Asbestos and Pollution: Will it Ever End?

A.M. Best's Perspective

Gerard J. Altonji

May 2010

A.M. Best's Revises Industry Estimates: 12/7/2009

- Asbestos Loss Raised $10 billion, to $75 billion
- Pollution Loss Lowered $14 billion, to $42 billion
- Total A&E Estimate Lowered $4 billion, to $117 billion

Why the Higher Asbestos Estimate?

- Stubbornly High Annual Losses
- Subtle Shift Away from Products
- Increase in % of Mesothelioma Claims
- Some Weakening of Impact of Tort Reforms

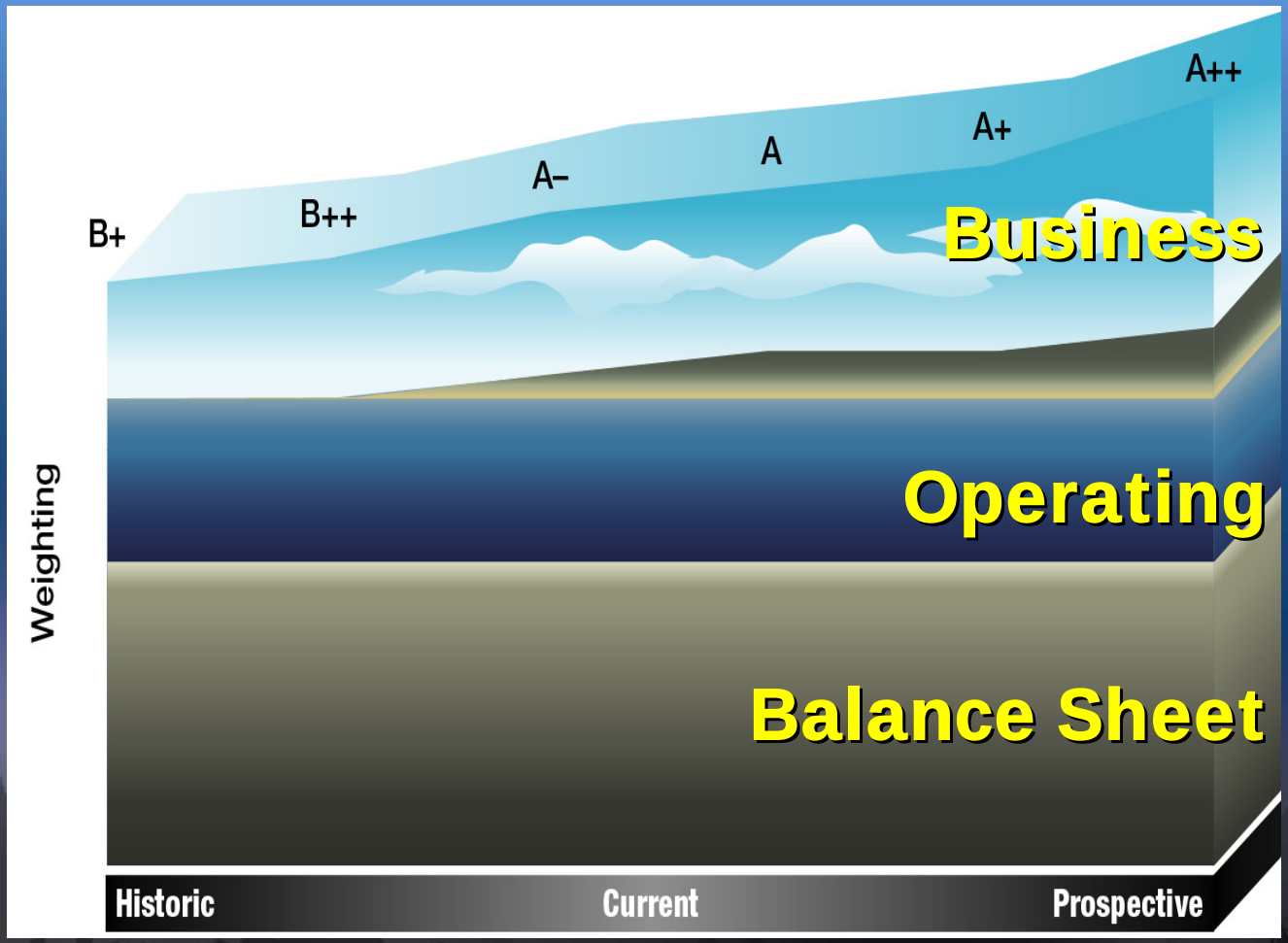
Why the Lower Pollution Estimate?

