

No. 19 March 2010

Newsletter of the Centre for Risk and Insurance Studies

**W
N
CRIS**

In this issue

New costs regime in prospect	1	Linking risk and performance	5
Risk Decisions and Imprecise Probabilities	2	Mutuality prolongs life	
Making Sense of the Crisis		Responsible risk-taking	6
Does efficiency create value?	3	4th European Risk Conference	
Recession risks for SMEs		32nd UK Insurance Economists' Conference	7
A study opportunity	4	Crisline Extra	8
Solvency II: is it robust?			

What's on?

21 - 22 April	UK Insurance Economists' Conference
5 - 9 July	Management development course: Management of Insurance Organisations
13 - 15 Sept	4th European Risk Research Conference
	All events in Nottingham

New costs regime in prospect

An extensive analysis of the costs being paid out by defendant insurers in personal injury litigation has laid the foundations for the recommendation that the legal costs in a wider range of personal injury claims should be determined from an agreed table of "fixed costs".

This suggestion was one of the conclusions of the Review of Civil Litigation Costs, by Lord Justice Jackson, whose report was issued in December.

The recommendations of the Review will have significant implications for both lawyers and liability insurers, if implemented. Lord Justice Jackson concluded that, in some areas of litigation, costs are excessive or disproportionate, hence the substantial changes he has proposed.

The Review suggested that clients should still be able to enter into "no win, no fee" arrangements with their lawyers. In such cases the lawyer charges a "success fee" and the client takes out an "after-the-event" (ATE) insurance policy, which pays out the "adverse costs" incurred by the other side if the client loses his claim. However, the Review recommends that, if the client wins the case, he should no longer be able

to recover the success fee and the ATE insurance premium from the losing side. This is important as it gives claimants a financial interest in the level of costs incurred on their behalf.

By way of compensation for claimants, the Review also recommends increasing damages for personal injury by 10%.

Paul Fenn was one of seven Assessors who assisted Lord Justice Jackson in his Review and made a major contribution to the proposed matrix of "fixed costs".

Under the proposed scheme, the costs recoverable from defendants in small personal injury claims under the court's fast track procedure will be limited to laid down "fixed costs". Cases in the fast track are those with a value between £1,000 and £25,000, where any trial could be concluded within one day. Lord Justice Jackson favoured making litigation costs in the fast track both proportionate and certain. This can be achieved by having fixed costs, giving all parties certainty as to the costs they can recover if successful, or their exposure if unsuccessful. Fixing costs should also minimise the expense of negotiating over the level of costs.

Paul Fenn carried out the analysis of existing data on litigation costs and suggested some alternative models for fixing costs in the future, based on formulae linking costs to damages at different stages of litigation. These models

included an allowance for inflation; a deduction for the savings that will come from no longer having to negotiate about costs; and an addition to cover the costs expected to be incurred in monitoring costs in the future, to keep the schedule of fixed costs up-to-date.

With some further adjustment made by Lord Justice Jackson, the results gave the fixed costs to apply to fast track personal injury cases in the future, assuming the recommendations are adopted.

Extending the fixed costs regime helps give greater certainty for liability insurers. Insurers writing after-the-event business will, however, have to re-visit their business model if the Review's recommendations are adopted. Lord Justice Jackson did comment on the merits of before-the-event insurance, and it will be interesting to see if the demand for this class of business increases, given the greater certainty over costs.

Paul Fenn commented, "The recommendations made by Lord Justice Jackson in his Report are designed to control costs and promote access to justice. He has succeeded in presenting a coherent framework through which both objectives can be pursued, and the implications for the general insurance industry are potentially far-reaching".

Risk Decisions and Imprecise Probabilities

How sure are you about probabilities when you make decisions?

A presentation at the CRIS London seminar, by Stephen Diacon, highlighted the problem of imprecise probabilities.

Suppose a professional gambler offered you the chance to gamble on the single toss of a coin, where the payoffs are £20 for a Head, minus £16 for a Tail, and minus £1 million for an Edge. Perhaps the first step in making a decision is to compute the average winnings, and you need to know the probability of Heads and Tails to do this: a natural assumption is that these are both 0.5 (and that a coin never lands on its edge), so that the average payoff is £2. You might then decide to accept the gamble on the grounds that the average payoff is positive. Such precise probabilities are almost universal in making such decisions and in modelling risk. In fact, situations involving risk are usually conceptualised using precise probabilities.

