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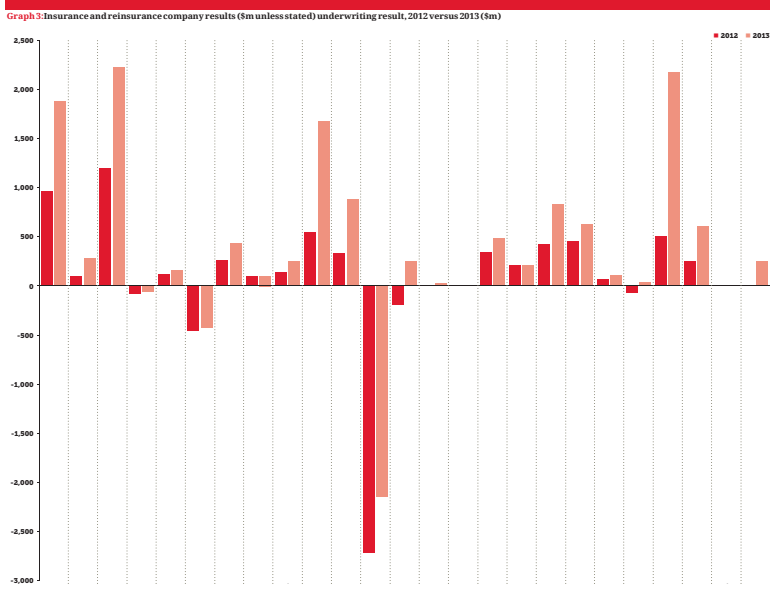

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Flood claims continue to surge as political blame game intensifies

With the Thames at record levels and the prospect of more flooding in the south of England, the political battle over who to blame is gathering speed, while claims are steadily rising

Scott Vincent
Deputy editor

Flood and storm claims are continuing to surge in the worst-affected regions of the UK with the River Thames at record levels and a political blame game beginning to emerge.

The Environment Agency has 14 severe flood warnings in place for areas close to the Thames in Berkshire and Surrey, with a further two in Somerset, which has been at the centre of the political debate over flood response.

Environment Agency chairman, Chris Smith, has found himself in the firing line in recent days over the response to the flooding, which has followed unprecedented January rainfall in the UK.

Milan Simic, managing director at AIR Worldwide, told *Insurance Day* January's rainfall was equivalent to the UK's total rainfall for the summer months of 2013.

"We had only around 160 mm in June, July and August. This is considerably below the long-term average – the 30-year average is for around 210 mm during those three months," he said.

"In contrast, December was the sixth-wettest on record. Last month was the wettest January on record.

"Preliminary estimates show 160 mm of rain in January – this is almost twice the long-term average for January and, from an insurance perspective, has led to a large number of claims."

The scale of claims in not comparable to the record-breaking $2.7m flood bill the UK insurance sector paid out in 2007, but low-level attritional losses are affecting insurance companies. These losses are starting to mount – the Association of British Insurers estimated storm and flood damage between December 23 and January 8 cost insurers £426m ($699m). Including January's flood damage, PricewaterhouseCoopers expects this bill to rise to £500m, with claims still flooding in.

Loss adjuster GAB Robins reported another surge in claims at the weekend, with the largest flood claims volumes reported in Stevenage, Cambridge, Reading, Hemel Hempstead and Plymouth.

Much of the media coverage to date has focused on flooding of the Somerset Levels, a relatively sparsely populated area of the south-west county.

According to Simic, this area has flooded a number of times in the past.

"In our models, we found the Somerset Levels to be an area of very high flood risk," he said. "The rates any insured would have to pay in that area are very high."

Insurers have yet to be drawn fully into the blame game emerging over the response to the floods, though the event has provided an opportunity for interest groups to harness the media spotlight on flooding and voice views on the proposed Flood Re scheme for high-risk properties.

The British Property Federation is one example, this week voicing its concerns Flood Re will not cover leasehold flats, small- to medium-sized businesses and private rented properties.

Political pressure over the response to the flooding has led to infighting between government figures, with communities minister, Eric Pickles, forced to field questions in the House of Commons as to why lessons have not been learned from past storms.

"The nature of these storms has been so dramatic, widespread and all-encompassing this government is determined not to flunk the mistakes of the past," he said. "This set of storms has been a big wake-up call, not just for the government and the Environment Agency, but for the country as a whole, and we do need to make some judgments as to where we need to put defences."

Water overflowing from the River Thames floods a house at Wraysbury, Berkshire
© 2014/Sang Tan/AP

NEWS

Catlin hails non-London hubs for delivering reward for patient growth

Group chief executive said he can he see no reason why growth should not continue across international hubs

Scott Vincent
Deputy editor

Stephen Catlin hailed a surge in underwriting profitability across Catlin Group's non-London hubs after the group wrote more than 50% of gross premiums outside London during 2013.

Speaking to *Insurance Day* following announcement of pre-tax profits of $432m for 2013, Catlin said the insurer is seeing international opportunities that will not come to London through its international network of offices.

"One example is US casualty. We've seen pricing increases now for two years in a row. That portfolio was underpriced. It is business you would not see in London and a good example of the opportunities that arise from establishing the hubs," he said.

Catlin Group has been at the forefront of the London market's international expansion during the past decade, establishing local offices in jurisdictions across the world in a bid to attract business that would not necessarily reach London.

"I've been wanting to tell this story for some time now. Building out these businesses takes time, hard work and determination. We've seen growth in gross written premium across all hubs. We can see no reason why that would stop going forward," he said.

In Europe, gross written premiums were up 22% to $540m, while in Asia-Pacific gross premiums rose 17% to $373m. Catlin Canada saw 14% growth to $132m.

"Asia-Pacific is an enormous region for us now. We've just opened an office in Dubai that also reports to our Singapore business. Singapore is doing well. We still write close to 25% of Lloyd's Asia, just as Catlin.

"We see opportunities in China, India, Indonesia, Vietnam, Malaysia and Thailand. All of those markets will be a lot bigger in five years."

He said the key to success in these markets is to not hunt large volumes of premium before relationships are in place.

"The way we look at it, it is important first to dip your toe in the water, then get your feet under the table and learn the market through building relationships. But at this stage, it is important not to write too much business and not to write for volume until you get those relationships right," he said.

"The way we look at it, it is important first to dip your toe in the water, then get your feet under the table and learn the market through building relationships. But at this stage, it is important not to write too much business and not to write for volume until you get those relationships right"

Stephen Catlin
Catlin Group

Operations outside London help group grow profit 27%

Bermuda-based Catlin Group saw a 27% increase in pre-tax profit to $432m, citing underwriting discipline and an investment in operations outside the London market as drivers, *writes Stuart Collins.*

$432m
Catlin's pre-tax profit for the year

85.6%
Catlin's combined ratio for the year

The insurer and reinsurer reported an underwriting profit of $1bn in 2013 compared with $788m in 2012, while its combined ratio improved to 85.6% in 2013 from 90% in 2012.

