

**Effects of recent changes in asbestos
and environmental liability estimates
on companies**

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Agenda

- ▶ Elements driving change
- ▶ Asbestos allocations
- ▶ Non-products asbestos
- ▶ Environmental effects
- ▶ Applications to future liabilities

Underlying causes of change from A.M. Best Dec 7, 2009 Special Report

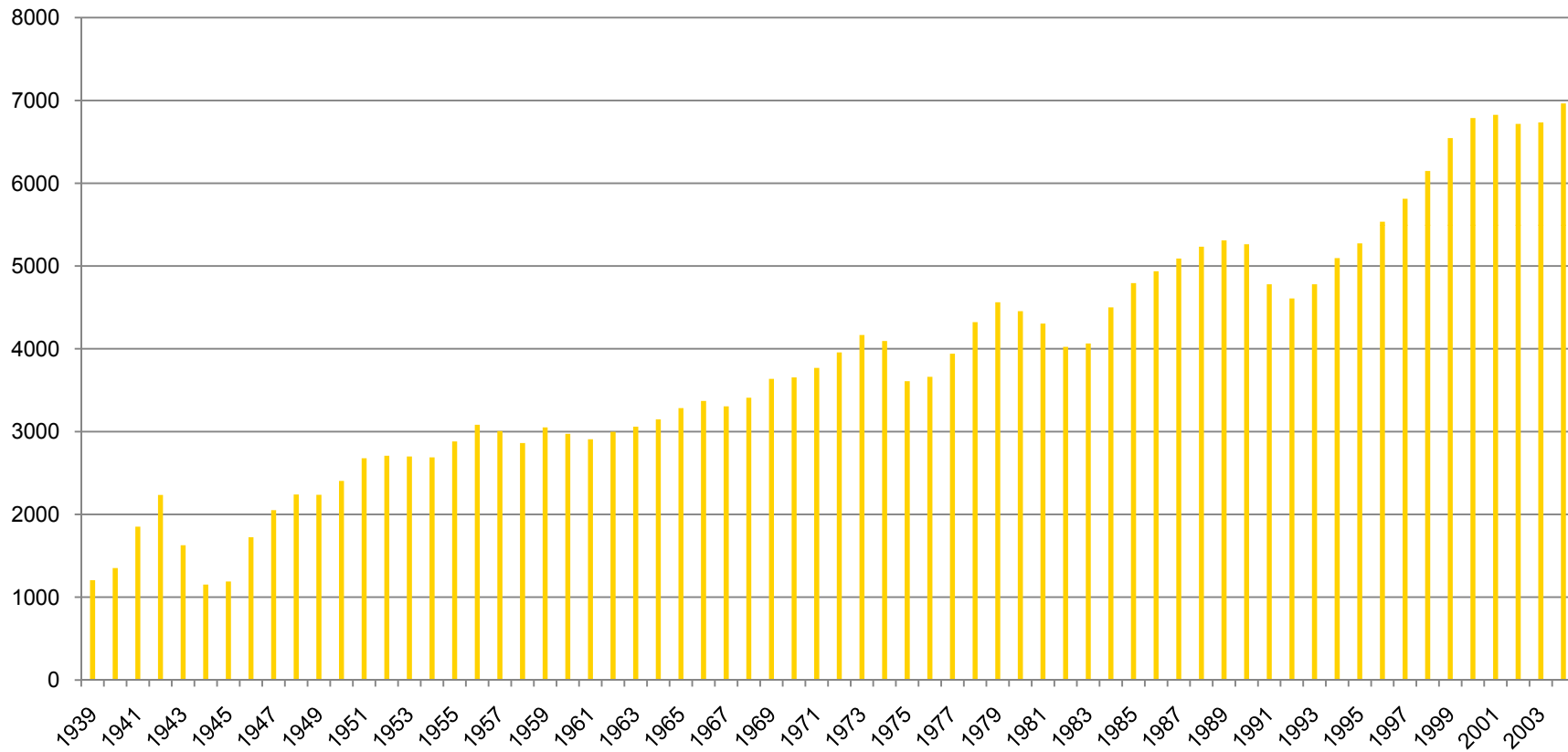
- ▶ Asbestos – elevated levels of annual incurred losses.
- ▶ Asbestos – growing proportion of more serious cases such as mesothelioma.
- ▶ Environmental – steady decline in incurred losses.
- ▶ Environmental – “mega” losses have been settled.