But the coin tossing decision made at least two important (but usually implicit) assumptions about the probability of a Head, and the validity of these assumptions can have a profound impact on the decision. First we assumed that the coin was fair and hadn't been tampered with, and

this might be a rather brave assumption since the coin was owned by a professional gambler. Secondly we ruled out any outcome other than a Head or Tail - supposing that there is no chance that the coin could land on its edge for example (not even if it were tossed one million times). Clearly if either of these assumptions were invalid, we couldn't be so sure about accepting the gamble - perhaps we couldn't make a decision at all. Conventional precise probabilities cannot cope very well in such circumstances, and one alternative approach is to use imprecise probabilities - where the probability is expressed as a range rather than a precise number.

For example, in the coin toss example we might give ranges, say $P(\text{Head}) \sim [0.25 \ 0.5]$, $P(\text{Tail}) \sim [0.5 \ 0.7]$, $P(\text{Edge}) \sim [0, 10^{-6}]$. Clearly these imprecise probabilities do not yield a precise average payoff: instead the average ranges between a minimum of -6.20002 (calculated as $-1000000(10^{-6}) - 16(0.7) + 20(1-0.7-10^{-6})$) and a maximum of 2. This puts the decision in a very different light, and we might decide not to accept the gamble after all. Expressing probabilities in imprecise terms avoids possibly mistaken decisions which can arise when artificially precise probabilities are used.

Although the coin tossing example is rather contrived, it reflects the reality in many real-world decisions about risk - where the probability of loss, business failure, insolvency etc cannot be known with certainty.

For further information, see Stephen's Discussion Paper at www.nottingham.ac.uk/business/cris/DiscussionPapers.html

Making Sense of the Crisis

Risk management professionals give their views.

A new research project has investigated the views of practising risk management professionals from across the UK financial services sector.

The research was carried out by Simon Ashby of Plymouth Business School (and CRIS Senior Research Associate). He conducted 20 interviews with experienced risk managers including board directors, ex-regulators and Chief Risk Officers. The research was funded by the Financial Services Research Forum* and presented at the Forum meeting in London in November 2009 and also at the CRIS London Seminar.

Simon put the global financial crisis in the context of what previous research has found about the way in which crises happen and the steps that firms can take to manage their impact. This led him to set out the six Cs (see opposite).

On Communication, many interviewees felt that not all board and senior managers were receiving the right information. Further, many did not understand what they were or should be receiving. There are lessons that directors and senior managers must be better trained, more involved and proactive.

Several also felt that the current capital regime for banks is flawed. One CRO commented that, if you are not careful, you start managing the regulatory indicators, instead of properly managing the risks.

Cultural weaknesses have affected both risk perception and decision making in the UK financial services industry. The key issues for the

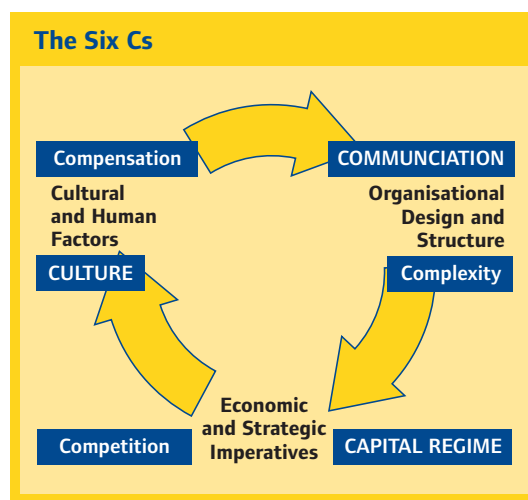
interviewees were "disaster myopia", greed and herding. Another lesson is that risk management functions must become less compliance orientated and more business focussed.

One risk consultant said "I'm getting back again to the need

to push risk management into the strategic decision making process not leave it as an after-thought to work out how much capital you should be holding".

Based on these findings Simon concluded that the underlying preconditions for the crisis were, as with almost all crises before it, both complex and socio-technical in nature. This implies that there are no simple solutions to the prevention of future crises, such as forced reductions in bonus payments or increased capital requirements. Rather, a more considered human centred approach is required, focussing on understanding and influencing the cultures of financial institutions and the resultant behaviour of management (including directors).

*For further information about the Financial Services Research Forum www.nottingham.ac.uk/business/forum/
Also see *Crisline Extra* (page 8).



Does efficiency create value?

Research shows the link is strongest in manufacturing.



While there has been extensive research in economics on the efficiency of firms, there has been much less work on whether an increase in a firm's efficiency leads to an increase in its stock market value.

This is the subject of research carried out by Kevin Amess and Sourafel Girma (Nottingham University Business School).^{*} They find that changes in firms' efficiency are associated with changes in the market value of manufacturing firms but not those in the service sector.