Stephen Catlin, chief executive of Catlin Group, said: "Catlin's net underwriting contribution exceeded $1bn for the first time in 2013 because of our steadfast focus on underwriting discipline and our investment in building underwriting hubs outside the London market." Gross premiums written were 7% higher in 2013 at $5.31bn, with a 16% increase in gross premiums written from non-London hubs.

Business written outside London accounted for 48% of the underwriting contribution in 2013, compared with 33% in 2012.

The increased profit was achieved despite a fall in investment income – the total investment return in 2013 was $135m compared with $173m in 2012.

"Catlin's net underwriting contribution exceeded $1bn for the first time in 2013 because of our steadfast focus on underwriting discipline and our investment in building underwriting hubs outside the London market"

Stephen Catlin
Catlin Group

Result beats analyst expectations

Catlin's pre-tax profit of $432m was considerably ahead of the $390m consensus among analysts, driven by the strong underwriting performance and the investment return turnaround, *writes Scott Vincent*.

Berenberg analyst Tom Carstairs said: "The dividend was in line with consensus expectations at 31p [51¢] a share, and while the outlook confirmed a competitive pricing environment in most lines, this would not have represented a surprise."

Espírito Santo analyst Sarah Lewandowski said Catlin's record underwriting contribution of $1bn benefited from an improvement in the combined ratio to 85.6%, compared with 90% in 2012.

$156m
Cat losses for Catlin in 2013, lower than the $225m losses of 2012, and one of the factors that contributed to the insurer outperforming analysts' expectations

"This was partially attributable to lower catastrophe losses – $156m compared with $225m in 2012 – but also an improvement on the attritional loss ratio of 50.1% from 50.6%, demonstrating a continued focus on disciplined underwriting," Lewandowski said. "The investment return was ahead of expectations, given mark-to-market losses that occured in the first half, and low bond yields in general," she added.

NEWS

Berlin causes more fear than Brussels for German brokers

In Brussels there are many issues being discussed that may affect insurance brokers' business such as the revision of the Markets in Financial Instruments Directive and the Insurance Mediation Directive

Friederike Krieger, Cologne
German correspondent

German brokers should fear regulation by the government in Berlin more than regulation from Brussels, Peter Wesselhoeft, managing partner at Hamburg-based broker Gossler, Gobert & Wolters and president of the German brokers' association Verband Deutscher Versicherungsmakler (VDVM), believes.

"I assume the main debate will take place in Berlin," he told *Insurance Day*.

In Brussels there are many issues being discussed that may affect insurance brokers' business such as the revision of Markets in Financial Instruments Directive (Mifid) and the Insurance Mediation Directive (IMD). However, Wesselhoeft is confident there will not be as many changes for the brokers' business model driven by Brussels.

In contrast to other countries such as the UK or the Netherlands, German brokers are still allowed to accept commissions from insurers for selling policies to their clients. There was a lot of anxiety among German brokers independent intermediaries will no longer be allowed to accept commissions from unit-linked insurance contracts under Mifid. "The issue of independent advice, which we regard as a structurally wrong approach, seems to be off the agenda, at least for the insurance industry," Wesselhoeft said.

However, Brussels is only striving for minimal harmonisation between EU member countries. "The individual member countries can impose more stringent criteria if they wish" he said.

The German government may, for example, revive the independent advice approach or demand hard disclosure rules regarding commissions. "Furthermore, there is the danger the government may be tempted to rush ahead before the revision of IMD2," Wesselhoeft said.

"We observe an increasing segmentation in industrial insurance. The problems we have been observing in the liability cover for doctors and hospitals for some time are now visible in other lines, too: for example, in property insurance for recycling companies we are seeing a real shortage of capacity for the second time now"

Peter Wesselhoeft
Verband Deutscher Versicherungsmakler

At the moment it is expected IMD2 will not come into effect until 2016. "But it is not foreseeable whether or not this time schedule will work out," he said, as up-to-date regulation tends to be delayed. "In this respect, IMD2 may also come into effect in 2017," Wesselhoeft said. There is the danger it will take too long and Berlin will impose its own regulation on intermediaries ahead of IMD2.

The brokers in the VDVM mainly deal with corporate clients. It is difficult for some industries to get cover from insurers. "We observe an increasing segmentation in industrial insurance," Wesselhoeft said. Many German insurers have withdrawn from liability cover for doctors and hospitals because of high claims and the long-tail business. "The problems we have been observing in the liability cover for doctors and hospitals for some time are now visible in other lines, too: for example, in property insurance for recycling companies we are seeing a real shortage of capacity for the second time now," he said. Many VDVM members have succeeded in finding adequate cover for their clients only with great difficulty.

European Commission: German brokers have more to fear from Berlin than Berlaymont, Wesselhoeft says

© European Community

Similar to professional indemnity cover for doctors and hospitals, there are high claims ratios in recycling. However, Wesselhoeft also blamed the behaviour of insurers, which search for profitable business areas by dividing groups of clients up into even smaller sectors. As a result, high losses in segments like recycling are not compensated by better-performing risks. "If the claims development is good, each insurer wants to enter the segment; if not, everybody abandons it," he said.

Wesselhoeft criticised the fact negotiations between brokers, clients and insurers are hardly possible any more, in the sense a recycling company may obtain insurance if it agrees to introduce more fire prevention measures in the next two to three years. "The problem is insurers' decisions have been increasingly centralised," he said. "The people who decide on site if a risk is covered or not have less flexibility than in the past."

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BIG INTERVIEW

'We run the club as if it were a fixed-premium insurer'

Although the TT Club is a mutual, the majority of its competitors are commercial insurers in the London market, global composite insurers or local insurers in different jurisdictions

Rasaad Jamie
Global markets editor

Transport Mutual Insurance Services Ltd (better known as the TT Club) is a provider of insurance and risk services to the transport and logistics industry. Managed by Thomas Miller, it is part of a stable of mutual insurers including the UK P&I, UK Defence, UK War and Hellenic War Risks Clubs. Although similar to other marine mutual insurance organisations such as the protection and indemnity (P&I) clubs, there are also a number of important differences.

Like the P&I clubs, TT Club provides insurance cover to its members on a mutual basis. But while the membership of the P&I clubs are mainly composed of shipowners or operators, the membership of the TT Club is significantly more diverse. In addition to the ship operators, the club also provides insurance cover to logistics operators; road, rail, air and sea freight operators; port authorities, container terminals; bulk facilities; cargo-handling facilities; container and equipment lessors; fixed operators and road hauliers; and since 2010 has also offered a cargo product. According to Charles Fenton, the TT Club's chief executive, the club insures 80% of the world's containers and has insurable interests in 30% of the world's ports.

