

## LOCAL

### DOFIs to play by home rules

After much delay the Federal Government has ruled it will put direct offshore foreign insurers (DOFIs) under the same scrutiny as local insurers.

DOFIs will have to adhere to Australia's strict regulation and capital requirements, but discretionary mutual funds (DMFs) have not attracted the same attention.

Assistant Treasurer Peter Dutton says the Government will subject DMFs to a rigorous and compulsory three-year data collection regime to better understand their use and operation and to ascertain if they should be prudentially regulated.

Mr Dutton says the new measures are designed to deal with any risk arising from unscrupulous or failed DOFIs.

"While Australia always welcomes well-capitalised and well-managed foreign insurers, we will now insist that they be subject to the same rules as Australian insurers."

DOFIs will be regulated by the Australian Prudential Regulation Authority (APRA). Holders of an Australian financial services licence (AFSL) will be required to deal in authorised general insurance products, with limited exceptions. AFSL holders will also need to supply data on any dealing in DOFI and DMF products. [See REGULATORY]

Insurance brokers have welcomed the move, sort of. NIBA is concerned about local insurers' ability to remain price-competitive and be willing to handle hard-to-place risks when the market hardens.

NIBA CEO Noel Pettersen says while the decision to regulate DOFIs will help to drive shonky foreign insurers out of the market, "our concern is that many of the foreign insurers who have sold their products into the Australian market through brokers are large and reputable companies providing a valuable service".

He says the last time the market went super hard, in 2001, local insurers "restricted the availability of some specialist cover or made it prohibitively expensive".

"The only way some people could access the insurance they needed was through DOFIs," he told *Sunrise Exchange News*.

There will be exemptions, however, and NIBA is expected to battle hard to keep them good and wide. Mr Pettersen says the Government "has indicated a willingness to work with NIBA and other parties to establish a realistic system".

He also queried the Government's intention to have the legislation in force by July 1 2008. "The APRA licensing system is complex and time-consuming, and we doubt if that deadline will be achieved."

Insurance Council of Australia GM Communications Paul Giles told *Sunrise Exchange News* the industry believes "it is important for all insurers to be regulated in the same manner".

"The Insurance Council looks forward to working with the Government on how the exemptions will pan out."

### Apologies all round as AAMI drops ad

Direct insurer AAMI has discovered the intermediated market and found its practitioners bite when disturbed. Last week's *Sunrise Exchange News* revealed that AAMI has been running radio advertisements pitched at SMEs which say: "There's no middleman, no little broker, getting his fat little paws on your business."

NIBA CEO Noel Pettersen had already contacted AAMI to demand the ad's withdrawal, but wouldn't have been encouraged by AAMI Business Insurance National Manager Ian Badger telling *Sunrise Exchange News* he didn't regard the ad as provocative. "That's how it was intended to be when it was recorded."

Obviously someone further up the ladder in new owner Suncorp wasn't so relaxed. The following day Mr Pettersen reported to NIBA members that the ad had been pulled, with AAMI Marketing and Corporate Affairs GM Ron Arnold saying the language used was "unfortunate and it was certainly not our intention to malign any part of the insurance industry".

This was followed by a letter to brokers from Suncorp Commercial Insurance Group Executive Mark Milliner, who advised that AAMI "has refined its review process to prevent any other content errors occurring in the future".

"Brokers are important and valued customers of Suncorp's commercial insurance businesses – Suncorp, GIO and Vero," he said. "I would like to apologise for any offence the advertisement may have caused."

### **Car thieves immobilised**

Car thefts have halved in the past six years due mainly to the spread of vehicle immobilisers, according to a new study.

The report for the National Motor Vehicle Theft Reduction Council says the number of car thefts between 2000 and 2006 fell from 127,141 to 64,050. About 70% of stolen vehicles didn't have immobilisers.

But thieves are still finding ways of getting around car immobilisers, as 23% of thefts involved cars fitted with an Australian Standards-approved device. More than half of all registered vehicles – and more than 80% of cars less than 10 years old – are fitted with an immobiliser.

The report says vehicles with an approved immobiliser are more than three times less likely to be stolen than those without. Immobilisers not meeting the standard only reduced the risk by about half.

And it appears non-approved immobilisers may be worse than no immobiliser at all – they're more likely to be stolen than cars with no system at all.

### **Allianz praises nanotechnology plan**

Allianz Australia is leading the applause for the Federal Government's new plan to develop a \$21.5 million National Nanotechnology Strategy. It is hoped the strategy will help establish a regulatory framework for the development of nanotechnology applications.

Allianz Australia – whose parent company has been taking a deep interest for several years in the risks associated with nanotechnology – has congratulated the Government on its "forward-looking" approach.