Asbestos incurred losses – where are they coming from?

- ▶ Primary companies are still incurring claims.
- ▶ Excess coverages and reinsurers are incurring ever-increasing share of total losses.
- ▶ Some new defendants identified in recent years have had significant asbestos claims reported and settled.
- ▶ Products asbestos losses driven by exposure from workers in several types of industries.
- ▶ A clinical study estimated an average latency period of 35 to 40 years.

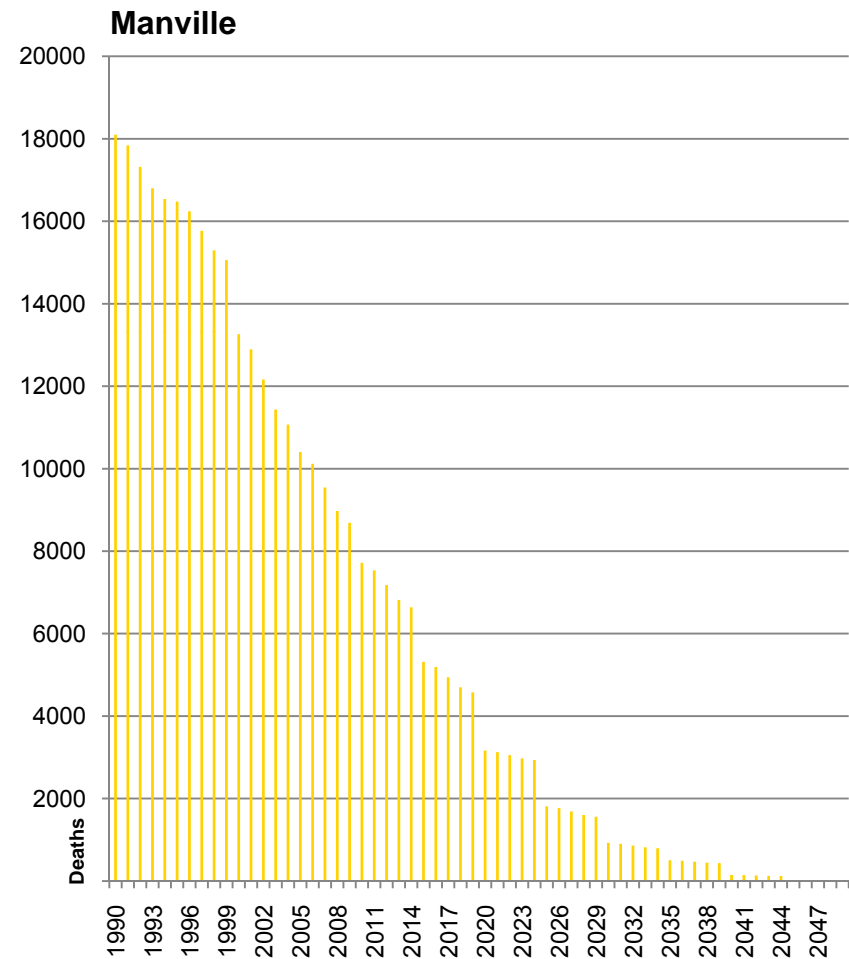
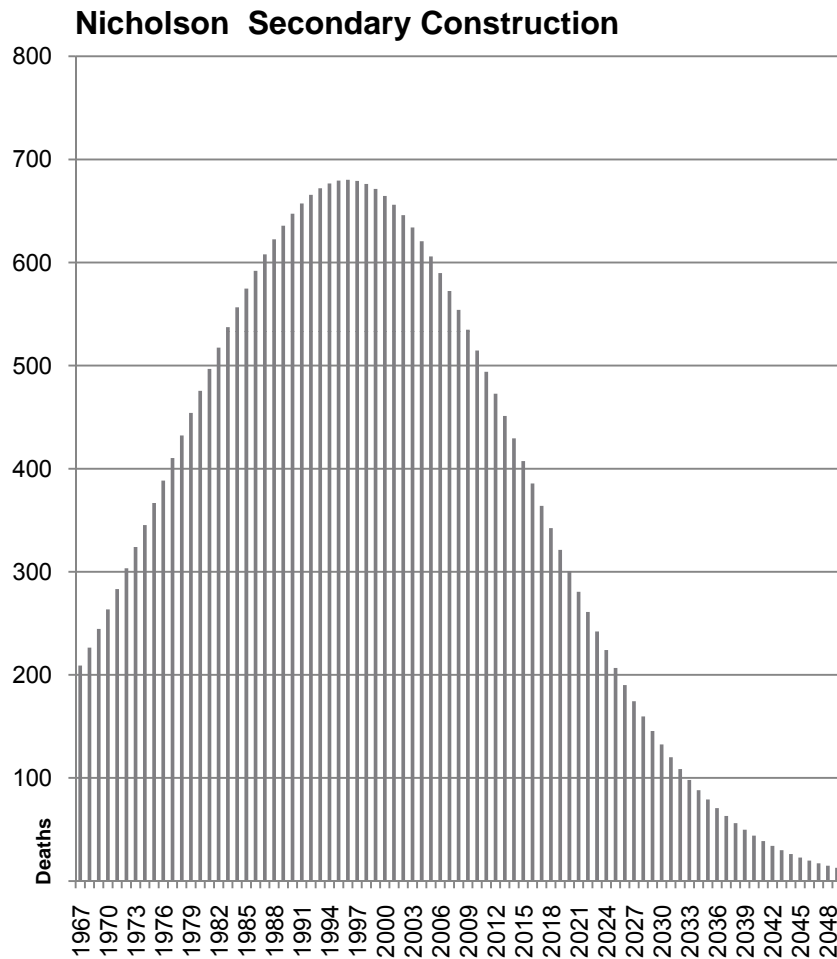
Asbestos incurred losses – where are they coming from? (cont'd)

