



An **A to Z** of Future Risk

Planning for an uncertain future



**NORWICH
UNION**

an AVIVA company

A long, straight asphalt road with a yellow center line stretching into the distance under a blue sky with white clouds. The road is flanked by green fields and a fence line on the left. The text "Planning for an uncertain future" is overlaid in the center of the road.

Planning for an uncertain future

The management of uncertainty is fundamental to insurers. Yet too often in the past, the industry has been caught out by the development of new risks, which were either not identified at all, or were identified but not properly managed at the time.

Neither insurers nor their customers can afford to let this happen again. Effective forward planning for emerging risks is the cornerstone of accurate premium calculation.

From obesity to nanotechnology, passive smoking to cyber terrorism, we're potentially facing a raft of new types of risk linked to socio-demographic, economic and political change.

At Norwich Union, we're not waiting to see or keeping any fingers crossed. We're watching and planning for an uncertain future now. Of course we can't hope to stem the pace of change; what we can do is raise awareness and take the necessary action, so there are no nasty surprises around the corner for our brokers and their customers in years to come.

Our underwriters have been scanning the horizon for potential new risks and their possible impact on the industry. In the belief that forewarned is forearmed, this booklet gives you the facts – fast.



Ageing Population

By 2050, the average age of the population will be 60 years old. In 1950 it was just 42 years old. With life expectancy in the UK currently quoted as 76 years for men and 81 years for women, centenarians will become commonplace within our lifetime. A possible rise in retirement age is also likely.

POTENTIAL IMPACT

As life expectancy increases so will compensation costs, since an older workforce may be more prone to – and takes longer to recover from – injuries. Age discrimination claims will become commonplace. Motor accident rates are also likely to rise sharply with more and more elderly drivers behind the wheel.

Today, 10% of the world's population is 60 plus; by 2100 this will rise to more than a third. In the UK alone, declining fertility rates and increased life expectancy will mean a million more people over 65 than under 16 in the next 15 years.



Biotechnology

Genetic modification, i.e. 'cutting and pasting' genetic material from one organism to another, is the latest and most controversial arm of biotechnology.

POTENTIAL IMPACT

Despite the strong anti-GM debate GM foods will, inevitably, enter the UK's food chain. In anticipation of adverse activity, food manufacturers and supermarkets are already increasing transparency of labelling and responding to the growing demand for organic foods. Demonstrating a clear causal link between ill-health and GM food will be a significant hurdle for consumers pursuing a claim.

The focus of agriculture has shifted from maximising productivity towards balancing productivity with benefits for society and the environment.





*Compensation claims
cost the UK more than
£10bn a year.*

Compensation Culture

Today's children are growing up in a culture of blame where we all seek to hold somebody responsible – and seek compensation.

POTENTIAL IMPACT

Premiums have already been driven up to the point where some small businesses have been unable to trade through their inability to afford insurance cover. Businesses will need advice from brokers and intermediaries on health and safety risk management to reduce the potential for claims and keep accurate records to protect themselves.

Cyber and Industry

The digital revolution has meant that intelligent computing such as virtual reality, speech recognition, complex networking, lights out factories and robotics have all become part of the everyday manufacturing environment.

POTENTIAL IMPACT

Insurers will need to be able to differentiate risks which appear under the same business description but use very different manufacturing methods. This includes understanding the effect on response times to fire or theft caused by 'lights out factories' and remote security monitoring. Business interruption may increase due to the difficulties in replacing complex equipment quickly, but with improved fire detection and prevention equipment, the response to fire will continue to improve.

Cyber Terrorism

The Internet is a medium for worldwide digital warfare, with remote attacks on unsuspecting and unprotected networks.

POTENTIAL IMPACT

While industries most at risk include air traffic control, financial services, utilities, transport and manufacturing, SMEs have also become economic targets for terrorists and are especially vulnerable owing to their lack of investment in information security and risk management.