One way of considering a firm's performance is to calculate its labour productivity, i.e. turnover per worker. However, it is also possible to assess efficiency in a broader sense as the relationship between a firm's inputs and its outputs.

The authors measure technical efficiency as an index of firms' ability to maximise output (turnover) for a given set of inputs (labour, number of employees; and capital, fixed assets). They determine the ratio of a firm's actual output to the maximum potential output from what is computed as a 'best practice frontier' for a given set of inputs.

The study uses a panel of 706 public limited companies over 1996-2002: 266 of the firms are in manufacturing, 440 operate in the service sector. The market value of the firm is taken as the market value of its equity and the book value of long term debt. The authors determine the frontier (best-performing) firms in two ways: data development analysis and a stochastic frontier approach; each of the methods has advantages and disadvantages.

For firms in the service sector, the research finds that the traditional accounting ratios that capture performance, mainly return on capital employed and earnings per share, are both associated with firms' market value. However, there is no evidence to support the hypothesis that an increase in efficiency is associated with an increase in a firm's market value in the service sector.

For firms in the manufacturing sector, the findings were different. Earnings per share had a positive effect on changes in market value (as in services), and leverage had a negative effect. The paper also found a significant relationship between the efficiency of manufacturing firms and changes in their market value.

The authors comment that the relationship between inputs and outputs in the service sector may be rather different from in manufacturing, which may help explain the difference in the findings.

^{*}Do stock markets value efficiency? *Scottish Journal of Political* volume 56, no.3, July 2009, p. 321-331.

Recession risks for SMEs

A new study reveals the greatest threats to small and medium-sized enterprises and how business insurance may need to adapt.^{*}

The research reveals that more than half of SMEs believe reduced demand for their goods and services is the biggest risk to their business, with late payments in second place. Other financial issues were lack of cash flow to develop the business, and with financial institutions having restricted their lines of credit, lack of accessible funds was considered a risk by 15%.

Only 20% of SMEs have had a risk assessment for their business conducted in the past 18 months. Where one was done, operational and financial risks tended to be highlighted. 54% said that the risk assessments covered health and safety risks, 38% covered fire/floods and 36% covered IT risks.

However, these assessments often failed to miss important risks. Given the importance of financial risks, why did only 49% of risk assessments cover these? The most popular response when asked to name the main risk facing them was the threat of a fall in the demand in their products or services: however, only 37% of risk assessments covered this risk.

The study reveals a business insurance 'wish list' for the SMEs questioned. 43% said they would like their insurance to cover bad debts, 21% wished for more comprehensive protection of intellectual property and 16% wanted to insure against costs to sue suppliers for failing to deliver.

The report considered that business insurance may evolve in the future to cover financial risks such as credit insurance for bad debts and defaulted payments.

However, many SMEs do not recognise what business insurance covers. More than a quarter (28%) want to cover the cost of stolen goods, and 22% wished to cover loss of income as result of electricity, gas or water supply failing. These are risks that many policies already cover.

Top risks for SMEs

Reduced demand for products and services	52%
Late payments	41%
Increased legislation &/or regulations	39%
Increasing competition	32%
Lack of cash flow to develop the business	29%

^{*}The survey of small business owners was commissioned by specialist SME insurer Premierline Direct and was prepared by Chris O'Brien.

The full report is at www.nottingham.ac.uk/business/cris/papers/Small_businesses_and_risk.pdf

The figures are from You Gov Plc. The total sample size was 582 small business owners. Field work was undertaken in June 2009.

A study opportunity

A one-week course gives the opportunity for some intensive learning.



CRIS is offering an opportunity for individuals to extend their understanding of insurance by attending a one-week module at Nottingham University Business School (NUBS) on “Managing Insurance Organisations”. **This takes place on 5 - 9th July.**

This module forms part of the MBA programme offered by NUBS. It is available to those who wish to continue their professional development, and can be taken on a stand-alone basis without a requirement to complete a full MBA course.

The module runs from Monday to Friday, and comprises a mixture of seminars and discussions. We expect a high level of participation from attendees, who will be required to make some presentations during the week. It promises to be a stimulating time!

This is a valuable opportunity for managers to examine issues, with the benefit of experienced teachers who have also carried out research in these areas; and in the company of other students with an interest in insurance.

