Insurance, by definition, is always a risky business at the best of times. During the current crisis in worldwide financial markets, premiums and their availability may have to be revised

Talking Business

BY JONATHAN COX
DIRECTOR, PAVEY GROUP

Jonathan Cox from The Pavey Group

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Insurance firms still show profit in crisis times

THE fundamental point of insurance is to swap uncertainty (the possibility of a loss) for certainty (the premium you pay).

The last-minute rescue of American International Group Inc (AIG) with a deal from the Federal Reserve Bank of New York — a US$85bn loan in return for 79.9 per cent stake in the company — certainly created uncertainty in the market.

There is no reason to panic. The practical effect of the situation for those of us with businesses in the Westcountry is that we are immediately unaffected.

AIG UK Limited is a UK registered insurance company, regulated by the Financial Services Authority.

Under FSA rules, all assets held for solvency purposes to pay policyholder claims cannot be used for any other purpose.

Indeed, during the week of uncertainty surrounding their parent company's solvency, AIG UK Limited paid £18.6m in claims.

I think this event does, however, give us cause to consider the implications on availability of cover and price of premiums over the medium term.

The insurance industry continues to make profits, albeit at a much reduced level from last year.

Lloyds of London half year results show profit before tax of £949m — June 2007 was £1,807m.

While the industry has coped well with recent losses, the volatility in the capital markets combined with any notable natural catastrophes may now be enough to mark an increase to pricing.

Separately from this, if AIG UK Limited is sold by its parent company as an asset to contribute to paying off the loan, inevitably premiums will increase through the removal of