$4,752,403,350	$2,795,760,846
Investment Yield	12.6%	13.6%	15.9%	18.5%	10.6%
Motor Loss Ratio	72.2%	67.4%	67.6%	79.0%	71.5%
Gross Premium Income (Motor)	$8,214,600,084	$10,264,840,527	$11,359,834,414	$11,397,761,912	$12,031,753,985
Combined Ratio	110.8%	110.2%	105.9%	117.6%	107.0%
Underwriting Profit /Loss	($875,904,293)	($1,041,828,621)	($702,413,615)	($2,157,734,744)	($851,699,840)

A performance analysis of certain indices show that claims trend for the industry has been averaging a 71.5 % loss ratio over the last five years. If this was the only factor considered in underwriting performance, this trend would suggest that in the normal course of operation, Companies should generate a better than break even financial performance on operation. The assumption here is that with an average commission rate of 10%, to intermediaries, the remaining 61.5% should be able to meet other expenses as well as to provide some margin of profit. That said, it should be noted that the loss ratio is only a measure of the claims payment and in essence highlights the percentage of premiums earned that is paid out for claims settlement.

The other expenses when combined with claims do not support this “better than break even” position. The Combined ratios which combine claims, commission and other operational expenses, show a pattern of continuous losses. Over the last five years, the average industry Combined Ratio has been recording a consistent pattern of loss of 110%. This ratio is basically indicating that for $1.00 earned in premiums, the industry is paying out $1.10 in expenditures and claims settlement. Companies have therefore been operating without the underwriting operation contributing to a positive Profit and Loss position.

Underwriting performance validates the unprofitable operations. Over the last five years, Companies have recorded underwriting losses, moving from $875.9 million in 2006 to $851.7 million in 2010. Furthermore, over the last five years alone, the industry has generated underwriting losses in excess of $5.6 billion. Annual Losses have remained flat though in 2007 the losses were $1.0 billion and peaked at $2.2 billion in 2010. The 2010 losses were only reduced after the implementation of rate increases in the latter part of the 2009 year.

Historically, profitability has been accomplished by relying on investment income contributions which have provided a subsidy to the underwriting performance; investment Income has been on a steady growth path. The base year of 2006 showed investment income at $2.4 billion, peaking at $4.8 billion in 2009, a growth rate of 240%. In 2010 however, investment income was $ 2.8 billion, a fall off of 41.7% over the previous year.

The reduced investment income was attributable to the compression in interest rates subsequent to the introduction of the Jamaica Debt Exchange (JDX) Programme which was undertaken in partnership with IMF. Pre JDX interest rate was an average 20%; at the start of 2010 it fell to 12% and is currently, 6.5%.

With the substantial decline in investment income and the increasing regulatory pressure for increased capital, the need to drive reserve increases can only be achieved through significantly improved underwriting contributions. Hence rate increases were inevitable. Increases were slow in materialising during 2010 but once the full impact of the JDX was felt, the rate of increase accelerated.

The adverse impact of interest rate and the need to earn premium through rate adjustments are of concern to the international as well as the Jamaican community. The reality of a return to underwriting for profit rather than relying on investment income started during the recent global recession and continues to the present.

International Reinsurers, Swiss Re in a recent news release said, "**Reinsurers executives have told Bloomberg newswire that prices for Catastrophe coverage should rise next year after disasters from New Zealand to Japan drove up claims and low interest rates hurt investment returns."**

The article published on Monday, September 5, quoted Brian Gray, the Chief Underwriting Officer at Swiss Re as saying "**The Fat is gone and now you easily need to make your money as an Underwriter**" He added that the biggest challenge for the industry is the interest rate shock, and said that the issue has not got the same kind of attention as natural catastrophes. The article said that there had been a record $70 billion of catastrophe losses in the first half of the year and at the same time, low interest rates are "crimping investment returns" which typically provide a buffer for earnings when claims rise. The article pointed to the upcoming price negotiations at the Rendez-Vous in Monte Carlo and then Baden Baden.

Whilst the article was specific to Property Insurance, it nevertheless highlights the importance of investment income to Profit and Loss. As shown earlier, investment income or the fall off was an important factor in subsidising low rates.

As a matter of interest, a comparison of motor rates was done amongst three Caribbean Islands, Trinidad and Tobago, Barbados and Jamaica. The theoretical picture was provided by using a Toyota Camry 2000 c/c, examining two scenarios; the car valued at US$ 23,256 and US58, 140; Drivers, Male and Female; claims free; Aged 25 in each case with drivers' licence over three years. Jamaica had the lowest rate.