GM Corporate Affairs Nicholas Scofield says transformation of the economy and society brought about by nanotechnology in the 21st century will match the industrial revolution in the 19th century and the IT revolution in the 20th.

Allianz and the OECD have produced a joint report on nanotechnologies which forecast sales of nanotechnology products will rise from less than 0.1% of global manufacturing output in 2005 to 15% in 2014.

The report found much uncertainty about risks associated with nanotechnology and said it will take years for studies of the effects on human health and the environment to reach conclusive results.

Mr Scofield says it is important to determine how underwriters and risk engineers should deal with critical issues such as direct exposure to nanoparticles or their release into the environment.

"The Government's nanotechnology strategy will put in place the underpinnings for the research that is needed into the health and environmental effects of nanotechnologies."

## Insurance help for SME exports

The Federal Government is offering insurance and other financial services to small businesses to help them sell their wares overseas.

Announcing an extension of Export Finance and Insurance Corporation (EFIC) powers, Trade Minister Warren Truss says SMEs will have access to funding, insurance and funding performance guarantees to help them establish supply and distribution chains.

Mr Truss says Australian and foreign financial institutions are often unwilling to take the risk of bankrolling the overseas expansion of smaller businesses.

“The expansion of EFIC’s mandate will require changes to the EFIC Act,” he said. “The process to change EFIC’s legislation will commence shortly.”

## Engineering standard gets the nod

Members of Engineers Australia have greater protection from costly liability suits after the organisation’s professional standards were recognised under Commonwealth legislation.

The Engineers Australia (NSW) Professional Standards Scheme holds members to strict standards of professional development, risk management and handling of customer complaints. In return, members have their civil liabilities capped under relevant state and federal legislation.

Members of the Engineers Australia scheme must take out public liability and professional indemnity (PI) insurance approved by the organisation’s national council of at least \$1 million.

Federal Revenue Minister Peter Dutton says professional standard schemes are helping to keep PI insurance affordable. “Keeping professional indemnity premiums affordable is essential to ensuring business and the community can access the professional services they need,” he said.

## CORPORATE

### Stardex extends ties with Axis Specialty Europe

Sydney-based underwriting agency group Stardex Insurance Group has extended its contract with Axis Specialty Europe until June 30 2010.

Stardex Insurance Group comprises six underwriting agencies: Dexta Corporation, MB Insurance Group, Agricola Underwriting Management, Pacific Underwriting, Macquarie Underwriting and SLE Worldwide Australia.

Stardex CEO Bob Lee says Axis Specialty Europe is a financially strong, growing company willing to support the underwriting group as it continues to expand its specialty product range.

“It’s unusual for underwriting agencies to have certainty over their security for much longer than 12 months at a time,” he said.

Parent company Axis Capital Holdings provides specialty insurance and reinsurance globally and is headquartered in Bermuda, with offices in the US, the UK, Ireland, Switzerland and Singapore.

### New medical insurer on Victorian scene

Victoria is set to lose and gain a medical indemnity insurer, with the forthcoming merger of market leaders United Medical Protection and the Medical Defence Association and the arrival of Invivo.

While the two merging companies are seeking approval for the move from the Federal Court this week, Invivo has signalled its intention to add Victorian market share to its NSW and Queensland holdings.

Invivo, which is partly owned by QBE, offers medical indemnity cover to doctors using a risk-based system, whereas its larger rivals calculate premiums by the number of patients seen.

The Victorian medical indemnity market is worth about \$300 million a year.

## REGULATORY

### APRA tailors framework for DOFIs

APRA will modify its regulatory framework following the addition last week of DOFIs to its responsibilities.

As noted in Local News, the Government's proposed amendments to the Insurance Act mean DOFIs will have to be authorised by APRA to carry on business in Australia.

APRA says "the Insurance Act will apply to DOFIs, including 'captives', foreign insurers and foreign reinsurers operating in Australia as APRA-authorized branches or subsidiaries, domestic insurers and domestic reinsurers".

The regulator's existing enforcement powers will be enhanced to enable investigation of breaches, and those who offend will be liable for prosecution.

Limited exemptions will apply to enable Australia's largest businesses and those unable to obtain appropriate cover domestically to retain access to international insurance markets.

APRA says exemptions will also be available for "specialised risks that cannot be underwritten in Australia" – a clause likely to cause plenty of debate in the future – but the prudential requirements for Lloyd's underwriters will not change.

It will refine its prudential standards so that categories of insurers with lower risk profiles will have less extensive prudential requirements.

Insurers may have different risk profiles arising from factors such as customer base, home regulatory environment, ownership structure, reinsurance arrangements and type of business offered.