- Declining Losses (until 2009) since 1999
- Mega (Petrochemical) Losses Largely Settled
- Policy Buybacks / Waivers Late 1990s, Early 2000s

Industry Funding Analysis (Preliminary Data)

	Asbestos	Pollution
Ultimate Industry (Net) Exposure	$ 75.0 b	$ 42.0 b
Est. of Industry Paids to 1990	7.7	3.0
Industry Paids 1991 – 2009	37.1	25.9
Industry Net Reserves: 2009	23.4	5.9
Est. Industry Incurred-to-Date	68.2	34.8
Implied Shortfall	$ 6.8 b	$ 7.2 b

Best's Rating Components



Business Profile

Operating Performance

Balance Sheet Strength

Individual Insurer / Reinsurer Funding Analysis

- **Historic Premium Market Share**
- **Historic Paid Loss Share**
- **Survival Ratio (AMB Benchmarks: Asb, 11x; Env, 13x)**
- **Average All Three**
- **Tempered With Credible Ground-Up Evaluation**
- **Adjustment for Est. of Deficiency in Loss Reserves**
  - Deficiency and Discount Factors Adjusted Accordingly

Unfunded Methods

Average Unfunded A&E	$48.8

Reserves Carried In Lines with A&E Exposure: $ in Millions						
A&E Exposed LOB	Carried Reserve	Adequacy Factor	PY Deficiency	(B) Pre-A&E Required	Allocation of A&E Deficit	New Adequacy Factor
Other Liab - Occ	$50.2	1.23	$4.6	$57.1	$30.6	1.75
Products Liab - Occ	$9.6	1.34	$1.9	$11.0	$12.7	2.00
Reinsurance B	$34.3	1.30	$0.7	$43.9	$4.9	1.42
CMP	$27.6	1.10	$0.1	$30.3	$0.6	1.12
Total	$121.8		$7.3	$142.3	$48.8	

(B) ((Carried * Adequacy Factor) - PY Def) = Required Reserve EXCLUDING A&E Losses

Some Industry Statistics …

Total P&C Industry: 2009 Asbestos and Pollution

Year	Asbestos Reserves	Asbestos Incurred	Asbestos Paids	Pollution Reserves	Pollution Incurred	Pollution Paids
2005	26,324	4,900	2,416	7,858	1,153	1,245
2006	25,723	2,148	2,809	7,259	473	1,072
2007	25,412	2,478	2,788	6,955	654	957
2008	23,505	1,252	3,163	6,211	365	1,085
2009 est	23,343	1,956	2,207	5,933	502	778

Some Industry Statistics …

Total Reinsurance Industry: 2009 Asbestos and Pollution

Year	Asbestos Reserves	Asbestos Incurred	Asbestos Paids	Pollution Reserves	Pollution Incurred	Pollution Paids
2005	4,313	530	503	1,628	253	163
2006	4,473	759	632	1,512	27	144
2007	5,047	1,146	566	1,359	2	157
2008	4,958	367	456	1,247	24	137
2009 est.	4,852	178	284	1,171	8	85

Questions

- Age of ground-up loss reserve analysis?
- How well have “old” projections held up?
- Range of actuarial projections and position of company’s reserves within that range?
- What % of asbestos reserves is held in IBNR and has that changed over time? Why?

Questions

- What was the insured profile of casualty business written during 1960s through the mid-1980s?
- To what extent has the company utilized policyholder buyouts to contain exposures?
- Current status of buyouts?
- Underlying trends in asbestos “book”?
- What is the company’s strategy for dealing with asbestos losses? Dedicated claims team?

A Solvency Issue?

Not Likely (for Most) ...

More Likely to Be the Occasional Uninvited Guest to the Earnings Party