



The Actuarial Profession

making financial sense of the future

Skeletons in the Cupboard - Latent claim developments in General Insurance, Why they have happened and Possible inferences for healthcare

Camilla Bennett and Kenneth McGaughey,
PricewaterhouseCoopers LLP

27 April 2004, 2004 Healthcare Conference,
Scarman House, University of Warwick



Contents

- Background to known latent claims within General Insurance
- An example of techniques used in General Insurance to reserve for known latent claims
- Can insurers price for currently unknown latent claims?
- Opportunities to debate how this applies to healthcare

1. Background to known latent claims within General Insurance

60 bankruptcies to date

Estimated ultimate claims cost could be over \$250bn

More than 100m people directly exposed during 20th century



Asbestos

- What is asbestos?
- Why is asbestos a problem?

Disease	Description	Latency Period
Mesothelioma	Cancer of membranes that cover the lungs – Fatal within 2 years of diagnosis	30-40 years can be as long as 50 years
Lung Cancer	Cancer of the bronchial – Often fatal	20-30 years
Asbestosis	Pneumoconiosis, non-cancerous scarring of lung tissue – Can be disabling	15-30 years
Pleural-thickening	Thickening or hardening of the pleura – Can be disabling	10-20 years
Pleural Plaques	Scarring or thickening of the pleura – Not generally disabling	Not easy to detect and diagnose – except by chest X-rays



US Asbestos

	1982	2002
Number of Claims	21,000	600,000
Number of Defendants	300	8,400
Total Costs to Date	\$1bn	\$54bn
Bankruptcies	3	64
Estimated future costs	\$38bn	\$200bn

Source: Standard & Poors



US Asbestos

Legal history

- Borel v Fibreboard, 1973 - policies affected
- Exclusions – Asbestosis (late 1970s / early 1980s) - Absolute asbestos clause (mid-1980s)
- Wellington agreement, 1985 – “injury in fact” exposure allocation
- Asbestos Claims Facility (1985-88) and Centre for Claims Resolution (1988-2001) – producers & insurers work together
- Georgine settlement (early 1990s) – signs of an asbestos related disease needed – Supreme court overturned (1997)
- Fibreboard (1993) – global settlement – Supreme Court rejected (1999)
- Fuller-Austin judgement (2002) – all pending & future coverage to be paid to trust immediately – still subject to appeal



US Asbestos

Other issues

- Level of medical evidence required
- Venue shopping
- Bundling
- Stress
- Knowledge
- Aggregations



UK Asbestos

- Why is asbestos an issue in the UK?
- How does this affect insurers?
 - Ultimate market loss estimate £7-25bn (HSE)
 - Claims on Employers Liability policies
 - Exposures from 1940–90 with peak around late 1960s–70s
 - Estimated years of peak claims 2000-20
- Legal issues to date
 - Fairchild ruling
 - ABI protocol
 - Cape ruling
 - Geologistics vs FSCS
- Other issues
 - Solicitors use “scan vans”
 - Bad press / reputation
 - State support



US Pollution

- Background
 - Superfund or CERCLA, 1980
 - Retroactive, strict, joint & severely liable
 - NPL sites; other sites 10s of 1000s
- Issues impacting insurers
 - GL policies
 - Exclusion clauses
 - Trigger
 - Allocation
 - Aggregations
 - Expenses
 - Venue shopping