The insurance industry will need to help its customers identify new risks such as phishing, where hackers trick people into revealing personal details like credit card numbers. Advice will be needed on managing security risks better, libel, trademark, legislation and jurisdiction issues as companies expand activities on the Internet and trade outside the UK.

The estimated total cost of hacking attacks grew from £473m in 2001 to £780m in the first ten months of 2002.

DVT

Deep vein thrombosis is a serious condition where blood clots develop in the legs and travel to the lungs, causing death. It is estimated that more than 2,000 die from flight-related DVT every year in the UK alone.

POTENTIAL IMPACT

As well as increased claims from airline passengers, liability claims could also arise from coach and rail travel, driving as an occupation and computer use. The potential is there for both EL and PL claims. It may be advisable to make high risk individuals aware of the precautionary approaches needed to reduce risks.

EMF – Electromagnetic Fields

Environmental Tobacco Smoke (Passive Smoking)

Exposure to electromagnetic radiation – including working or living near to high voltage power lines or telecommunication base stations and using mobile phones – is an increasing public concern.

POTENTIAL IMPACT

Research continues on the possibility of links between EMF and ill health, as a Government review of research in 2000 found no evidence to support links and recommended further studies. However, it suggested some immediate precautions such as controlling or reducing the use of mobile phones by children/young people – a position supported by more recent studies.

Alongside possible product liability claims relating to mobile phones, employers' liability claims could also be seen from staff alleging exposure to unsafe equipment.

There is broad acceptance that ETS exposure leads to ill health. In early 2004 the anti-smoking pressure group, ASH, wrote to major businesses in the hospitality sector stating that the "date of knowledge" for EL claims had been established and that the letter would be kept on file as proof that the employer had evidence and knowledge. Smoking in public places has already been banned in Ireland.

POTENTIAL IMPACT

To date there have been very few cases based on ETS effects. More widespread smoking bans could reduce both the risk of EL claims and limit exposure for property claims by removing cigarettes as a potential cause of fire. The major impact would be on the hospitality and leisure sectors and increased expense can be anticipated to ensure that businesses adequately deal with this issue. There are also concerns of an adverse impact on business income if people are driven away.

Our skin has conductive properties that will, one day, be used to link a host of electronic devices around the body, from pagers and PDAs to mobile phones and microphones.

Expansion of the EU

In May 2004 the EU expanded to include 10 former Eastern Block countries, increasing the population by 20% or an additional 74m people. According to a study by Deutsche Bank, it will take Slovenia, the most developed country, up to a decade to catch up with average EU earnings while Poland, the largest country to join, could take up to 40 years.

POTENTIAL IMPACT

There are already significant numbers of migrant workers in the UK who do not speak English as a first language in sectors such as construction, leisure and hospitality. A further influx may increase the risk of workplace accidents and associated claims. The HSE has recently sought funding to translate its health and safety literature for the construction sector into eight new languages, including Czech and Polish.

Yet the area most affected by the expansion is motor insurance. As holidays – and potentially driving tours – in Eastern Europe become increasingly popular, insurers will need to look at new ways of meeting the EU motor directives. Insurers may also have to pay customs duty on write-offs returned to the UK.



Fitness Clubs and Young Children

Along with the latest Government campaign about rising levels of obesity among the young and the need to take more exercise there is a growing trend for children, some as young as eight or nine, to join fitness centres, where they regularly exercise using weights, rowing machines and stationary bikes.

POTENTIAL IMPACT

The 'pro' camp – comprising, mainly, parents who want to stop their children becoming couch potatoes – see this as a sound and worthwhile activity.

The 'anti' camp, however, is concerned about possible adverse effects on children. Muscle bulk cannot be gained until a child has passed puberty and there are also concerns that the real risk might be one of damage to the growth plates in the long bones of the arms and legs – leading to developmental problems later in life. This could be a potential long tail liability issue.