Some of the issues we will be covering in the week are:

- Applying the Business Excellence Model to insurance companies
- Prudential regulation: what is Solvency II and what are the implications for insurers?
- How do insurance companies price their products? What does the underwriting cycle imply for companies?
- Why do insurers need capital and how do they create shareholder value?
- Why do some insurers fail and others succeed?
- Governance in insurance companies
- Competition in insurance markets
- Financial and non-financial risks and their control
- Trends in international insurance markets: strategies and consolidation

If you would like to attend, or know more, please contact Chris O’Brien, Director, Centre for Risk and Insurance Studies, telephone 0115 846 6519, email: christopher.obrien@nottingham.ac.uk

Applicants must normally be graduates of an approved University holding an honours degree or an equivalent relevant professional qualification; and should have at least 4 years’ work experience, the majority of which has been since graduating from the first degree. The cost of the module (which does not include accommodation, meals, etc) is £1500.

The lecturers on the module are:
Professor Stephen Diacon, Chair of Insurance and Risk Management; and Chris O’Brien, Director, Centre for Risk and Insurance Studies.

The precise contents of the module are subject to variation.

Solvency II: is it robust?

Regulators may use probabilistic approaches in setting minimum solvency margins, but there can be pitfalls.

A new paper* considers probabilistic approaches and stress tests as methods for regulators to set the minimum solvency margin for insurers. Stress tests require an insurer to assess the capital required to ensure it is solvent in a number of specified scenarios, although an issue is how the regulator determines the scenarios to test.

In a probabilistic approach, the regulator chooses a rule, such as the capital should be sufficient for solvency in a year’s time except in a 1-in-200-year event. The FSA used this rule for UK insurers’ Individual Capital Assessments, and the probabilistic approach also underlies Solvency II. Large insurers will use internal models instead of the formulae designed by regulators.

However, can we derive probabilities from models in a way that is robust? There are many doubts: for example, Taleb’s ‘Black Swans’, while the FSA, writing about banks, referred to “mis-placed reliance on sophisticated maths”.

The paper suggests three gaps in firms’ probabilistic modelling. First is where the modelling falls short of best practice (e.g. AIG). Second is the potential to improve what is best practice, which may not be easy.

Third is the problem that any model is only a model and not reality: we have to accept that probabilistic modelling has limitations.

The author favours more emphasis on stress tests. However, the tests required for with-profits life insurers’ ‘risk capital margin’ were, in 2008, short of the extreme conditions that occurred: see below.

Stress tests and stresses in 2008

Indicator	Stress test movement	Measure	Change in measure in 2008
Share prices	20%	FT-All Share Index	-32.8%
Property prices	12.5%	IPD UK Index	-26.3%
Interest rates	17.5%	15 year gilt yield	-17.6%

More work is needed to develop stress tests into a better tool for management and regulators. The FSA has begun this with ‘reverse-stress testing’, i.e. identifying scenarios that would lead the business to fail. The author suggests back-testing of stress tests as a useful discipline. The global crisis has at least given regulators and the European Commission a chance to review Solvency II before it is implemented.

* O’Brien, C. (2010) “The global financial crisis and insurance regulation: a problem of low probability events”, *Geneva Papers in Risk and Insurance*, January.

Linking risk and performance

Risk management and performance management share common ground.

Research into risk management has a link with research on performance management. Margaret Woods has been considering these issues in major UK public and private sector organisations.

The financial crisis has pushed risk management up the agenda of not just company directors but also national and international politicians and regulators. Increased monitoring and regulation, however, offers no guarantees that risk management will improve in practice, particularly if it results in mere box ticking and compliance rather than management which is sympathetic to the changing business environment.

The International Federation of Accountants (IFAC) defines risks as “uncertain future events which could influence the achievement of the organisation’s strategic, operational and financial objectives” (IFAC, 1999). Performance management systems are used to track organisational performance relative to objectives and so, applying the IFAC definition of risk, it would seem that risk management and

performance management share common ground at least in theory. This research provides evidence that, in practice, few individual organisations explicitly attempt to integrate the performance and risk management control systems.

Using case study evidence from five major UK based private and public sector organisations – Tesco, RBS, Hammerson, Birmingham City Council and the Department of Culture Media and Sport, Margaret demonstrates a spectrum of practice that ranges from total synthesis of risk and performance management to a world in which they sit almost entirely independent of one another. Such variations in approaches to risk management can be explained by the influence of a range of factors which include the intensity of regulatory oversight within a given industry, the complexity of the business model, organisational culture and the criteria used to judge risk management effectiveness i.e. compliance or organisational performance.

Mutuality prolongs life

The 19th century saw the rapid development and growth of life insurance in Britain, although with many companies failing, which led to the first insurance-specific regulation: the Life Assurance Companies Act 1870.

Chris O’Brien and Paul Fenn have been comparing the performance of mutuals and proprietary over the course of the century.

There were 56 mutuals in the 19th century, and 59% of them survived 10 years, with the median time of survival being 26 years. On the other hand, of the 331 proprietary life insurers, a similar table indicates that only 47% survived for 10 years and the median time of survival was 8 years.