Fenton says the profile of the club's membership changed over the course of a number of years. For example, when the TT Club was established in 1968 to address the need for a new kind of insurance cover in the shipping industry created by the growing phenomenon of containerisation, its membership was pretty much the same as that of the P&I clubs. "For the first five years, by far the major part of the club's membership was ship operators. But they started to extend their operations and began to run terminals and provide logistic and other services so the club evolved its range of covers and services in line with their extended activities. Of course, the membership gradually came to include non-shipping companies engaged in a single activity such as managing a port, a terminal or transporting goods inland."

Back in 1968, a particular risk-management challenge for ship operators, according to Andrew Kemp, the TT Club's regional director for Europe, the Middle East and Africa (EMEA), was to obtain adequate insurance cover for transporting sealed containers. Although containerisation – transporting cargo in a single steel box using several modes of transport – had been gaining momentum since the early 1950s, it only became clear by the middle of the 1960s it was not only there to stay but it would take off globally. "But a particular issue for the ship operators was the hull insurance market would not insure the containers as part of the hull, while the cargo insurance market would not insure them as part of the cargo." The P&I clubs, for their part, were not comfortable with having any exposure on land as the containers, once offloaded from the vessel, were transported further inland by road, rail or river.

Fundamental

Significantly, the TT Club is not a member of the International Group of P&I Clubs, whose members collectively cede their excess-of-loss reinsurance into a common pool and thereby obtain preferential rates and conditions from the international reinsurance markets.

According to Fenton, this sets the TT Club apart from the International Group of P&I clubs quite fundamentally. "We were founded from the P&I world by people who managed the clubs, so our model is broadly the same and our objective is the same as those clubs – to provide great service and the lowest sustainable price.

"We continue to be heavily involved with ship operators and in many ways they are at the heart of the club but, over the years, as the club has grown, we have focused our new business efforts on ports terminals and logistics. Shipowners were our founding patrons and the shipping industry is still very important to us.

"Of all the sectors we are involved with, ship operators in particular understand how the mutual model works, continue to value the service the club provides to them and are the market sector in which the club has a very large market share. But while the services we provide to our ship operator members continue to develop and while we hope to grow as the ship operators themselves grow, the bigger part of our future growth will come from the other sectors. So, in terms of the sorts of risks we write, we are now focused on property and liability risks on terminals, whether fixed or mobile, and on third-party liability risks for logistics operators."

Kemp says there has been a notable transformation in the risk portfolio of the TT Club. "In the early 1970s, we were focused on the physical loss of or damage to the container only. However, the product range has developed in line with the changing needs of the international transport and logistics market. A lot has changed since the 1970s when everything was pretty straightforward, with standard trading conditions that people respected. We have seen a big change in the legal frameworks and the responsibilities shippers are trying to transfer to transport and logistics operators. Consequently we are now providing a much wider range of covers, which also includes the cargo itself."

Anniversary

Despite responding to the changing needs of the industry, the TT Club, which celebrated its 45th anniversary last year, remains firmly attached to the principles of mutuality. "The majority of our business is written on a mutual basis although we do have a small number of risks that are written on a non-mutual basis," Fenton says.

He points out the service deliv-

Charles Fenton CV

Charles Fenton is the TT Club chief executive and responsible to the club's board for the operations and performance of the club. He has been in the position since March 2009, before which he was the deputy chief executive and chief operating officer.

Before joining the TT Club in May 2007, Fenton was chief operating officer in Thomas Miller's protection and indemnity business.

Fenton joined Thomas Miller in 1997 initially managing a claims team. Over the next few years, he undertook a variety of operational and management roles within Thomas Miller.

Fenton started his working life in the Royal Navy and upon leaving the Navy qualified as a solicitor before moving into claims handling in the mutual insurance world.

Fenton's time in the Royal Navy prepared him well for handling claims involving ships and transport generally. He has an MBA from Durham University, has undertaken several executive-level management courses and has a professional qualification as a solicitor.

ered to fixed-premium members is the same as that provided to mutual members.

"A key benefit that comes from being a mutual is we are not focused on creating profits for shareholders. Ours is a very different model that concentrates on building strong and enduring relationships with members, relationships that ensure we really understand how members' businesses operate, the challenges they face and enable us to tailor our service to directly benefit their businesses."

The TT Club does not make a supplementary call or charge (in addition to the annual subscription paid by its membership, the equivalent of a premium payment in the commercial insurance market) to replenish reserves in years when the loss experience is unexpectedly high.

According to Kemp, the club's position on supplementary calls was something that, in addition to the particular nature of the portfolio of risks written by the club, also evolved along with the change in the profile of the membership.

"When the club started out, a supplementary call was familiar to its ship operator membership. In those days it was acceptable to shipowners and regulators for clubs to run with less free reserve capacity to absorb losses. But when we expanded beyond ship operators to cover ports, road hauliers, stevedores, freight forwarders and warehouse operators, the approach to underwriting had to be familiar to those who had never experienced mutuality in their insurances.

"There was no way you could start talking to these guys about supplementary calls, because previously they only had the commercial market as an option. Anyhow, since those days mutual insurers have raised their levels of capital significantly and focus on maintaining balanced underwriting employing considerable actuarial and claims reserving expertise."

So while the TT Club is a mutual, the majority of its competitors are commercial insurers in the London market, global composite insurers or local insurers in the different jurisdictions. "There is not really one single competitor that offer all the products we provide and no-one seeks to compete with us on service. So, in different markets, our competitors would be different. This applies to products and geographies as well." Kemp says.

Financial strength

Not surprisingly, the TT Club's management is very focused on maintaining the financial strength of the club. Fenton says in terms of the financial benchmarks for the business, the main objective for him and his team is to maintain the club's A- (excellent) rating with AM Best. Indeed, AM Best rates the TT Club's capital position as equivalent to A++, the highest its capital adequacy scale. "What that means is our key financial measures, notably the combined ratio, has to be at a level that it does not reduce the club's capital base and also our free capital levels have to be high enough that we can absorb most shocks.

"For a long time now, the board's policy has been to run the club as if it were a fixed-premium insurer. So we have to meet all the standards required to do that, which means we get no credit at all from the rating agencies or regulators for being a mutual. We are considered by them to be a fixed-premium mutual. Which is fine by us because that's the board's vision too."

To maintain that vision, the TT Club relies on its risk-management and loss-prevention programmes, which Knud Pontoppidan, the club's chairman, describes as being at the heart of the club's proposition to its membership. Another measure to ensure the stability of the club's finances is the design of its reinsurance programme which, Fenton says, is the result of years of experience. "What we do is we design our reinsurance programme so we take out those claims that, although they rarely occur, could, if we paid them on a gross basis, threaten our stability. We make sure the level of our retained risks is comfortable to maintain year in and year out. We have long-term relationships with our reinsurers and they in turn take the trouble to understand the nature of the risks we write."

Following the membership

According to Fenton, whether the TT Club writes business on a mutual or a fixed-fee basis is not an issue for most members. "It is not a distinction our members have got a lot of time for, really. Our aim is to create a sense of belonging, of providing a service to our members and brokers irrespective of the basis on which we provide the cover."