Employees in Thousands



Source: U.S. Bureau of Labor Dept Statistics for Construction industry

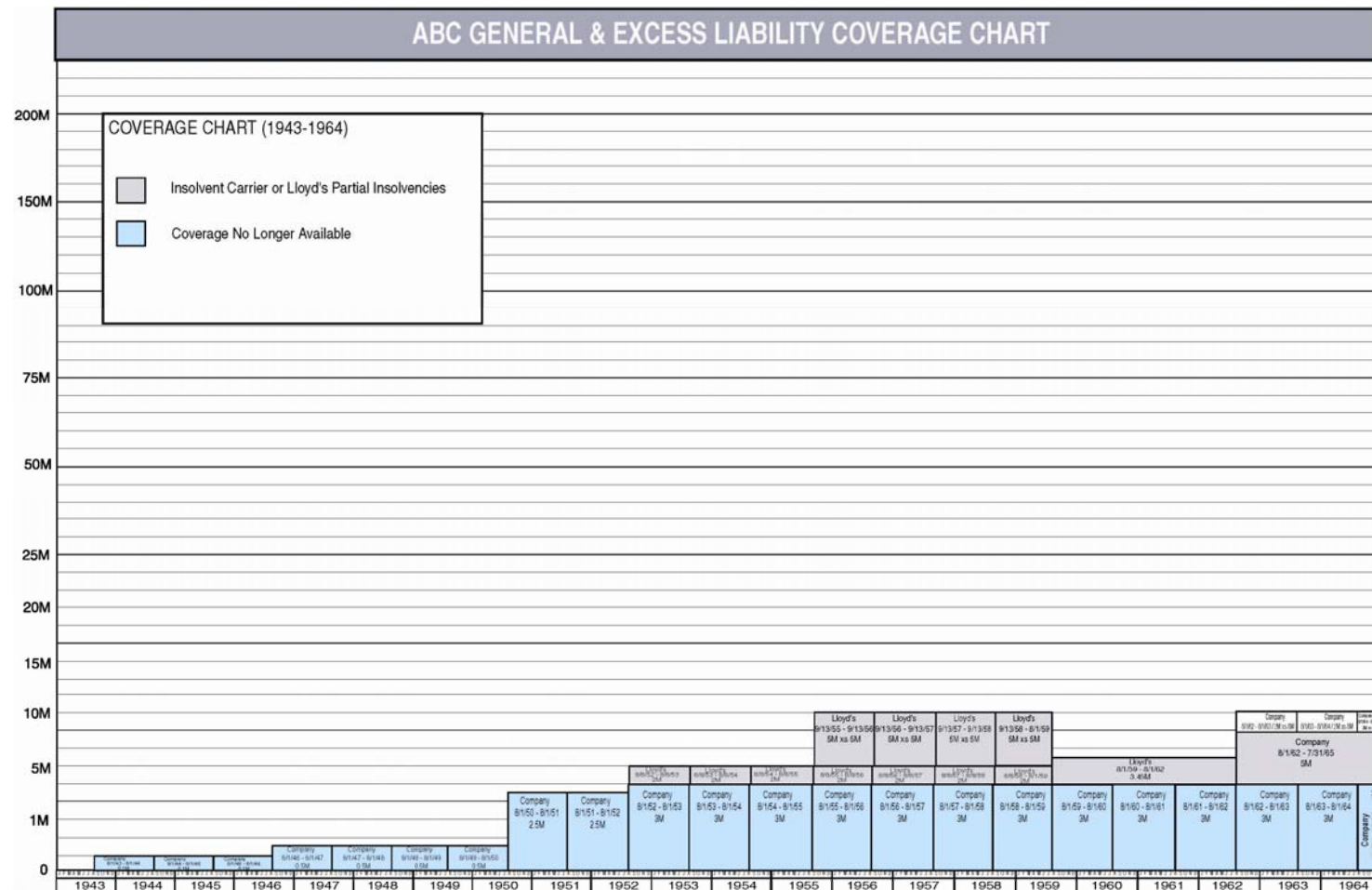
Asbestos incurred losses – where are they coming from? (cont'd)



