



## Managing Risk and Catastrophe Cover

An essential part of any group life insurer's responsibilities is to understand and manage risk to ensure that claims can be met.

As the insurance industry gains a greater understanding of the concentration of risk many insurers are starting to consider whether they can adjust their event limits, offering higher levels of cover to those employers that pose a lower risk.

### Greater certainty

At Canada Life we are managing risk in a way that means under-utilised capacity can be released by;

- setting our events limits by postcode,
- applying a new event limit,
- improving how we define a 'catastrophic event'.

From 01 September 2009 these changes will apply for new business and for existing business from the first review rate on or after 1 December 2009.

The new event limit we set will be typically 25% greater than the existing sum insured, to a maximum of £100 million. The change to how we define a 'catastrophic event' by classing it as four or more lives means that only the most serious events are considered.

We know that making these changes allows us to cover other clients in the same and nearby locations meaning we can provide our clients with a greater certainty that their claims will be met.

### Sharp focus

For those involved in group life insurance, one of the key issues for risk management is concentration of risk. This was brought into sharp focus in 2001 when the terrorist attack on the World Trade Centre highlighted the potential for thousands of claims following a single event. Since the attack on the World Trade Centre there have been several events that, although on a smaller scale, have reminded the insurance industry of the risk. These include the London bombings of July 2005 and the explosion at Buncefield oil depot in December 2005.

Understanding the implications of risk concentration is important. Many business centres such as the City of London, Docklands, Manchester and Leeds have areas of high density of corporate occupancy. This can mean that a group life insurer could be covering several companies within one building, potentially even more within a few hundred metres.

### In brief...

- From **1 September 2009** we are setting our events limits by postcode.
- **New business** event limits will be applied from 1 September 2009.
- **Existing clients** events limits will be applied from the first review rate on or after 1 December 2009.
- Travel limit of £20,000,000 for people insured under the same scheme travelling together for business.
- New event limit will typically be 25% greater than the current sum insured, to a maximum of £100 million.
- Managing risk in this way means we can release under-utilised capacity allowing us to cover other clients in the same and nearby locations.
- The definition of a catastrophe is now being classed as four or more lives defined as:

*'one originating cause, event or occurrence or a series of related originating causes, events or occurrences resulting in the deaths of four or more members, irrespective of when or where the members die'.*

Exacerbating the problem is the fact that benefit levels in such areas can be disproportionately high. Employees will often enjoy cover of four or more times salary with the capitalised value of a spouse's or dependant's pension typically adding up to 16 times salary to this. If a catastrophic loss occurred, this could mean having to pay out claims for hundreds of millions of pounds.

It is not simply a matter of an insurer with a large market share having a larger problem either. It all comes down to where the market share is located. For example, a small insurer that only offered group life to companies in the City of London could be exposing itself to greater potential risk than a larger insurer with risk spread throughout the country.

### **Regulatory focus?**

As well as the concerns of the group life insurers, there is also increasing regulatory focus on this issue. For example three of the Financial Services Authority's guiding principles are:

1. Management and control, which states that a firm must take reasonable care to control its affairs with adequate risk management systems;
2. Financial prudence, which states that a firm must have adequate financial resources and;
3. Communications with clients, which refers to the information needs of clients and the importance of these being clear, fair and not misleading.

### **Industry reaction**

To help the insurance industry develop a way to manage this risk Group Risk Development (GRiD) held a number of meetings, bringing together reinsurers, insurers and intermediaries to discuss the issue. Following this event limits began to be introduced on group life in 2002. These impose a maximum amount that a client can claim if it suffers multiple deaths from a single event, for example a terrorist attack, explosion or a major fire. Although insurers have imposed different limits with some higher or lower than the average, a limit of £100m is fairly standard across the industry. Inevitably it will not always be possible to source sufficient cover. For larger companies or those with high salary multiples, an event limit of £100m can leave a significant benefit shortfall if a catastrophic event does occur.

Hitting this £100m figure is not so difficult either, if a company has an average high salary it could take just 50 employees to hit the £100m mark. If an insurer covers other companies in the same location it may decide that the concentration of risk is too high and decline to cover the company. Putting this in context, given that Canary Wharf is designed to accommodate more than 90,000 employees, the problem facing the insurance industry with risk concentration can be significant.

### **Managing risk**

After the initial response by the insurance industry following the attack on the World Trade Centre, insurers have begun to develop their understanding of how risk concentration can be managed within their insurance models.

We have invested significantly to further our understanding of risk concentration enabling us to manage our exposure more accurately therefore allowing under-utilised capacity to be released and in turn giving our clients greater certainty that their claims will be met.

### **Further information**

If you have any questions or need further advice please contact your usual Canada Life Account Manager or call **0845 223 8000**.

Our forms are available to download from our website: [www.canadalife.co.uk/group](http://www.canadalife.co.uk/group)

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