The Actuarial Profession
making financial sense of the future

Current Issues in General Insurance
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What am I talking about?

- Market situation
- Implications of IAS
- US & UK Asbestos
- Developments in PI - D&O, Laddering etc
- UK Liability
- Large losses
- Implications of HIH

General Market Situation

- Great time to be writing General Insurance business?
- Excellent underwriting conditions and good loss experience
- But what about after the market turns……..?

General Market Situation 2

■ But what about after the market turns……..?

General Market Situation 3

■ Premium rate movements – 31 December
2002 renewal season: Marine

■ Liability	+ 20%
■ Hull	+ 25%
■ Cargo	+ 15%
■ Specie	+ 15%
■ Energy Offshore	+ 40%
■ Energy Onshore	+ 20%

General Market Situation 4

■ Premium rate movements – 31 December
2002 renewal season: Non Marine

■ Employer's Liability	+ 30%
■ Third Party/Products Liability	+ 25%
■ Errors & Omissions	+ 15%
■ Financial Institutions	+ 15%
■ Property	+ 10%

General Market Situation 5

■ Premium rate movements – 31 December
2002 renewal season: Reinsurance

    ■ Aviation   + 30%
    ■ Casualty   + 25%
    ■ Property Cat - US   + 15%
    ■ Property Cat - International + 15%
    ■ Property Retrocession + 10%

General Market Situation 5

■ How long will this market last?
■ Where are we in the underwriting cycle?
■ Do we understand amplitude of the
underwriting cycle?
■ At what parts of the underwriting cycle do we
make profits?
■ What actions should we take?

Implications of IAS

■ 2 phases:
    ■ Phase 1: at a minimum implementation of local
GAAP by 2005.
    ■ Phase 2 implementation currently unknown.
However, disclosure of "fair value" amounts by
2006 in notes to the accounts required
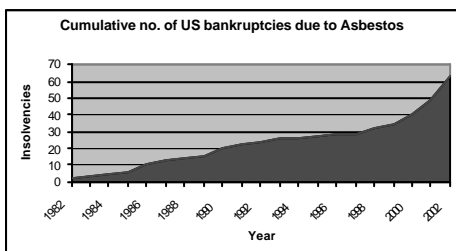■ Market value margins
■ Disclosure requirements

US & UK Asbestos – What is asbestos?

- Known as the "miracle mineral"
- It is a naturally occurring fibre that is in general:
  - Incombusitible
  - Flexible
  - Durable
  - Strong; and
  - Resistant to heat duration and wear
- An ideal material with many uses

US & UK Asbestos – Where was asbestos used?

- **Almost everywhere**
- Shipbuilding
- Boilers and machinery
- Electricity generation plants
- Oil refineries
- Wallpaper
- Textured paints
- Building insulation
- Pipe coverings
- Wire coatings
- Asbestos cement
- Roofing
- Brake linings
- Wall and ceiling tiles and coatings
- Cement

US Asbestos – What's the issue?

Cumulative no. of US bankruptcies due to Asbestos

Insolvencies / Year

US Asbestos – What's the issue 2?

- **One quarter** of all firms that have filed for bankruptcies due to asbestos liabilities have done so in the **past year**.
- Market estimates of US asbestos are up to $275bn
- Joseph Stiglitz has estimated that the US asbestos problem has cost 60,000 people their jobs at an economic cost of up to $3bn.
- Utility worker awarded $47m for mesothelioma
- The Economist estimated that 94% of asbestos claims filed in 2001 were for unimpaired claims

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US Asbestos – What's the issue 3?

- Headline reserve increases by large US insurers
- Settlements
- Norfolk FELA case
- Tort reform at state level and in Congress?
- Greater awareness regarding unimpaired claims
- Reform from within the industry?

UK Asbestos – What's the issue?

- Market estimates of UK asbestos range from £7bn to £18bn
- Assume at least 50% of losses insured
- Impact on individual insurers can vary significantly from the market experience
- Far less bankruptcies expected compared to the US although have been some "casualties":
  - Builders Accident
  - Chester Street

UK Asbestos – What's the issue 2?

- Insurance only compulsory from 1972 (UK) and 1975 (NI)
- This is the time that insurance was declining so more exposure fell back on the companies
- Claims in UK generally under EL (and not products liability as in US)
- Currently no class awards
- Largest claim to date is £4.37m awarded to family of Anthony Farmer. However, rare that claims will reach this level

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Developments in PI – D&O, Laddering etc

- Laddering
- Research
- Spinning
- Others

Developments in PI – D&O, Laddering etc 2
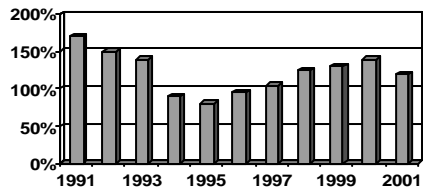
- What are the issues?
  - Reinstatements
  - Underwriting year (Laddering 2000/2001)?
  - High layers?
  - Number of events?
  - Market settlements?

UK Liability

■ Poor market experience
■ Perceived unavailability for some
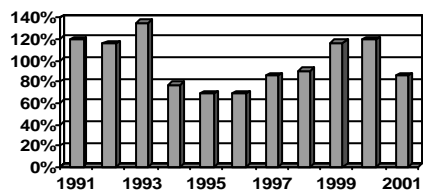■ Media/political interest

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UK Liability 2

**Employers' Liability Ultimate Gross
Claims Ratios**

UK Liability 3

**Public Liability Ultimate Gross
Claims Ratios**

UK Liability 4

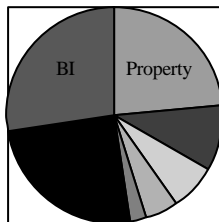- Changes in Expectations and Attitudes
  - "Compensation Culture"
  - Establishment of legal trends seen in US
- Political interest
  - DWP
  - OFT
  - FSA

Large Losses

- WTC
- Others

Large Losses - WTC

Insured Loss	$bn
Business Interruption (BI)	11
Liability	10
Property	9
Aviation	4
Life	3
Workers Compensation	2
Event Cancellation	1
Total	40

Large Losses - Others

- European Floods
- UK Storms
- P&O Diamond Princess
- Hurricane Lili
- Colorado Winter Storms (US Property)
- Prestige
- Potentially SARS(?)

Implications of HIH – What's the big deal?

- Failure of one of the biggest insurers in Australia
- Imagine Barclays Bank failing – that's the scale of loss in Australia
- Estimated deficiency of group between Aus $3.6bn and Aus $5.3bn at 15 April 2001
- Yet the previous year, had stated profits of approximately Aus $21m

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Implications of HIH – Why did it fail?

- HIH Royal Commission (www.hihroyalcom.gov.au) identified three operational reasons for failure:
  - UK Operations
  - US Operations
  - FAI Acquisition
- Mismanagement

Implications of HIH – Why did it fail 2?

- Under-provisioning
  - *"the provision for outstanding claims represented about 50 per cent of liabilities"*
- Use of reinsurance
- Poor corporate governance

Implications of HIH – for actuaries

- Some of the recommendations of the Royal commission include:
  - Entities disclosing:
    - Valuation of insurance liabilities at a central entity
    - 75% level of sufficiency
    - Margin ultimately adopted by entity
    - a summary of the approved actuary's valuation of the outstanding claims liabilities, including the methodologies and assumptions underlying that valuation.
  - Requirement of compulsory certification of the completeness and accuracy of data

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Any Questions?