Other latent claims

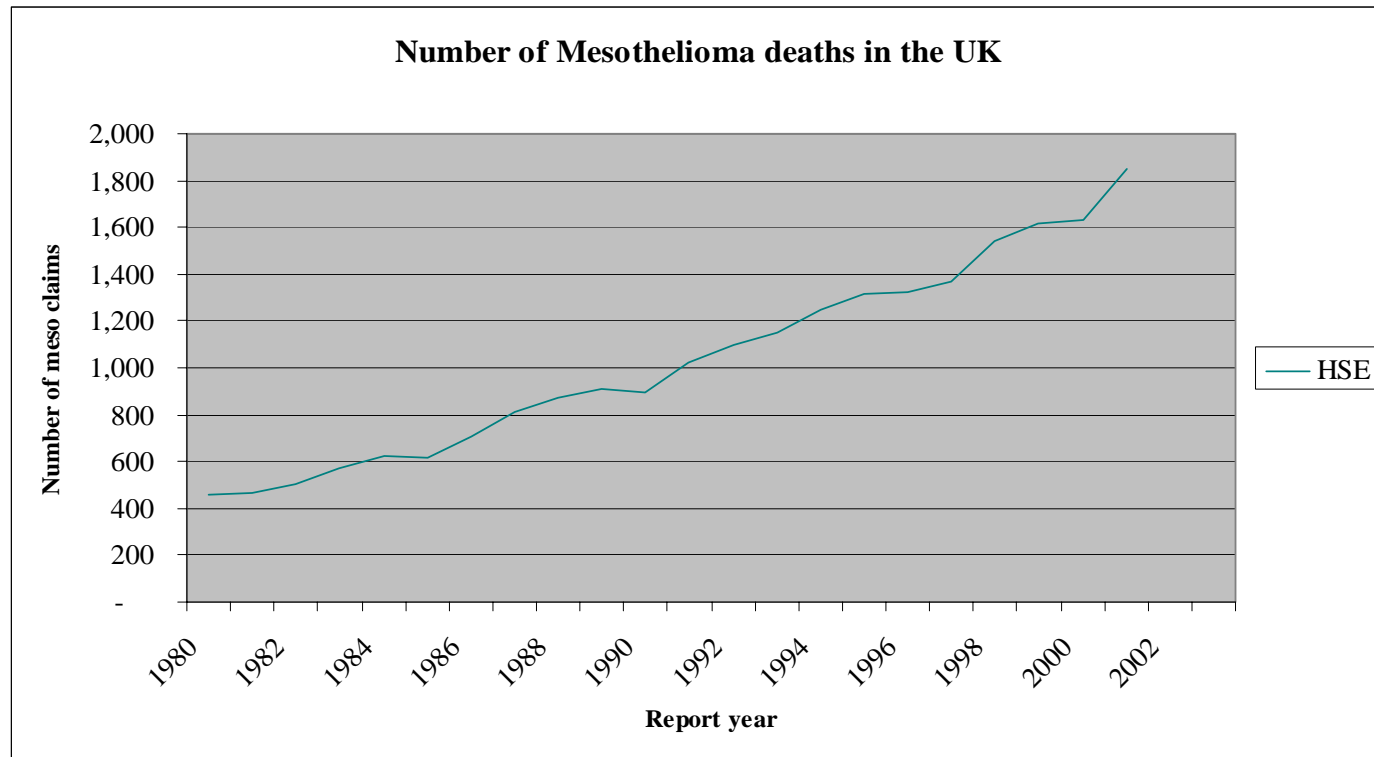
- Current known:
 - Vibration White Finger (“VWF”)
 - Noise Induced Hearing Loss (“NIHL”)
 - Toxic Mould
 - Silica
 - Stress
- Possible future:
 - Tobacco – passive smoking
 - Mobile phones
 - Clean rooms



