Introduction

by the CAS Committee on Reserves
Introduction to the 1994 Committee on Reserves
Call Paper Program

Environmental liability has been an emerging issue for well over a decade. The property/casualty insurance industry's view of mass actions involving asbestos and similar products, and cleanup of hazardous waste sites, has been clouded with fundamental uncertainties as to potential costs, damages, coverage and apportionment. While some of the longer-standing legal issues have been adjudicated, many of these uncertainties remain unresolved.

From a financial reporting perspective, environmental liabilities present unique challenges to management, auditors, and actuaries. The issues and uncertainties are complex, and, therefore, not easily reduced to a "single number" for financial statement presentation, or to a few sentences for disclosure. Preparers of financial statements are legitimately concerned about misrepresentation and/or misuse by those who are unfamiliar with these complexities. At the same time, users of insurance company financial statements (including regulators, rating agencies, investors, and insurance buyers) have a need to understand the implications of these potential liabilities on future operating performance.

Recognizing the emerging need for actuarial support in this area, the CAS Committee on Reserves (COR) ran a call paper program starting last fall. The papers from that call are presented in this edition of the CAS Forum. Although they are an important first step in the process, more research and papers are needed on this critical topic. The papers present several approaches for estimating asbestos and pollution liabilities, and discuss the data and assumptions necessary to apply them. In keeping with the unique nature of the liabilities, the approaches are not all traditional, demonstrating innovative responses to new problems. The papers also provide a wealth of background information, useful to those who need to learn more about the issues.

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