APRA will review in particular its prudential standards relating to capital requirements, including recognition of reinsurance,

reporting requirements and some aspects of risk management.

One of the options for DOFIs that want to be authorised will be to establish a branch operation in Australia. Requirements for branches are already dealt with in the prudential standards and in some respects are less stringent than for companies.

APRA will soon publish a discussion paper on its prudential approach, and a second round of consultation on draft prudential standards will take place at the end of this year.

### ASIC may offer relief to not-for-profits

The Australian Securities and Investments Commission (ASIC) is seeking submissions on proposals to offer exemptions for some entities that arrange group insurance, such as sporting and community associations.

Given the role of certain kinds of insurance arrangers, the corporate regulator says strict compliance might be "disproportionately burdensome" due to the cost of holding an Australian financial services licence and registering a managed investment scheme.

It is seeking feedback on whether there should be exemptions from certain licensing provisions of the Corporations Act.

ASIC says when group purchasing entities are small industry bodies or not-for-profit associations it may not be economical for them to obtain a licence or register a managed investment scheme.

Without relief, insurance costs for consumers may increase and there may be less availability of cover for consumers.

Government and regulation expert John Hanks told *Sunrise Exchange News* exemptions will be good news for sporting and not-for-profit groups.

"If they won't be required to obtain an AFS licence then it's good news, but we'll need to check whether it's appropriate and find out if there are any conditions."

## INTERNATIONAL

### Premiums fall in North America

Property insurance rose but all other classes of cover fell in the latest survey on insurance trends in North America by the Risk and Insurance Management Society (RIMS).

The 2006 RIMS benchmark survey, based on responses by 1200 corporate risk managers in the US and Canada, found property insurance rates rose 0.8% from the fourth quarter of 2006 to the first quarter of 2007.

The rest of the market continued to soften, with directors' and officers' indemnity falling 7.7%, workers' compensation down 3.8% and general liability down 0.8%. Rates for the entire risk market in North America were down 9.2%.

David Bradford, editor-in-chief of survey producer Advisen, says the market is being driven by simple fundamentals. "Falling insurance costs continue to be driven by rapidly accumulating policyholders' surplus – the measure of 'supply' in the insurance 'supply and demand' equation.

"The insurance industry recorded a profit in 2005 in spite of record catastrophe losses, which further fuelled competition in 2006, leading to a sharp decrease in the total cost of risk."

Mr Bradford says that without unusually severe natural catastrophe losses, "accumulating surplus should continue to exert downward pressure on insurance costs in 2007".

### Willis rejects commission scheme

US-based broker Willis has rejected a revised contingency commissions scheme, saying any system that rewards brokers for placing business with an underwriter is tainted.

An incentive plan backed by Travelers Companies and Chubb Corp was put to the main brokerage firms this year, allowing

brokers to accept fees in a similar way to contingency commissions.

Under settlements reached with then New York Attorney-General Eliot Spitzer in 2005 and 2006, Willis, Marsh & McLennan and Aon are barred from accepting contingency payments.

Fines of more than \$US2 billion (\$3.5 billion) were paid by brokers in Mr Spitzer's blitz on contingency commissions last year. Marsh & McLennan alone settled for \$US850 million (\$1.03 billion).

Travelers and Chubb argue their proposal is legal under the agreements reached with Mr Spitzer, but Willis Chairman and CEO Joe Plumeri says the company will not accept the incentives arrangements.

Marsh & McLennan and Aon have yet to comment.

### FSA review calls for improvements

UK regulator the Financial Services Authority (FSA) has been told to lift its game. A performance review by the National Audit Office says the FSA needs to do more to streamline its structure.

Last year the UK Government asked its auditors to review the economy, efficiency and effectiveness with which the FSA has used its resources in five areas of operation.

The review concludes the FSA has "done well" in managing the merger from 11 regulatory bodies, but says it needs to streamline its structure, monitor costs and communicate more with stakeholders about its work in Europe.

"It must do more to demonstrate its impact, to get a clearer understanding of how much its different activities cost, and, crucially, to streamline its processes and advice to benefit industry and consumers."

The review also wants the FSA to use the growing co-operation among the regulators of the world's leading financial centres to supervise multinational financial institutions.

### Reinsurer changes gear for shareholders

Munich Re has recorded a €982 million (\$1.62 billion) first-quarter profit, but plans to do a lot more to please its shareholders.

CEO Nicholas von Bomhard says a new Munich Re program called “Changing Gear” will spend more than €5 billion (\$8.29 billion) over the next few years in share buy-backs and increase dividend payments.

Even an indicated full-year profit of up to €3.2 (\$5.31 billion) won't be enough for Mr von Bomhard. Over the next three years he plans to increase earnings per share by more than 10% a year.