	JAMAICA RATE	BARBADOS RATE	TRINIDAD RATE
VALUE US$23,256	5.75%	12.09%	9.4%
VALUE US$58,140	5.75%	10.34%	9.4%

Therefore in spite of concerns pertaining to rates, the Jamaican motorist is more advantageously placed than his Caribbean counterpart.

Nevertheless, the reality is that the level of motor rates and increases are not only of concern to the Jamaican consumer but also to consumers of countries on both sides of the Atlantic. Sky News in a report captioned MOTOR INSURANCE MARKET UNDER THE SPOTLIGHT, dated September 8, 2011. COMMENTED:

"The motor insurance market may face an inquiry as drivers endure massive increases in their premiums at a time they can least afford them.

The Office of Fair Trading (OFT) has issued a "call for evidence' as it looks to establish if any competition or consumer issues need to be addressed.

The consumer watchdog is examining the industry after motorists faced average increases of up to 40% in a year.

Particular focus will be given to reports suggesting premiums are slightly higher in Northern Ireland than the rest of the UK.

According to the AA's British insurance premium Index, the "shoparound average" for annual comprehensive car insurance cover rose by 40.1% for the twelve months to March 31.

Young drivers are feeling the pain from rising bills particularly badly, with the AA finding increases of up to 64%.

Men aged between 17 and 22 are paying more than £3,000.

Insurers have blamed rising fraud for the increases in bills, with bogus claims accounting for £919 million over 12 months – an increase of 9% for the second year running according to the Association of British Insurers.

A data base of potential fraudsters is being set up with the help of the police from 2012, in an effort to reduce cost.

The role of price comparison sites will also be examined by the OFT, along with the provision of credit hire replacement vehicles to drivers who are involved in accidents that are not their fault.

Insurance companies' use of panels of approved repairers and additional products that are sold by insurance companies will be looked at too.

The article ended by noting that the watchdog which has the power to order an enquiry by the Financial Services Authority, expects to present its findings in December".

Interestingly, whereas in the UK , according to the article, there was 40.1% increase in premium cost for the twelve months ending March 31, 2011, premium income (motor) in Jamaica grew by only 5.9% over the last three years; in 2008 GPI was J$11.36 billion and in 2010 J$12.03 billion. Using Advantage, my Company, as the yardstick, the maximum rate increase was 25% in 2010/2011.

Our market operates in a very competitive environment. There are ten (10) general or non-life Insurers in Jamaica; nine (9) accept motor proposals. There is therefore a market large enough to satisfy the needs of consumer although there are five motor or personal lines "specialist" Insurers. Different underwriting standards, acceptance criteria and rates apply but rates are competitive. An examination of rates will readily show that there is no convergence and that there are variations in rates, loadings, discount levels and flexibility.

The motor market is no different from that of the manufacturing or other service sectors. Here there are different branded products, some are more affordable than others yet each commercial operator satisfies a particular market; even the higher priced products or operators. It's a matter of shopping around and discovering what is available. In the insurance market, there are a number of intermediaries (it is estimated that they generate 60% of insurers' income) whose aggressive marketing ensures that high rates will eventually lead to reduced business. They offer various options to consumers as they are aware of prices, policy coverage, insurers' preferences and are skilled in placing insurance.

Collaboration on pricing or rating is therefore not possible given the competitive nature of the market and regulation or price control is not practical as each Company has different cost structures and underwriting philosophy. Collaboration is at the operational level or in the sharing of data. In the former, Companies strive to have an integrated technology base to assist with improved work flow, management of reporting information and enhanced service delivery to both intermediaries and customers.

In the latter, there is a pooling of information to assist with enhanced underwriting standards gained from the sharing of accident information and, net- working, in the public interest, with the Constabulary forces. This type of collaboration is the norm in many countries.

Claims.

It is more than a reasonable expectation for the customer to expect speedy settlement of his claim; this is the whole purpose of paying premium. Whenever compensation is required, within the terms of the policy, payment must be forthcoming as quickly possible. We need however, to separate claims into different types in order to appreciate the challenges which are at times encountered and which impact negatively on the process by which claims are settled.

There are Own Damage and Third Party Claims. The latter can be broken down into property damage, bodily injury and legal/court cases, in the majority of cases the latter arises from bodily injury sustained by third parties. Own Damage claims are usually settled within thirty to forty five days, subject to the legality of the claim.

Third Party property damage usually takes in excess of this time as there are a number of issues which are encountered in managing the claims process. Claims overwhelm and are taxing on both personnel as well as the operational infrastructure. In fact as consumer preference dictates greater purchasing of more Third Party rather than Comprehensive coverage, the number of third party claims can be expected to increase and the need for better management will be a critical factor in the provision of enhanced claims delivery service.