Greenaway Review

With an estimated one in twenty motorists driving without insurance at any one time, uninsured driving costs the industry an estimated £500m a year. The Government has commissioned an independent review into the problem.

POTENTIAL IMPACT

While there has been popular support for insurance windscreen disks the latest reports indicate that the Greenaway review will back the ABI's proposals. The UK looks likely to continue to insure the driver rather than the car, but more use will be made of the Motor Insurers' Database to track offenders. The review could turn out to be good news for the insurance industry. A much tougher process using the DVLA and law enforcement agencies looks set to reduce uninsured driving and the Motor Insurers' Bureau levy to help control premiums for the whole market.

The forecast oil shortages mean that, if you're under 30, it is likely that the daily use of cars will be phased out during your lifetime.

Infectious/Contagious Diseases

An infectious disease is one that is capable of being transmitted without actual contact whereas a contagious disease requires direct contact with an individual or handling of their clothing. New diseases such as the recent SARS epidemic can have a profound impact on modern society.

In the Western world, medical advances had virtually eradicated the majority of such diseases. However the advent of cheap long haul travel means that people are visiting parts of the world where diseases that are rare or unheard of in the UK may be commonplace.

POTENTIAL IMPACT

Those contemplating foreign travel need to assess the risks and take appropriate precautions – business travellers as well as holidaymakers. Governments also need to consider the appearance of diseases that could have a significant effect on the economy.



Land Development (Brownfield)

The Government is increasingly focusing on regeneration in deprived areas such as inner cities, and in particular brownfield sites. In the South East, it intends to meet 60% of the urgent need for new housing using brownfield sites.

POTENTIAL IMPACT

Developing property on an industrial brownfield site, such as a tannery or a gasworks, brings risks from potentially harmful residues and ground contamination. While commercial developers can control any residual toxicity by putting a concrete cap over the area, housing developers have to nullify harmful substances or strip the soil completely. As this is not an exact science, there is always a risk that the complex technology may not work or may not satisfy future demand.

By 2030, the global population is estimated to grow by 2.2 billion. Two out of three people in the world will live in a city, occupying 2% of the earth's surface but consuming more than 75% of its resources.

Nanotechnology

With a nano denoting one billionth of a metre, nanotechnology is the term used to describe processes that take place on a molecular level.

Potential applications are in the fields of medicine, electronics or energy storage/use, including reducing friction to improve bearing surfaces in moving machinery such as cars, machine tools and electric motors, producing self-cleaning finishes for windows or cars to reduce dirt build-up and improving 'reflectivity' of key ingredients to improve UV screening in sun creams.

POTENTIAL IMPACT

By 2011, we may have large-scale production of machines able to manipulate or position atoms with great accuracy and products that involve nanotechnology in their manufacture might be commonplace. Insurers will need to pay particular attention to risks in manufacturing as well as potential product applications and their possible associated risks.



Obesity/Heart Disease and Fast Foods

The ubiquitous hamburgers and fries could prove to be as addictive as heroin, claim some scientists. Research suggests people can become addicted to the fat and sugar in fast food and may explain the rising rates of obesity in the western world.

POTENTIAL IMPACT

A group of American teenagers placed a lawsuit against McDonalds in 2002 claiming that the fast food chain was responsible for their obesity, diabetes and high blood pressure. The ruling went against the claimants, stemming fears that it could herald further claims, similar to those in the tobacco industry. Manufacturers are taking this issue seriously, however. Heinz soup, for example, now contains 20% less salt, 18% less fat and 10% less sugar than it used to.

However, questions remain: should fast food suppliers be forced to issue health warnings? Can we draw any parallels between fast food and tobacco? Are class actions likely? Is it irresponsible for advertisers to target the young so persistently? This is an area where insurers can expect frivolous, “try on” claims – while such cases may be defensible, defensible costs will be incurred.

