A RANGE of challenges means that underwriters must take a sterner line on pricing, according to a leading personality in the industry, *writes James Brewer.*

Restoring underwriting discipline is essential if the current soft market cycle is to flatten out, said AXA Corporate Solutions chief executive Jean-Paul Rignault.

Speaking at the close of a seminar in Bristol for clients and brokers arranged by the UK branch of the company, Mr Rignault said: "Clearly, we would like to avoid a sudden and tough wake-up situation as happened in 2000-2002, with another very hard market cycle.

"Stable and adequate rates will help everyone, not just underwriters but clients and brokers too."

Mr Rignault said the sub-prime mortgage financial crisis in the US was a "free warning" for insurers, being a clear reminder for those still motivated by cash-flow underwriting.

Some insurers' good performance over the past two years was achieved through substantial reserve releases, and this could not happen every year. He said the US "plague" of class actions was coming to Europe, witnessed by the planned introduction of such suits in France. Such changes should affect the adequate pricing of longtail liability exposures.

An initial consequence of the planned Solvency II regime would be an increase in the capital required to run the same business, even in highly-diversified insurance groups, but capital is a scarce resource.

Climate change will manifest itself through instances such as the recent UK floods, and pricing has to take this evolution into consideration.

Mr Rignault argued that insurance companies were not investing enough in research and development.

He referred to the launch of the AXA Research Fund by AXA Group chief executive Henri de Castries to help ensure that funding is available to pursue high-quality, independent academic research.

This €100m ($141m) fund will be chaired by Erza Suleiman, professor of political science at Princeton University in the US and an independent director of the AXA supervisory board.

Mr Rignault underlined the aim of AXA Corporate Solutions to expand its operations worldwide, as well as all lines of business within the framework of Ambition 2012 (a doubling of revenue and a tripling of income from 2004 figures).

He forecasts expansion beyond the UK and Europe, into the US, China, India, Vietnam, Korea, Ukraine and Poland.

Colour code approach to risk management

James Brewer

A SINGLE sheet of A4 paper with colour-coded bar charts is being used to give a critical insight into the risk management issues even at some of the biggest corporations.

One of the powerful organisations basing widespread analysis of its operations on this deceptively simple system is the Danish national oil company Dong, and similar reports are being studied hard in other leading boardrooms.

Since 2004, many commercial customers, underwriters and insurance brokers have been using the software-based Key Risk Ranking Indicator System developed by Charles Taylor Technical — part of the Charles Taylor insurance services group — which is widely recognised as a leader in areas including marine, construction, energy and aviation.

Originally developed for the onshore oil, gas and petrochemical sectors, the KRRIS system has just been relaunched and adapted to the needs of several more industries.

New ways of assessing the risks in major hazard locations are being borne of industry-wide lessons from disasters such as Piper Alpha — ascribed to failures in the control of maintenance and management systems.

While Piper Alpha, Philips Pasadena and more recently the Texas City refinery are notable examples, there are numerous cases which do not make the headlines but still result in major financial loss.

KRRIS aims to identify trouble that lies ahead, pinpointing areas that need urgent attention, says Charles Taylor Technical risk engineering consultant Doug Scott.

The service is based on a checklist of more than 130 risk factors, from earthquake to more mundane but critical concerns such as process and fire hazards, language and communication, shift changeover, maintenance planning, and fire equipment and foam.

The system summarises risk information on to a sheet of with colour-coded graphics so that clients can see at a glance where the main exposures lie in, say, a refinery, offshore facility, power station, construction project or a manufacturing plant, or across a group.

At Dong, the process consisted of short visits to each location and meeting key personnel. Reports based on the KRRIS format were produced for each site, allowing comparison across all the locations.

The reports generated recommendations which formed the basis of a risk management plan to develop what were seen as cost-effective, practical risk improvements. This helped the firm to determine which issues were best dealt with corporately and which ones to address at a local level.

"The KRRIS analysis gave us a risk management overview on issues such as fixed fire protection, procedures and controls, disaster recovery issues and emergency response plans," Dong Energy risk manager Jesper Bang Anderson said.

"At the same time we got a robust platform for future decisions on where and how to prioritise our effort — a process that would otherwise have taken much more time and effort."

New features include 'leading indicators' to identify the onset of conditions that could lead to a major incident.

The one-page approach makes it possible to see where the main exposures lie, but managers can dig into the detailed data as they need.

A benchmarking scorecard starts at zero (poor) and ranges to four (sound).

Several bespoke versions have been developed by Charles Taylor for clients. See the website www.krris.com for further details.

Making headlines: BP's Texas City refinery suffered huge financial loss. AP

service for contracts in hot demand

ANOTHER step has been taken tow[...] eliminating the "deal now, detail la[...] culture that has long dominated the L[...] don insurance market.

Many reinsurance contracts were m[...] with the terms and legal scope of [...] agreement being agreed upon sev[...] months later.

City law firm Reynolds Porter Cham[...]lain has been winning support for its [...] ReWord internet service, that allows r[...]surers to cut the time they spend chec[...] reinsurance contracts and that ident[...] legal risks.

ReWord is believed to be the first s[...]ice that allows reinsurers to make a [...]tematic review and comparison of [...] clauses in a contract and to obtain rela[...] legal commentary.

Launched at the end of 2006, ReWor[...] already being used by some of the lar[...] reinsurers, including, most recently, C[...]cier Re and Hiscox.

The law firm says that the cost savi[...] to reinsurers are significant in time sav[...] the avoidance of unnecessary litigati[...] and assisting pricing of risks.

Simon Kilgour, a partner in the fi[...] said: "Although the service is new, reins[...]ers are quickly seeing the benefits o[...] especially in terms of finalising contra[...] in a short period of time which is a nec[...]sity to achieve contract certainty."

The concerted push by the finan[...] regulator, the Financial Services Asso[...]tion, to achieve contract certainty me[...] that all terms in insurance and reins[...]ance contracts have to be clear and una[...]biguous before the inception of the re[...]surance period.

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