However, there are those occasions when a member needs insurance cover to be provided on a non-mutual basis. "There could be regulatory reasons or, for example, the member may be in a contractual relationship with a port authority that stipulates the insurance issued is on a fixed-premium basis," Kemp says.

The idea the club's development should be based on the needs of its members, both geographically and through its product lines, is very important for the TT Club board. According to Kemp, the club has in many instances entered new geographical markets because members have wanted it to be there. "Quite simply, it could be a terminal operator building a new terminal somewhere. But it could also be they wanted us to insure their subcontractors or their agents in a geographical area where we have not had much of a presence before.

"Twenty years ago, that would have been the former Soviet Union. More recently, these regions tend be eastern Europe including the Balkan states. There is more demand from Africa. Our members want us to work with them. To provide them with the same protection we do in other territories. In this regard, we have had an office in China for the past 15 years and a network partner in Moscow for 21 years, so we have been in these places either at the behest of an existing member or through relationships with businesses who themselves channel business to us".

Indeed, the club has just added a network partner based in the Indian sub-continent. Until recently, claims from this region were handled from the TT Club's Dubai office.

The TT Club does not target emerging markets for their own sake, Fenton says. "We don't see those as major sources of new income. Our product line and value-added proposition is one that is best appreciated by a relatively sophisticated client base. For example, it is best suited for companies trading across international boundaries or undertaking operations which are very complex so that we can help them with the claims they face. We also require their home jurisdiction to be one that takes these claims seriously. Certain markets just don't understand the concept of liability."

Performance

The past two years have been good for the club, according to Fenton. In 2012, the TT Club generated a surplus or operating profit of $4.2m on a gross premium income of $182.3m. The only large claims were from the explosions on *MSC Flamini* in July and from hurricane Sandy in November. The combined ratio of 96% for the year was very much within the club's target range. "So those two events affected us, but because of the reinsurance arrangements we have in place, they put a relatively small number of points on the combined ratio." Fenton says. "[Last year], however, was a very good one with an unusually low number of large claims for the club."

The Christchurch earthquakes, the flooding in Queensland, and the earthquake and tsunami in Japan made 2011 a year that proved quite a bit tougher than previous ones for the club as it was hit by claims from members caught up in those catastrophic events, all of which served to inflate the club's combined ratio from the significantly lower levels in 2009 and 2010.

Commenting on 2011, Fenton says some, but not all, the big claims made it into the reinsurance layer. "So it meant we made some claims on reinsurers, which is not something we like to do. But the level of claims also meant our own profitability was affected. For us, they were big claims but they were not anywhere near the size of claims reported by some of the big reinsurance companies.

"So really all recent years have been pretty good for us. It is that they have either been by our standards very good or just good depending on those big claims. But I have to say, in the past four or five years in particular, we have maintained the stability demanded by the board. For us, the club's financial position is not an end in itself. It is a means to an end.

"The board wants the stability that comes with maintaining our financial strength rating so we can provide the claims handling and loss-prevention services to our members and their brokers. Growing the free reserves is, of course, helpful from a capital position, but it does not go to anyone, although were the capital position to become strong enough the board would consider some form of return of premium to members. From our members' perspective it is better we invest in the scope and quality of our service provision."■

Andrew Kemp CV

Andrew Kemp joined the TT Club in 1995 to open an office in Dubai, United Arab Emirates. Since then, he has spent time in London, Singapore and Hong Kong, where he was regional director, Asia-Pacific from 2006 to 2010.

In the summer of 2010 Kemp returned to London to become regional director for Europe, the Middle East and Africa.

Before joining the TT Club, Kemp worked as a cargo underwriter in London, Saudi Arabia, Bahrain and the UAE.

COMPANIES HOUSE

US majors deliver good results on

Our first tranche of full-year results from the international insurance and reinsurance industry focuses on the leading US primaries, most of which turned in a strong performance for 2013

Graham Village
Global markets editor

With an expected bill of $1.4bn from this year's extreme winter weather, US insurers will be doubly pleased the major loss experience was relatively mild in 2013. Full-year figures for the major US primaries reveal a consistent picture of improved underwriting performance and impressively low combined ratios.

Chubb

Chubb's net profit climbed to $2.35bn from $1.56bn on the back of a much stronger underwriting profit of $1.68bn, up from $548m, and higher realised gains. The group cut its combined ratio by 9.2 points to 86.1%, with natural catastrophes accounting for 3.4 points, down from 9.6 points. Net written premiums climbed 3% to $12.2bn fuelled by growth of 4% in the US, while revenue was flat abroad in dollar terms but up 2% in local currencies. The group is targeting premium growth of between 2% and 4% this year.

The personal lines division posted a combined ratio of 87% and net premiums of $4.3bn, a 5% increase. The commercial lines ratio was 86.5%, with net premiums up 2% to $5.3bn. Chubb Specialty's ratio was 84.3% and premiums 3% higher at $2.6bn. Ratios were lower for all three divisions than the 2012 comparables.

Chubb's 2013 net premium split was homeowners' 21.7%, professional liability 19%, commercial liability 13.4%, commercial property and marine 11.7%, commercial multi-peril 9.1%, workers' compensation 8.9%, personal motor 6%, other personal lines 7.6% and surety 2.6%.

The group expects to face losses of $150m to $200m from the freezing and winter storms that hit the US last month.

Graph 1: Chubb's 2013 net premium by business line

Hartford Financial Services

Hartford returned to profit in 2013, a year of transition for the company. Net profit totalled $176m compared with a loss of $38m in 2012, despite increased realised losses of $710m, up from $410m. The realised losses last year related principally to international variable annuity hedging programmes. The better overall performance was the result of lower catastrophic losses as well as improved margins in non-life commercial, personal lines and group benefits.

Cat losses for the year totalled $202m, reduced from $459m, but the group suffered from net unfavourable prior-year loss development of $125m, compared with a positive release of $3m.

Hartford placed its domestic and international annuity and life operations into a run-off unit, called Talcott Resolution. The sale of the retirement plan and individual life business in the first quarter of 2013 helped Talcott to contribute core profit of $164m for the year.

Group earned premium was split non-life 74.5%, group benefits 24.8% and Talcott Resolution 0.7%. Non-life premiums were down to $9.86bn from $9.89bn but the company's head, Liam McGee, said rates for standard commercial business had increased 8% during the last three months of the year for the sixth consecutive quarter.

Travelers

A big improvement in underwriting result enabled **Travelers** to post net profit of $3.67bn last year, up from $2.47bn in 2012. Investment income dipped to $2.72bn from $2.89bn because of lower reinvestment rates but underwriting activities more than made up for this, delivering a profit of $2.17bn, up from $507bn. The combined ratio was 7.3 points lower at 89.8%, owing to lower cat losses, contributing 5.7 points, and higher underwriting margins, offset in part by lower reserve releases.