25% of the UK population is overweight. This may change for the better as experts say Britons need to change their diet because the overemphasis on meat stifles sustainable food production – growing food for animals to eat is an inefficient way of using land.





Potentially Harmful Substances in the Indoor Environment

There is an increasing use of 'manufactured' materials in building and household products such as carpets, wallpaper or particleboard, which may contain potentially harmful substances. Our experience with asbestos shows that the effects of these substances may be latent, taking years to appear.

POTENTIAL IMPACT

There could be an increase in liability claims from allegations of disease, in business interruption claims during restoration or replacement of materials and in professional indemnity claims from allegations of lack of professional expertise when materials were originally specified.

Reform of Rehabilitation of Offenders Act 1974

The Government recently commissioned a review of the Rehabilitation of Offenders Act 1974, with legislative reform due at the end of 2004. The rationale is that people with convictions could get caught in a vicious circle because of how long they have to disclose their conviction to potential employers. With many unable to find work, the inevitable consequence is re-offence.

POTENTIAL IMPACT

Disclosure of a criminal conviction is considered a material fact and may have an impact on insurers' acceptance of the risk, or the terms that they are prepared to offer a customer. Notification of a conviction for arson, fraud or a prosecution under the Health and Safety at Work Act is likely to lead to an offer of insurance being declined. Under the proposed new legislation, disclosure of such offences would not be obligatory.



The number of people claiming invalidity benefit has trebled in the last 20 years. Currently, only 10% of employees who have suffered a serious injury return to work.



Registration, Evaluation and Authorisation of Chemicals Directive (REACH)

The REACH Directive seeks to change the way in which the safety of chemicals is assessed and judged. While new chemicals are currently subjected to extensive testing, other products did not receive such close scrutiny as they were already in use before current controls and testing regimes were introduced. The Directive aims to remove this distinction.

Manufacturers would be required to make a case for why they wish to market a particular substance and demonstrate its safety. Currently, control of the hazard rests with the regulator who takes the necessary steps to reduce any hazard to acceptable levels.

POTENTIAL IMPACT

There is concern in the chemical industry about possible adverse effects, additional work on testing and costs. The legislation will have a significant effect on the chemical industry and all users of chemical and manufactured substances. However, the impact is mainly beneficial in the longer term and little or no short term impact is expected for the insurance industry.

Rehabilitation

The UK is relatively poor at getting employees back to work following workplace injury. Preventive treatment for workers complaining of pain to avoid absence and any subsequent claim is rare.

While there are clear moral drivers, a positive cost benefit case for insurers or employers is not always clear. There are different stakeholders with different agendas. When employees return to work sooner however, there are psychological benefits to the individual, society benefits from reductions in benefits payments, employers from reduced 'on costs' and both insurers and employers benefit from reduced claim costs, for example through reductions in future loss of earnings.

POTENTIAL IMPACT

Rehabilitation remains on the government radar and has been the subject of joint discussions between the ABI, TUC and CBI for several years. While insurers are urging the government to become more involved with the issue, slow development is predicted given the lack of hard evidence on anticipated cost savings. The Government is now taking steps towards resolving the issue and published a framework for Vocational Rehabilitation in October 2004.

Restriction of Certain Hazardous Substances in Electronic and Electrical Equipment Directive (RoHS)

The RoHS Directive will ban the use of substances such as lead, cadmium and mercury in electrical equipment from July 2006. There are exemptions where suitable substances are not available or might introduce greater hazards, including for example the use of lead in cathode ray tubes and some forms of cadmium plating. The list of banned substances will be reviewed at four-yearly intervals with a view to adding further substances.

POTENTIAL IMPACT

The new requirements will undoubtedly improve health and safety but more importantly will deliver significant environmental benefits. However, the effect on the insurance industry is accepted to be slight and in the longer term.

Six and a half million working days are lost in Britain each year through stress, which represents an annual cost to the economy of £7bn in sick pay and lost production.