“To this end, processes and structures will be streamlined so that opportunities for profitable growth can be exploited more decisively,” he said. “Changing Gear is our response to the challenges and opportunities in our market, the global market of risks.

“Munich Re wants to be the most profitable reinsurer worldwide. As a primary insurer, we intend to exploit business segments and markets with major growth potential, particularly abroad.”

Mr von Bomhard says Munich Re braced for a €600 million (\$990 million) one-off hit from winter storm Kyrill in Europe, but the losses were lower than expected. Total losses in the first three months were €450 million (\$742 million) before tax, with €390 million (\$643 million) in reinsurance and about €60 million (\$99 million) in primary insurance.

Gross written premiums were steady at €10.2 billion (\$16.8 billion).

### Euro consumers pay through the nose

A lack of competition means Europeans pay more for insurance and other financial services, according to regulators.

The European Commission says just 1% of nearly 500 million people use a foreign insurer, bank or investment manager, and

price variations for financial services across the European Union (EU) are an example of inadequate competition.

The EU, which is encouraging international insurers and banks to operate in Europe, has issued a policy paper on streamlining consumer protection rules, revising regulations and creating generic bank accounts available across the EU.

The commission is also looking at tearing down tariffs and other forms of protection in the financial services market by looking at commonly applied national laws for insurance policies.

### FINANCIAL SERVICES

#### \$36 million bid for Finsia

The Financial Services Institute of Australasia (Finsia) has reached an agreement to sell its education business for \$36 million.

The buyer, New York-based Kaplan, is a global provider of tertiary education and professional qualifications.

Finsia was formed by the successful 2005 merger of the Securities Institute of Australia and the Australasian Institute of Banking and Finance. It has more than 20,000 members and 19,000 students.

The deal is subject to the vote of Finsia members and is expected to be finalised in six to eight weeks. The business will be re-branded as Kaplan.

Finsia says the sale will “unlock capital and human resources” to upgrade and extend its membership services.

President Michael Shepherd says the board embarked on a strategic review of Finsia late last year, and concluded that the capital and resources required for maintaining accreditation and developing and marketing new courses “would be better applied to a wider range of services for members and representing them in matters of policy and public interest”.

## Financial services behind tech eight-ball

Australia's financial services sector is falling behind in the technology stakes, with unanswered emails and a failure to engage customers online among the industry's main flaws, according to a new study.

Technology firm Talisma says it has found more than half of all emails to financial services companies receive no reply, and only 5% of companies offer a self-service function over the web.

The survey of Australia's top 43 financial services entities found that only 42% answered emails within 24 hours. Phone services "lacked personalisation" and none of the companies had online assistance or chat features.

## PEOPLE

### McGrath prepares for another HIH coup

They say the wheels of justice grind slow, but they grind exceedingly small. More than six years after HIH went under, creditors may be very close to seeing how true this adage is.

It's more than five years since HIH liquidator Tony McGrath launched a lawsuit against the failed insurer's auditor, Arthur Andersen, and Mr McGrath is close to settling the action.

The payout is expected to be more than \$50 million – money that will go straight to HIH creditors.

Last week *Sunrise Exchange News* reported on a civil action against former HIH director Rodney Adler by 2777 shareholders who lost a combined \$65 million when HIH collapsed.

Mr McGrath is doing his bit for creditors left high and dry by the HIH collapse. This is his sixth year spent cleaning up the HIH mess, and no matter how complicated the various court cases have been he has handled them all deftly.

As Chairman of McGrath Nicol & Partners he has acted as liquidator for not only HIH

Insurance and FAI Insurance but also dozens of subsidiary companies since the insurer's \$5.3 billion collapse in 2001.

Last week NSW Supreme Court Judge Reg Barrett agreed to close the court to prevent details of the liquidator's strategy becoming available to defendants in future cases.

There are 180 former partners of Arthur Andersen's Australian operations who are understood to have held regular meetings for several years about how and when they should settle with the liquidator.

Last year Mr McGrath told the NSW Supreme Court he was concerned about a potential conflict of interest wearing two hats as liquidator of both FAI Insurance and FAI General Insurance.

The reason why he did this was because he was set to sue the top three executives of FAI Insurance and several of the insurer's advisers. These included former FAI executives Rodney Adler, Daniel Wilkie and Tim Mainprize.

His ability to handle high-profile legal battles has come from years of experience. As head of KPMG's Canberra corporate recovery unit, he was involved in the amalgamation of several NSW clubs badly hit by Victoria's decision to allow poker machines.

He also rescued the Canberra Cannons basketball team in 1998 and dealt with the collapse of NSW gay market specialist the Satellite Group in 2000.

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