There were 63 other firms, where we could not find whether they were mutual or proprietary; their median time of survival was only one year. For the overall total of 450 life insurers, the median time of survival was 7 years.

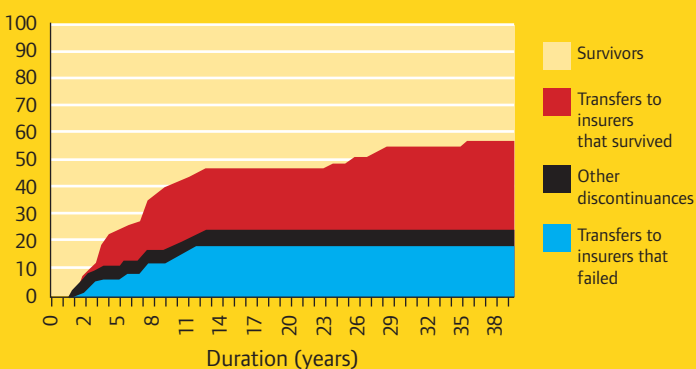
Mutual life insurers out performed proprietary companies in 19th century Britain.

In some cases, the insurer ceased operations by transferring its business to another insurer (which may or may not have survived subsequently).

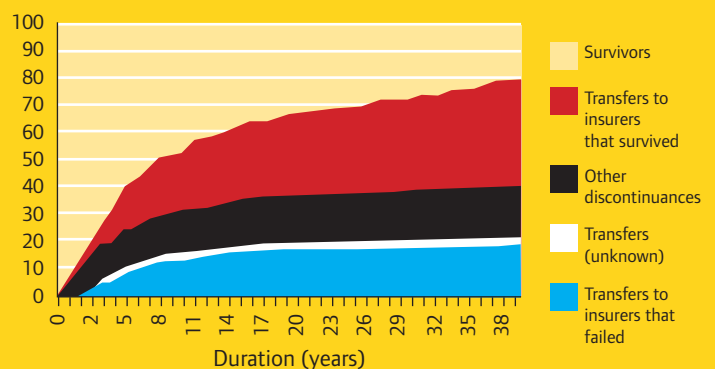
We used data on when each firm began, and how long it lasted, to construct two mortality tables, one for mutuals, the other for proprietaries, which indicate, for one hundred insurers starting at year N, how many of them were still operational at years N+1, N+2, N+3 and so on (see charts).

We also used data from companies’ returns to the Department of Trade in the 1870s and 1880s, to examine their costs. This analysis covered 67 life insurers. We found that the cost ratio (expenses plus commission, divided by premiums) was lower for mutuals (14.7%) than for proprietaries (16.6%). Some of the difference was because there were economies of scale, and mutuals were relatively large. However, this explained only some of the difference: mutuality itself was also associated with lower costs. Lower commission from mutuals was part of this, although mutuals’ non-commission costs also tended to be lower.

Mutual life insurers



Proprietary life insurers



Responsible risk-taking

How can we prevent risk-taking being irresponsible?

The global financial crisis has shown us that when a bank takes big risks, they might make large bonuses for the traders, but they can be bad for the bank. Further, they can be bad for the economy if taxpayers have to pick up the bill. So, can we ensure that risk-taking is responsible risk-taking? Chris O'Brien offered some thoughts on this at a meeting of the Women's Insurance Network, in Camberley, Surrey, in January.

The issue is whether the risks that a firm takes are chosen:

- By managers acting in accordance with their own interests;
- By firms choosing to take risks that increase shareholder value; or
- In accordance with the wider interests of society.

There is certainly evidence that some firms' risk-taking is influenced by the interests of managers. In particular, share options can give managers an incentive to take more risks, because they benefit from the upside if the decisions are successful, whereas they do not suffer the downside (they then don't exercise the options).

Therefore, firms need to ensure that managers take decisions that help its objectives (say, shareholder value) rather than the objectives of managers.

What steps should firms take? One is reviewing remuneration structures: for example, deferring compensation gives the opportunity to check that risk decisions have worked out well for the firm.

Another is putting in place risk governance structures that give the Board an oversight of risk management, with non-executives being given an opportunity to check that there is proper analysis of risky decisions, and that they are contributing to shareholder value.

Further, they can appoint a Chief Risk Officer (CRO), who can help establish a system of enterprise risk management, considering risks on a holistic basis.

Shareholders should be keen to ensure that firms consider these issues.