Stress

Workplace stress is caused by a range of factors from bullying or discrimination to long working hours. It is believed that excessive pressure can lead to health effects including raised blood pressure and heart disease.

POTENTIAL IMPACT

Employers risk claims for stress, constructive dismissal and legal costs, with the primary effect on legal expenses policies from increased numbers of employment tribunal cases. While the HSE's recently published code of best practice may help employers manage stress points in their organisation, it could make it difficult for insurers to defend legal action if the employer has not referred to it.



Sun Beds

Malignant melanoma of the skin is a significant cause of cancer deaths and research has indicated a possible link to sunbeds.

POTENTIAL IMPACT

As the number of tanning facilities at health clubs continues to grow, it is possible that third party injury claims might be received from sunbed customers.

Thames Gateway

The Government is planning to build 120,000 new homes by 2016, mainly located within the Thames Estuary floodplain.

POTENTIAL IMPACT

The massive scale of this development presents a huge challenge because of unusual construction techniques and location.

Most Thames Gateway properties will be built using modern methods of construction (prefabricated 'pods') which are largely an untested and unknown quantity in terms of flood and fire resistance, longevity and repairability. The increased flood risk is obvious and future claims against building designers and architects are also possible.

Global warming brings the sea level up 3mm every 12 months and tectonic plate shifts add a further 2mm. 5mm a year may not much sound much, but when you think of the vastness of the North Sea, it represents a huge volume of extra water. Coastal erosion is now moving six times faster than experts have predicted.



Toxic Mould

A small number of moulds produce mycotoxins which may affect health. Effects on the respiratory system are well documented but there are allegations they also affect the immune system and may cause memory loss.

POTENTIAL IMPACT

While in the USA there have been successful claims against builders, property managers, architects, plumbers and air-conditioning engineers, in the UK, very few claims have been made because of our different building construction methods and environmental factors such as humidity.

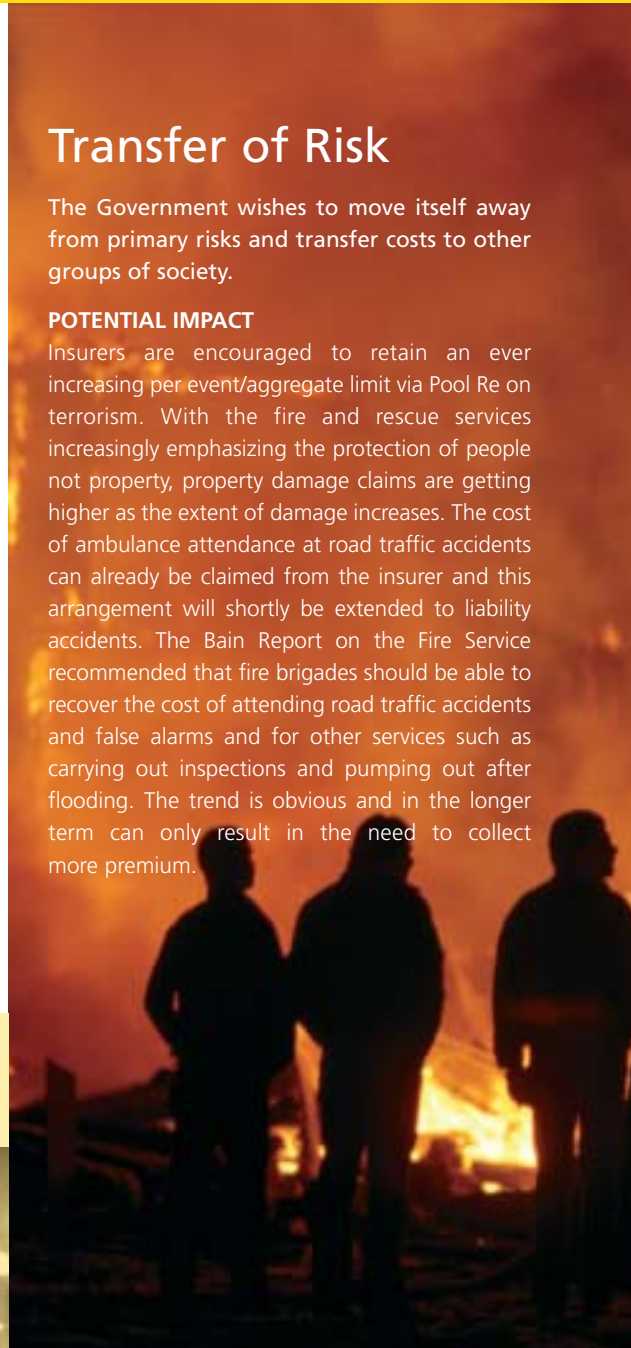
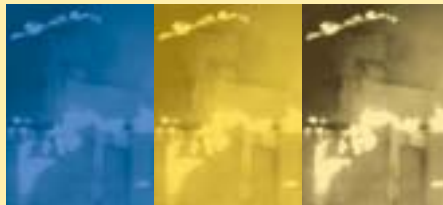
If this changes, all classes could be affected, from business interruption for loss of use of buildings, public liability for general injury claims, product liability for materials, legal expenses and professional indemnity claims against professionals for advice given.