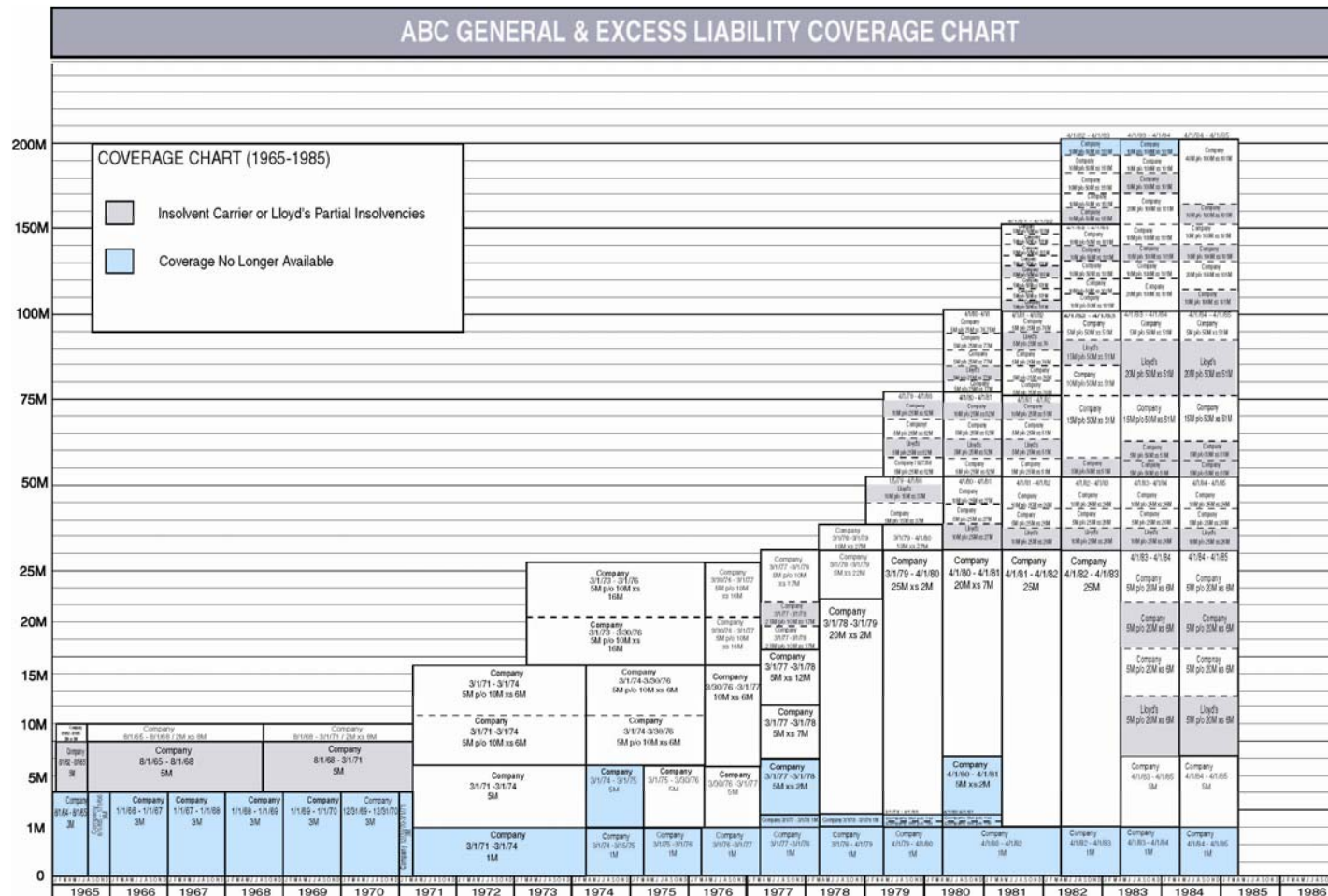
Asbestos incurred losses – where are they coming from? (cont'd)