Government may, however, feel that risk decisions taken in firms' interests are not the right ones from society's perspective. This could be, for example, because:

- As firms have limited liability, their downside is limited, and this may lead them to take too much risk;
- Other stakeholders – particularly employees and customers, but possibly investors as well – may not understand the risks they are exposed to; and
- Where the government gives a guarantee on, for example, bank deposits, the government needs to protect its potential liabilities from excessive risk-taking.

It is up to government and regulators to work out where relying on the market can lead to the wrong risk decision. This issue is already recognised: for example, health and safety regulators devise rules with this in mind. The pressure is now on government and financial services regulators to review their rules so that banks don't take risks that imperil the economy.

A lively discussion followed!

4th European Risk Conference



The conference is designed for both academics and practitioners.

"Perspectives in Risk Management: Accounting, Governance and Internal Control" is the subject of the 4th European Risk Conference to be held from 13th -15th September at the Crowne Plaza Hotel in Nottingham. The conference is organized by the European Risk Research Network (ERRN) which is managed by Margaret Woods from Nottingham University Business School and financially supported by the EU's Marie Curie Actions programme. The Chartered Institute of Management Accountants also provides financial sponsorship.

Following the initial day's doctoral training sessions, the conference proper commences on the morning of 14th with an address from Professor Christopher Humphrey of Manchester Business School on the role of international regulation in the management of risk and the need for "joined up thinking" across the range of regulatory bodies. The topic of this keynote talk reflects the value of the conference in providing a platform for both academics and practitioners to debate highly topical issues which are subjects of concern for both national governments as well as financial and accounting regulators around the world.

The afternoon of 14th September will be devoted to a business risk forum addressed by leading international speakers from the risk and accounting profession, including a senior executive responsible for internal control in Tesco plc. The fee for attendance at the half day forum and the subsequent conference dinner is £100. Further details of keynote speakers and the conference programme will be published shortly on the ERRN website at www.nottingham.ac.uk/business/rmgic/ and practitioners are invited to register their interest via the ERRN site.

Academics and practitioners are also invited to submit papers to be presented in parallel sessions on 14 & 15 September on topics including:

The scope of potential topics includes:

- Tools (quantitative and qualitative) for risk analysis, assessment and control
- Internal and external reporting of risk
- Risk and performance measurement
- Risk appetite
- The incorporation of risk into accounting measures and external audit
- Internal audit
- Management of partnership and joint venture risks
- Risk management in the public sector
- External regulation of risk, governance and internal control issues

An extended abstract (500 words) or, preferably, a full paper should be submitted by **May 14th, 2010** via the link on: www.nottingham.ac.uk/business/rmgic/

Manuscripts must be written in English and submitted in Word format (A4 pages, typed, single spaced, 12-point, headed by title, author(s), affiliation(s) and address for correspondence). Authors will be notified of acceptance by June 16th, 2010.

32nd UK Insurance Economists' Conference

The 32nd UK Insurance Economists' Conference takes place on Wednesday 21st and Thursday 22nd April 2010, at Nottingham University Business School.



Wednesday 21 April 2010

11.00 – 12.15	Registration: Southwell Hall, Jubilee Campus
12.30 – 13.15	Lunch (East Atrium, Business School North Building)
13.30	Welcome and Introduction (C76, 2nd Floor)
13.30 – 14.20	The Future of the UK insurance industry <i>Rebecca Driver (Association of British Insurers)</i> This paper follows up on the report released by the HM Treasury insurance industry working group on the vision for the insurance industry in 2020. It focuses on the vision for the UK insurance market, the critical success factors, and the desirable regulatory environment.
14.20 – 15.10	Regulating the costs of civil litigation: the post-Jackson agenda <i>Paul Fenn (Nottingham University Business School)</i> The paper reviews the history of civil costs over the last decade, including conditional fee arrangements with recoverable success fees and after-the-event insurance premiums. It discusses Lord Justice Jackson's recommendations for the future and their implications for the insurance industry.
15.10 – 16.00	The law of discrimination in insurance and financial services <i>Chris Parsons (City University)</i> The effect of proposed anti-discrimination legislation is analysed. Existing and proposed EU legislation may conflict with the need for providers to avoid moral hazard and adverse selection and to treat customers fairly when designing and pricing their products.
16.00 – 16.20	Afternoon Tea
16.20 – 17.10	Optimal risk management and pricing in insurance groups <i>Sebastian Schlütter and Helmut Gründl (Humboldt University of Berlin)</i> We consider the insurance company as part of a financial group and analyse issues such as how to price insurance and how to allocate equity between subsidiaries. Do shareholders benefit from consolidation? The implications of the regulation under Solvency II are also discussed.
17.10 – 18.00	Breaking the hegemony of regulatory capital <i>Simon Ashby (University of Plymouth)</i> The paper reviews the role of regulatory capital in financial services firms in the wake of the global crisis, using insights from interviews with practising risk managers. The paper critiques the arguments for the Solvency II capital requirements.
19.15	Meet at Southwell Hall (it's a 5 minute walk to dinner)
19.30 – 21.30	Conference Dinner: National College of School Leadership, Jubilee Campus.