Commercial lines brought increased underwriting profit of $936m, up from $252m. Net written premiums for the division reached a record high of $12.23bn, a 3% rise, on the back of stronger rating, good retention and a modest amount of new business. The financial, professional and international insurance division posted underwriting profit of $499m, up 4.8%, from net premiums of $3.31bn, an 11% increase, helped by better rates and reasonable retention. International premiums grew 67% in the last quarter, mainly because of the inclusion of recent acquisition, Canadian company Dominion.

Personal lines premium income fell 5% to $7.23bn owing to reduced new business, while premium levels and retention rates were broadly consistent with those of the previous year. The division's combined ratio was 13 points lower at 88.9%, mainly because of the reduced level of major losses.

Travelers: recent acquisition Dominion helped boost the company's international premiums 67% in the last quarter

A big improvement in underwriting result enabled Travelers to post net profit of $3.67bn last year, up from $2.47bn in 2012. Investment income dipped to $2.72bn from $2.89bn because of lower reinvestment rates but underwriting activities more than made up for this, delivering a profit of $2.17bn, up from $507bn

low losses

Table 1: Insurance and reinsurance company results ($m unless stated)

Company	Gross written premium		Net written premium		Net change (%)	Total expenses		Underwriting result		Combined ratio (%)	
	2012	2013	2012	2013	2013	2012	2013	2012	2013	2012	2013
Ace Ltd	21,593.0	22,828.0	16,075.0	17,025.0	5.9	‡14,716.0	‡14,733.0	961.0	1,880.0	93.9	88.0
Allied World	2,329.3	2,738.7	1,837.8	2,120.5	15.4	1,711.0	1,795.3	96.6	277.6	94.5	86.2
Allstate	27,027.0	28,164.0	*26,737.0	*27,618.0	*3.3	30,027.0	30,423.0	1,200.0	2,218.0	95.5	92.0
American Financial Group	–	–	*3,165.0	*3,318.0	*4.8	4,420.0	4,403.0	**(774.0)	**(599.0)	96.9	95.5
Aspen	2,583.3	2,646.7	2,246.9	2,299.7	2.4	‡1,238.5	‡1,223.7	118.7	158.0	94.3	92.6
Assurant	–	–	*7,237.0	*7,759.8	*7.2	7,750.5	8,258.0	**(453.2)	**(420.4)	††98.9	††97.9
Axis Capital	4,139.6	4,697.0	3,337.5	3,928.2	17.7	‡3,155.0	‡3,283.6	263.1	428.0	96.2	91.0
Baldwin & Lyons	341.3	369.5	233.7	253.7	8.6	215.5	236.1	**99.4	**102.0	88.0	91.2
Beazley	1,895.9	1,970.2	1,542.7	1,676.5	8.7	1,330.9	1,341.4	**136.7	**252.1	91.0	84.0
Chubb	–	–	11,870.0	12,224.0	3.0	‡11,290.0	‡10,391.0	548.0	1,675.0	95.3	86.1
Everest Re Gp	4,310.5	5,218.6	4,081.1	5,004.8	22.6	3,983.3	4,085.9	327.5	876.8	93.8	84.5
Genworth	–	–	*5,041.0	*5,148.0	*2.1	9,034.0	8,353.0	**(2,706.0)	**(2,144.0)	–	–
Hartford	–	–	*13,631.0	*13,226.0	*(3.0)	26,703.0	26,173.0	†(189.0)	†245.0	101.9	97.5
Horace Mann	–	–	*670.5	*690.9	*3.0	861.6	877.1	†9.6	†20.8	98.3	96.3
MGIC	–	–	1,017.8	923.5	(9.3)	2,307.0	1,085.6	–	–	–	–
PartnerRe	4,718.2	5,569.7	4,572.9	5,396.5	18.0	4,233.8	4,830.2	345.0	479.0	87.8	85.2
Platinum	569.7	579.8	565.0	567.1	0.4	399.7	392.8	212.2	206.7	62.5	62.7
Progressive	–	–	16,372.7	17,339.7	5.9	15,766.2	16,450.9	**427.1	**828.3	95.6	93.5
RenaissanceRe	1,551.6	1,605.4	1,102.7	1,204.0	9.2	657.5	539.5	451.5	626.7	57.8	43.8
RLI	784.8	843.2	593.1	666.3	12.3	526.9	540.9	63.6	106.8	89.0	83.1
Selective	2,006.6	2,177.4	1,666.9	1,810.2	8.6	1,696.5	1,759.9	(64.0)	38.8	104.0	97.8
Travelers	24,309.0	24,657.0	22,447.0	22,767.0	1.4	22,574.0	21,246.0	507.0	2,167.0	97.1	89.8
Validus	2,166.4	2,401.1	1,858.9	2,028.5	9.1	‡1,624.5	‡1,497.1	248.7	604.9	86.8	71.2
WR Berkley	5,779.9	6,511.1	4,898.5	5,500.2	12.3	5,121.6	5,709.7	–	–	97.2	95.1
XL Group	7,530.9	7,741.1	6,281.5	6,199.4	(1.3)	6,521.9	6,446.9	4.0	245.2	96.3	92.5

*net earned **net earned premiums less claims and underwriting expenses
‡losses and underwriting expenses
†non-life only ††domestic US
Source: Insurance Day/company announcements

Allstate

Allstate's underlying performance showed a strong improvement on the previous year but exceptional items held back the company, leading to a slight dip in net profit. Underwriting benefited from the relative lack of major losses to record profit of $2.22bn, up from $1.2bn. The combined ratio was 3.5 points better at 92%, with the underlying ratio broadly similar and the rest of the improvement attributable to the lower major losses.

Non-life premium income was split Allstate Brand 91%, direct insurer Esurance 4.7% and Encompass (other branded) 4.3%. In its core Allstate brand account, the group recorded premium growth of 3% but development was stronger in the other units. Esurance premiums were up 27.9% for the year and the Encompass account up 8.4%.

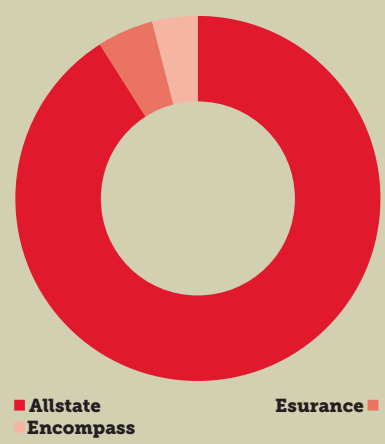
The Allstate brand motor account produced a combined ratio of 94.5%, offsetting combined ratios of 117.3% at Esurance and 104% at Encompass. The homeowners' account fared better, delivering a combined ratio of just 77.9%.