- ▶ Combine date of first exposure or active workers in an industry, with
- ▶ Distribution that is Normal (or close to it)
- ▶ You end up with sum of Normal distributions which is Normal

Asbestos incurred losses – where are they coming from? (cont'd)



Asbestos incurred losses – where are they coming from? (cont'd)



Asbestos incurred losses – where are they going?

It depends on:

- ▶ Which layers the insurer or reinsurer is involved.
- ▶ Which years the insurer or reinsurer is involved.
- ▶ The type of coverage.

Asbestos products coverage

- ▶ The volume of losses settled, paid and incurred is the most important element.
- ▶ Large claims, such as mesothelioma claims, will normally not create greater insured products coverage than the same amount of total loss from many claims.

Asbestos non-products losses

- ▶ Prior to 1986, premises coverage was referred to as general liability sublines – (a) owners, landlords and tenants; (b) manufacturers and contractors.
- ▶ Some of these defendants have recently arrived on the scene:
 - ▶ Latency period is an important part of the emergence.
 - ▶ Asbestos is mined, used to create products, used in other products and is eventually used.
 - ▶ Defendants enter at different points in this timeline.
- ▶ Some are not new:
 - ▶ There have been successful reallocations of past asbestos claims from products to non-products.
 - ▶ Involves potential increase to industry liabilities from past as well as future claims.

Asbestos non-products losses (cont'd)

- ▶ How does coverage chart affect a company's non-products asbestos?
 - ▶ It doesn't.
- ▶ Non-products asbestos losses are individual events by claimant:
 - ▶ They are allocated across time.
 - ▶ They do not aggregate like products.
 - ▶ Expectation of losses in excess layer may be non-existent.
- ▶ Will affect pools or proportional reinsurance treaties that include those written for protection of many smaller insurers.

Environmental liabilities and excess coverages

- ▶ The largest remediation sites exposed direct casualty excess of loss coverage and corresponding reinsurance.
- ▶ These losses contributed to insolvencies of some direct excess writers in the 1980s as well as Lloyds.
- ▶ Recent environmental losses are not of the same scale as those more than ten years ago.
 - ▶ Expected average might be higher but expectation above significant excess threshold is much lower.
- ▶ Excess coverage and reinsurance of casualty excess coverage have seen incurred losses reduce to a trickle in some portfolios.

Asbestos and environmental comparisons

- ▶ Asbestos losses in the future are expected to remain with excess layers and reinsurers.
- ▶ Any asbestos increases in the future from non-products coverage should have little effect on excess layers and some effect of proportional reinsurance of lower layers.
- ▶ Environmental should show an overall decrease, but excess layers and reinsurers should show a greater decrease.

Lessons for the future

- ▶ Latent claims, continual causation claims and mass torts will arise from time to time.
- ▶ Some of those already identified will start to affect more recent insurance coverages.
 - ▶ Evidence of asbestos claims with a date of first exposure beyond 1986 and the introduction of an absolute exclusion clause.
 - ▶ Litigation continues on other latent claims with ongoing products in use exposure.
- ▶ Analyses by exposure and coverage period and layer of loss, will still be needed

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