Transfer of Risk

The Government wishes to move itself away from primary risks and transfer costs to other groups of society.

POTENTIAL IMPACT

Insurers are encouraged to retain an ever increasing per event/aggregate limit via Pool Re on terrorism. With the fire and rescue services increasingly emphasizing the protection of people not property, property damage claims are getting higher as the extent of damage increases. The cost of ambulance attendance at road traffic accidents can already be claimed from the insurer and this arrangement will shortly be extended to liability accidents. The Bain Report on the Fire Service recommended that fire brigades should be able to recover the cost of attending road traffic accidents and false alarms and for other services such as carrying out inspections and pumping out after flooding. The trend is obvious and in the longer term can only result in the need to collect more premium.



TSE – Transmissible Spongiform Encephalopathy

TSE is a group of fatal diseases involving infection and degeneration of the central nervous system and brain. Bovine Spongiform Encephalopathy (BSE) that affects cattle is the most well known example.

At the same time as the cattle epidemic, caused by uncontrolled use of feedstuffs, a similar condition arose in humans, the new variant Cruetzfeld Jacob Disease (CJD).

POTENTIAL IMPACT

A causal link is believed to exist but has not yet been fully proven.

Waste Electrical and Electronic Equipment Directive (WEEE)

With electronic waste growing three times faster than any other European waste stream, the WEEE Directive will 'encourage' companies to meet recycling targets of between 50% and 70% of the weight of the appliance and manufacturers will be responsible for managing their own end of life product waste. With an ever-increasing number of devices in use, end-of-life is a growing problem.

POTENTIAL IMPACT

The UK must ensure that by 2007, 4kg of waste are collected per inhabitant. If retailers set up public collection points for electrical equipment, this could introduce new risks such as manual handling or product leakage. It could also create new market opportunities for insuring a growing recovery and recycling sector.

By 2020 there will be a range of new technologies to make our day to day lives simpler. Electronic compact newspapers will be downloaded on to handheld devices and microchips will mean our fridge will order our shopping, washing machines will contact service engineers by themselves and your medicine will tell you when it next needs taking.



Conclusion

As insurers navigate the fast-changing economic landscape, it is even more critical to keep a close eye on the future – and learn the lessons of the past.

Risk management has a key role to play – and burying our heads in the sand today will store up a host of problems in the not too distant future.

Planning now will help offset the future risks, bring the boom-bust premium cycle to an end and pave the way towards a stable and sustainable insurance industry of the future.





Please contact your usual
account manager for
more information.