Allstate's net result included an estimated $521m loss on the pend-

Continued on p10 >>

Allstate: strong improvement on last year held back by exceptional items

Graph 2: Allstate 2013 non-life premium income by operation



COMPANIES HOUSE

Table 2: Insurance and reinsurance company results ($m unless stated)

Company	Investment income		Realised gains (losses)		Pre-tax result		Net result		Shareholders' funds	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Ace Ltd	2,181.0	2,144.0	78.0	504.0	2,976.0	4,238.0	2,706.0	3,758.0	27,531.0	28,825.0
Allied World	167.1	157.6	306.4	59.5	511.5	427.7	493.0	417.9	3,326.3	3,519.8
Allstate	4,010.0	3,943.0	327.0	594.0	3,306.0	3,396.0	2,306.0	2,263.0	20,580.0	21,480.0
American Financial Group	1,301.0	1,346.0	371.0	217.0	537.0	689.0	488.0	471.0	4,578.0	4,563.0
Aspen	204.9	186.4	*2.7	*38.3	295.4	342.7	280.4	329.3	3,488.4	3,349.6
Assurant	713.1	650.3	64.4	34.5	757.8	789.7	483.7	488.9	5,185.4	4,833.5
Axis Capital	381.0	409.3	127.5	75.6	550.5	734.5	495.0	683.9	5,779.8	5,868.0
Baldwin & Lyons	9.9	8.8	9.0	23.5	46.6	54.9	31.9	36.6	346.7	381.7
Beazley	82.6	43.3	(10.8)	(7.1)	251.2	313.5	214.6	264.0	1,204.5	1,338.7
Chubb	1,482.0	1,391.0	125.0	261.0	1,803.0	2,835.0	1,545.0	2,345.0	15,827.0	16,097.0
Everest Re Gp	600.2	548.5	164.4	300.2	939.5	1,555.0	829.0	1,259.4	6,733.5	6,968.3
Genworth	3,343.0	3,271.0	27.0	(37.0)	606.0	1,050.0	325.0	560.0	16,493.0	14,433.0
Hartford	8,591.0	9,423.0	(744.0)	507.0	(581.0)	63.0	(38.0)	176.0	22,447.0	18,905.0
Horace Mann	306.0	313.6	27.3	22.2	149.2	154.1	103.9	110.9	1,245.8	1,099.3
MGIC	121.6	80.7	197.7	6.1	(928.6)	(46.2)	(927.1)	(49.9)	196.9	744.5
PartnerRe	571.3	484.4	*493.4	*(160.7)	1,328.8	708.2	1,134.5	664.0	6,933.5	6,766.2
Platinum	100.0	72.1	88.9	23.9	352.2	258.0	327.2	223.3	1,894.5	1,746.7
Progressive	443.0	422.0	306.8	318.4	1,317.7	1,720.0	902.3	1,165.4	6,007.0	6,189.5
RenaissanceRe	165.7	208.0	*163.1	*35.1	766.8	841.0	566.0	665.7	3,507.1	3,904.4
RLI	58.8	52.8	25.4	22.0	142.7	175.7	103.4	126.5	796.4	829.0
Selective	131.9	134.6	9.0	20.7	37.6	143.8	38.0	106.4	1,090.6	1,153.9
Travelers	2,889.0	2,716.0	32.0	106.0	3,166.0	4,945.0	2,473.0	3,673.0	25,405.0	24,796.0
Validus	107.9	96.1	18.2	3.3	408.8	535.2	408.4	532.7	4,455.1	4,201.8
WR Berkley	586.8	544.3	201.5	127.6	701.9	698.9	510.6	499.9	4,306.2	4,336.0
XL Group	1,012.4	957.7	14.1	87.8	710.5	1,094.4	651.1	1,059.9	11,856.4	11,349.3

*realised and unrealised
Source: Insurance Day/company announcements

Continued from p9

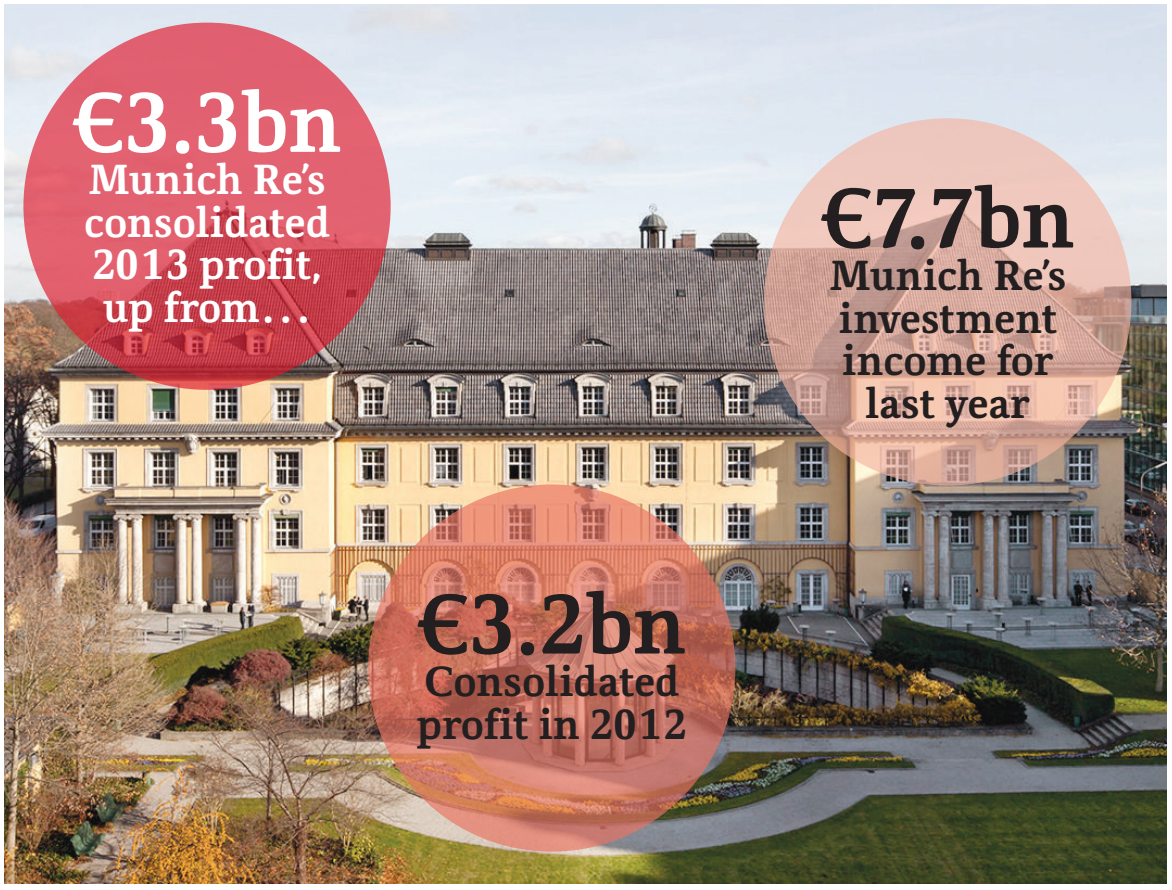
ing sale of Lincoln Benefit Life, a $319m loss on extinguishment of debt, $150m in settlement charges and a $118m gain related to post-retirement benefit offerings.