Practitioners, academics, analysts and others will be very welcome! As usual, there is a variety of papers and there will be plentiful time for discussion.

The full charge for the conference is £290, which includes the Conference dinner and overnight accommodation at the Jubilee Campus (special rates are available for academics on application).

Further details are on:

www.nottingham.ac.uk/business/cris/ukec.html

Thursday 22 April 2010

08.00 – 08.50	Breakfast
09.00 – 09.50	Stochastic mortality and the dispersion of subjective estimates of survival probabilities—evidence from Europe <i>Tomas Post (Maastricht University) and Katja Hanewald (Humboldt University of Berlin)</i> Using data on subjective survival probabilities from the Survey of Health, Ageing and Retirement in Europe (SHARE) from 10 European countries and corresponding life table data, this paper shows that the dispersion of subjective estimates of survival probabilities is positively linked to the dispersion of objective survival rates.
09.50 – 10.40	Estimating and pricing with the Cairns-Blake-Dowd (CBD) model of mortality <i>Edmund Cannon (University of Bristol)</i> A number of improvements are made to the econometric analysis of the CBD model. Certain conventional approaches may be biased. Analysis of data for sixteen countries, supplemented by Monte Carlo simulation, shows that it is possible to adjust the tests for this measurement error problem while retaining adequate power.
10.40 – 11.00	Morning Coffee
11.00 – 11.50	Mutuality as a control of information asymmetry: the experience of Swedish fire insurance companies <i>Mike Adams and Joy Jia (University of Swansea), Lars-Fredrik Andersson and Magnus Lindmark (Umeå University)</i> The paper uses historical data from the Swedish fire insurance industry to investigate the effect on underwriting performance of whether the insurer is a mutual or a stock company.
11.50 – 12.40	Embedding regulation: firms' responses to the FSA Treating Customers Fairly (TCF) initiative <i>Sharon Gilad (London School of Economics)</i> The Financial Services Authority requires firms to provide evidence that they are treating their customers fairly (TCF), and that they have a 'culture of fairness'. This paper reports an on-going study, which employs semi-structured interviews with firms and trade associations to analyse the process of firms' 'embedding' of TCF, and the implications of this process for the likely efficacy of retail financial regulation.
12.45 – 13.50	Lunch
13.50 – 14.40	Privatising pensions liabilities – evidence from major British companies <i>Mark Billings, Chris O'Brien and Margaret Woods (Nottingham University Business School)</i> The paper uses financial statements to chart the weakening 'employer covenant' on occupational pensions among a small group of major British companies previously in state ownership, some as recently as the 1990s. The impact of privatization on the debate over the affordability of pensions provision has not yet been recognised.
14.40 – 15.30	Pension fund design and corporate capital structure – a general equilibrium exposition <i>Shahid Ebrahim (Nottingham University Business School) & Ike Mathur (Southern Illinois University)</i> This paper studies pension fund design in the context of investment in the debt and equity of a firm. The authors use a general equilibrium framework and examine issues including asset allocation and a comparison of the Pareto-efficiency of Defined Benefit plans and Defined Contribution plans.
15.30	Close: Afternoon tea

Kevin Dowd, who retired from CRIS in June 2009, has been appointed an Emeritus Professor of the University of Nottingham.

We have been pleased that **Hywel Bevan** (Special Associate Professor) has given guest lectures on our 'Risk Management Processes' and 'Corporate Risk' modules; and **Stephen Albutt** (Allianz Insurance) has given a guest lecture on 'Insurance in a risky world'.

We have been pleased that a number of academics from other universities have been contributing to our teaching on insurance and risk: **Jonathan Jeffery** and **John Parker** (Sheffield Hallam) and Chris Odindo (de Montfort, Leicester).

Margaret Woods, Chris O'Brien and Mark Billings are researching what FTSE100 firms are disclosing in their accounts about the risks in their defined benefit schemes. We are grateful to the Institute of Chartered Accountants of Scotland for funding this research.

Paul Fenn has been asked by the Justice Minister, Bridget Prentice, to join the Advisory Committee on Civil Costs, a committee set up to provide independent advice to the Ministry of Justice, based on evidence and economic analysis on the costs in civil claims. Also, as one of seven assessors on the Review of Civil Costs which has been led by Lord Justice Jackson, Paul has made a number of presentations to both lawyer and insurer audiences on the Final Report, which was recently published.