However, the management issue is exacerbated, by the behaviour of motorists who are involved in accidents. There is a tendency for motorists to enter into private arrangements and or agree to have the vehicle repaired or compensation provided by the negligent party. The parties as a result, do not immediately report the accident to the insurer on record. This is done at a much later date by the aggrieved party when it becomes obvious that the agreement will not be honoured or the arrangement has fallen through.

The claims notification condition is therefore breached by both parties but notwithstanding the "delay" in reporting by the aggrieved party, when the official report is made, the matter must be investigated. At this point, there is usually a challenge reaching and getting the "negligent" party to report and provide details of the accident. When this is eventually accomplished, a number of different scenarios cause further delays. These maybe summarised as:

1. A statement being provided to indicate that the "negligent" party is not at fault. An investigation is therefore required and is often more time consuming due to the passage of time.

2. The vehicle may have been on loan and the driver has to be located, checks must be done at the revenue office to determine the validity of the driver's licence……very time consuming.

3. The Insured may be the owner of multiple vehicles (in the case in the Public Passenger Vehicle sector) and was unaware of the accident because it was not reported by the driver of the particular vehicle. The driver, after the accident,

has left the employment of the Insured and has to be located…. but the investigation must proceed…….very frustrating and time consuming.

The non-reporting of accidents for whatever reasons especially those involving multiple ownership, is the cause of much reputational damage to insurers. Steps have therefore been taken, in these cases, to withdraw invitations to renew as a means of eliminating moral hazards or undesirable policy holders.

These situations all contribute to delays in settling third party claims which understandably create the impression that insurers are not interested in settling claims and to use two familiar “street” expressions, “only want to tek people money and nu pay claim” or “dem a tief”. These sentiments however, are removed from the practical challenges with which Insurers and Investigators have to contend.

In spite of the volume of claims to which reference has been made, Insurers are very conscious of these sentiments and do stress and endeavour to improve the management of claims. The reality is that, except for minor incidents such as wind screen damage, every other type of claim must be investigated (the only consideration is, to what level). Further, these investigations are often protracted because in providing a statement, each party gives a statement to suggest that the other party is at fault.

There are also increasing incidents of fraudulent claims which involve staged accidents; same vehicle involved in multiple accidents and or theft; vehicles with different registration numbers but with duplicate chassis number and there are also ownership issues. Interestingly, certain areas of the country are now exhibiting certain trends in claims which require forensic investigations.

Bodily injury claims as a general rule takes time to settle except for minor bruises or injuries which are considered innocuous; these are easily assessed. Other types of injury are often the subject of negotiations with Attorneys or damages are assessed by the Courts. Every claimant, at Common Law, is entitled to receive compensation for injury and the policy holder, expects his/her policy to respond positively to substantiated claims of negligence.

Information on aggregates of personal injury claims/awards arising from road accidents are not readily available but we do know that such claims are increasing. Our society is becoming more aware of its legal rights and this awareness is aided by the aggressive and novel ways in which some of the legal fraternity are marketing their services to victims of accidents.

On the subject of legislation, the Motor Vehicle Insurance (third party risks) Law is the legal frame work within which motor insurance is practiced. One of the provisions of the Law or Act is that the limits for claims arising from personal injury must be no less than J$1 million any one claim subject to a maximum of J$3 million any series of claims arising from any one event. In respect of property damage, the limit is J$500,000/J$1,000,000.

These limits are in need of revision because they do not align with the reality of the macro socio/economic environment. In fact, the limits are so unrealistic that it is not recommended by practitioners and very few Insurers offer “ACT” policies.

I submit also that anachronistic exclusions in motor policies be reviewed. Reference is made specifically to the exclusion, under Section 11 of the policy (third party liability), that compensation is not available for injury and or death sustained arising out of and during the course of one’s employment unless injury and or death arises whilst in pursuant to a contract of employment.

This exclusion arose in the UK where Employers Liability insurance along with motor insurance is compulsory and in order to differentiate the liabilities, Employers liability was removed from the province of the Motor policy. However, this separation has been the cause of many disputes whenever an accident occurs. Was the injured party in pursuant to a contract or was the accident the result of a person’s employment?

The outcome of these disputes and with membership in the European Union, this exclusion under Section 2 of the motor policy has been deleted and therefore is no longer applicable in the UK. However, local Insurers' continue to have this exclusion. It is time is we modernise our policy coverage in a manner similar to making policies more reader friendly.