WR Berkley

Special lines writer **WR Berkley** recorded a 2.1% fall in net profit, at $499.9m, mostly owing to a fall in investment income and a big drop in realised investment gains, to $127.6m from $201.5m. The combined ratio improved 2.1 points to 95.1%. The group again posted favourable reserve development.

Gross premiums climbed 12.7% to $6.51bn, split domestic US insurance 73.8%, international insurance 13.8% and reinsurance 12.4%. All three divisions recorded premium growth and all posted improved combined ratios.

The group's chairman and chief executive, William R Berkley, said price increases continued to outpace loss cost trends, although rate rises in the fourth quarter were not as strong as in previous quarters.

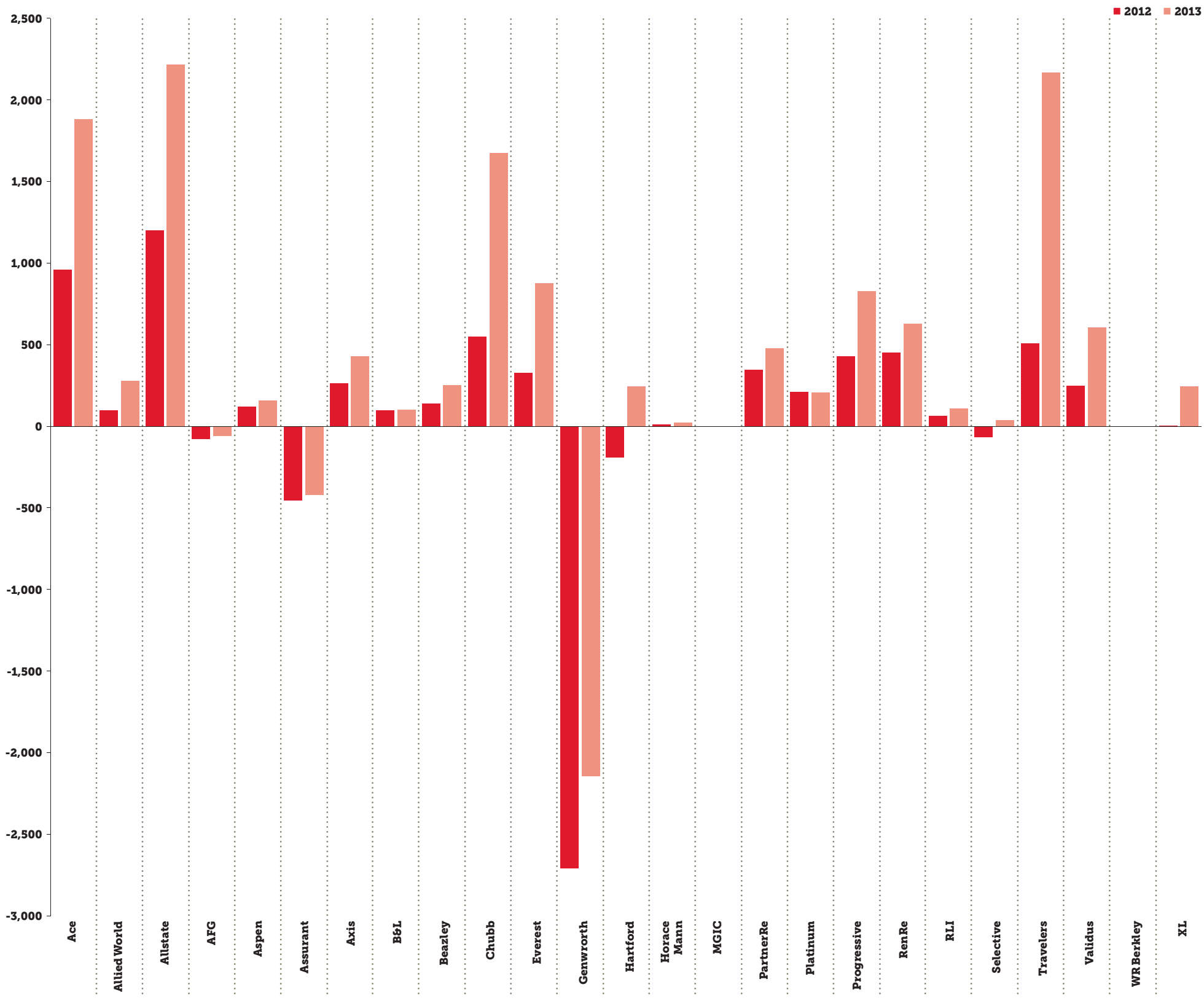


Munich Re

A strong final quarter enabled **Munich Re** to post increased consolidated profit of €3.3bn ($4.5bn) last year, up from €3.2bn the year before. The group benefited from a better underwriting performance and a lower tax bill, enabling it to offset a reduced investment return of €7.7bn, down from €8.4bn.

The group's core reinsurance account suffered natural cat losses of €764m and man-made major losses of €925m to give a total of €1.69bn, reduced from €1.8bn. The combined ratio was 1.1 percentage points higher at 92.1%. However, a lower investment return meant the division made a reduced contribution to the consolidated profit of €2.8bn, down from €3.1bn. Reinsurance gross premiums slipped 1.4% to €27.8bn. Munich Re reported strong competition in the

Graph 3: Insurance and reinsurance company results ($m unless stated) underwriting result, 2012 versus 2013 ($m)



market for January 2014 renewals. The group shed €1bn of premium for reasons of profitability but wrote €1.3bn of new business and altogether the volume of business was up 2.7% to about €9bn. The average price fell 1.5%.

Munich Re's primary operations cut their combined ratio 1.5 points to 97.2%. The division recorded a profit of €400m, up from €200m, despite a 20% fall in operating profit. Premiums fell 2.3% to €16.7bn. Munich Re Health posted a profit of €150m after the previous year's loss of €90m, partly owing to the restructuring of the US Medicare business. The sale of Windsor Health Group to WellCare Health Plans was completed in December.

The group's gross premium split by division was reinsurance 54.4%, primary insurance 32.7% and Munich Health 12.9%.

Other leading reinsurers have provided detail on how they fared in the January 1 renewal season. As usual, the reports of widespread and significant rate reductions the broking community have released do not chime exactly with what the reinsurers themselves report, although both Hannover Re and Scor acknowledged the impact of alternative capacity.

Scor

Scor upped non-life gross premiums by 5% at the January renewals following an 8% increase for the whole of 2013. The group wrote premiums of €3.4bn this January. Interestingly, Scor reported a fall in rating of just 0.2% overall, with upward variation on primary prices offsetting reductions in reinsurance. Continental reinsurers still rely heavily on proportional business, which has been less affected by the arrival of alternative capacity.