In December Paul gave presentations on the Jackson Review at the University of Sydney and the Australian National University, Canberra.

Stephen Diacon gave a presentation on the meaning and use of 'risk appetite' to a meeting of the Operational Risk Expert Group, a group of insurance industry risk experts and practitioners, hosted by the Financial Services Authority.

Stephen Diacon spoke on "Careers in insurance and financial services", at the Nottingham Insurance Institute Education conference in January.

Margaret Woods gave a presentation on a comparison of risk management in the private and public sectors at a seminar at the Centre for the Analysis of Risk and Regulation at the London School of Economics.

Chris O'Brien spoke on "Uses (and abuses?) of the inherited estate" at the Infoline conference on treating customers fairly in with-profits, in London in December 2009.

Simon Ashby's report on the financial crisis was reviewed by the Financial Times on 25 February, Lombard describing it as a 'gem'. The FT highlighted the argument that higher capital requirements could contribute to the next crisis by making banks and investors more sanguine about their ability to survive losses.

Congratulations to **Tajudeen Yusuf**, who has completed his PhD, his thesis being on the subject of The Role of Insurance Intermediaries in the Detection and Prevention of Insurance Fraud.

We are pleased that **Adomas Malaiska**, an undergraduate student at the University of Nottingham, and **Nerijus Visockas**, a recent graduate, have helped with our research with pensions. Nerijus is now studying for a Master's degree at the Australian National University.

New post Professor or Associate Professor in Financial Economics

Nottingham University Business School is looking to appoint a Professor or Associate Professor in Financial Economics. Further information is on the CRIS website. The post is for individuals with experience in any relevant area of financial economics, including the economics of risk. The contact for enquiries is Paul Fenn: paul.fenn@nottingham.ac.uk

Discussion Papers

We are pleased to announce the following Discussion papers are now available. www.nottingham.ac.uk/business/cris/DiscussionPapers.html

2009.II **Creative accounting for pensions. Why discretion may not be good for financial reporting.** Mark Billings, Christopher O'Brien and Margaret Woods

2009.I **The impact of the Woolf reforms on costs and delay** Paul Fenn, Neil Rickman, Dev Vencappa

MSc in Risk Management

We have seen a significant increase in applications for our one-year MSc (formerly MA) degree in Risk Management. There is still time to apply for the course that begins in September 2010. Further information is at www.nottingham.ac.uk/business/ma/N203.html

Research

If you have any topic where you would like to know more, why not get in touch with us to see if we could carry out some research for you? Please contact Chris O'Brien.

9th CRIS London Seminar

The 9th CRIS London Seminar was held at Insurance Market Conferences Ltd on Friday 20th November 2009. We were pleased to be able to present research to an audience of risk/insurance specialists.

Learning the Risk Management Lessons from the Financial Crisis'

Simon Ashby, Senior Lecturer in Financial Services, University of Plymouth and CRIS Research Associate

Insurance with Imprecise Probabilities

Stephen Diacon, Professor of Insurance and Risk Management University of Nottingham

Stressful times for insurance regulation: how can we set capital buffers?

Chris O'Brien, Director, Centre for Risk and Insurance Studies

About CRIS

The Centre for Risk and Insurance Studies was founded in 1991, originally as the University of Nottingham Insurance Centre. It is one of the world's leading specialist university centres of risk and insurance.

The Centre is situated within Nottingham University Business School and is based in the award-winning Jubilee Campus, opened in 1999.

The Centre staff are responsible for teaching in risk and insurance at both undergraduate and postgraduate level.

They are also active in researching and maintain close links with the insurance industry and others working in risk management. The research of the Centre reflects public policy priorities as well as those expressed from the insurance industry and covers not only traditional insurance activities but also risk management more generally.

Feedback, and requests for further information on any of the topics in Crisline, should be sent to: christopher.obrien@nottingham.ac.uk, or to Jennifer.howis@nottingham.ac.uk, Tel: 0115 846 6607

The staff of the Centre are:

Christopher O'Brien Centre Director

Professor Stephen Diacon Professor of Insurance and Risk Management

Professor Leigh Drake Professor of Financial Economics, School Director

Professor Paul Fenn Norwich Union Professor of Insurance Studies

Margaret Woods Associate Professor in Accounting and Finance

Dr Kevin Amess Associate Professor in Industrial Economics

Mark Billings Lecturer in Accounting & Risk

Dr Jonathan Tan Lecturer in Economics

Dr Dev Vencappa Lecturer in Industrial Economics

Tim Orton CRIS Research Administrator

Jennifer Howis CRIS Secretary