For standard non-life treaties, Scor reported a 6% increase in gross premium, with four percentage points related to the renewal of large quota-share contracts in Asia. That region now represents 19% of the account. For specialty treaties, Scor increased its account 4% at constant exchange rates, with two points related to Asia. Premiums for marine and energy were up 6% and engineering 4% higher.

Hannover Re

Hannover Re reported a 2% contraction in premium volume overall at January 1. Of its non-life treaty account with a total premium volume of €6.03bn, about two-thirds was up for renewal. The reinsurer shed €520m of business but picked up €401m from new or modified business and thanks to improved prices premiums from North America increased 5%.

In the German market, Hannover Re reported heavy competition, although loss experience prompted some rate increases in original business for motor own damage and homeowners' insurance. Overall, premiums from Germany fell 1%. In marine, the group benefited from the rate rises triggered by the *Costa Concordia* loss, leading to a 5% rise in premium for Hannover Re.

Hannover Re expects to post stable or slightly higher full-year premium income overall. It has budgeted €670m for major losses. ■

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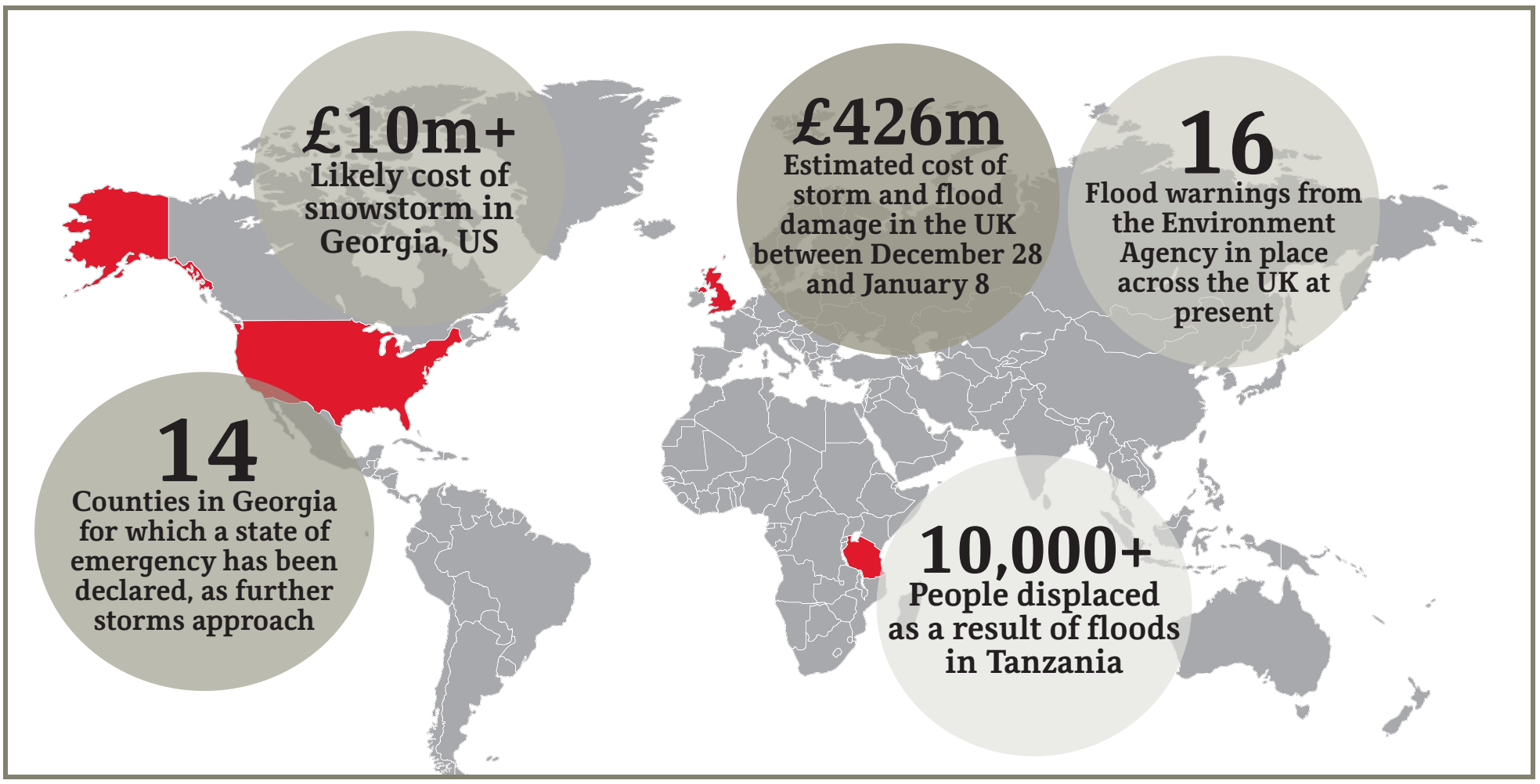
World Loss Intelligence



UK severe weather: Met Office calls for 'urgent research'

Stuart Collins
UK correspondent

Research is urgently needed to predict changes in winter storms and the possible contribution of climate change, according to the UK's Met Office.

However, climate models of sufficient resolution to capture storms are now becoming available and should be deployed as soon as possible to provide a solid evidence base for future investments in flood and coastal defences, it said in a new report, The recent storms and floods in the UK.

The series of winter storms that has battered the UK in recent months has been exceptional in its duration, leading to the wettest December and January since records began, according to the Met Office.

Extreme weather in both the UK and the US – which has suffered an unusually cold winter – are due to major changes in the position of the jet stream, the UK weather body said in the report. As yet, there is no definitive answer on the contribution of climate change to the recent storms, the Met Office said.

"Nevertheless, recent studies have suggested an increase in the intensity of Atlantic storms that take a more southerly track, typical of this winter's extreme weather. There is also an increasing body of evidence that shows extreme daily rainfall rates are becoming more intense and the rate of increase is consistent with what is expected from the fundamental physics of a warming world," it said.

Updates

Property

US severe weather: Georgia snowstorm to cost $10m+

US: Insured losses related to a snowstorm in Georgia on January 28 are likely to exceed $10m.

Georgia's insurance commissioner, Ralph Hudgens, said losses had now reached $10m, with a number of companies still to report back to the Georgia Department of Insurance on their expected bill.

Hudgens said the estimate included damage to insured homes and vehicles.

Lives and livelihoods

Tanzania floods: More than 10,000 people displaced, IFRC says

TANZANIA: January 21 saw heavy rains hit the Dumila/Dakawa area in Tanzania's Morogoro region.

According to the International Federation of Red Cross and Red Crescent Societies (IFRC), more than 10,000 people were displaced as a result of the ensuing flash floods.

The IFRC said emergency shelter is a critical need, while most of the affected villages have boreholes contaminated with floods and muddy water.

"The water has started to recede in some areas, but many vulnerable households will remain in need of emergency assistance for some months to come," the IFRC warned.