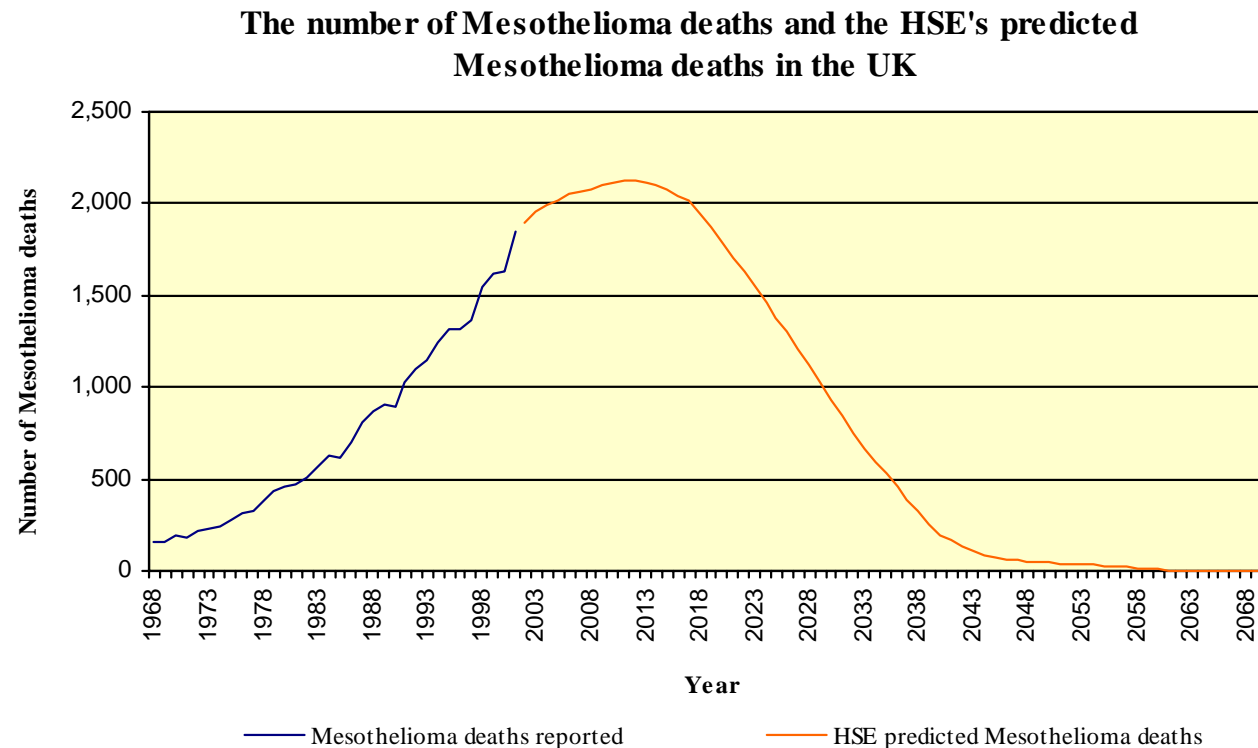
Impact of legal precedent on bodily injury reserve estimates

- Ogden
- Non-pecuniary loss awards
- NHS Charges
- CFAs
- Woolf
- Periodic payments

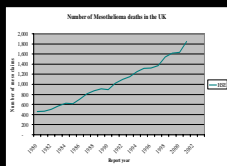
2. An example of techniques used in General Insurance to reserve for known latent claims



2. An example of techniques used in General Insurance to reserve for known latent claims

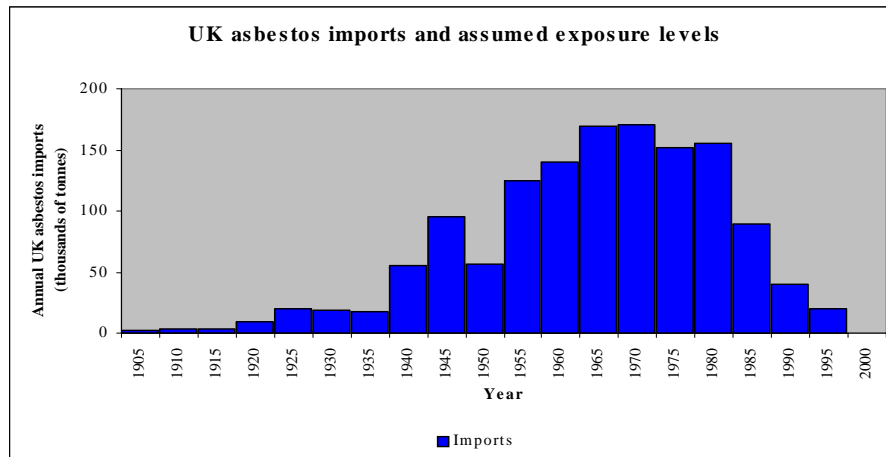


Source – Mesothelioma mortality in Great Britain : Estimating the future burden



UK asbestos modelling (1)

- Assess exposures



- Estimate ultimate number of claims
 - Disease incidence rates & mortality tables
 - Number of claims reported
 - Market versus Company specific information



UK asbestos modelling (2)

- Estimate ultimate ACPC
 - Court awards
 - Insurer's settled and outstanding ACPC
- Benchmarks
 - Survival ratios
 - IBNR:OS
- Data issues
 - Insolvencies
 - Paper records
 - Claims capture



Other modelling approaches

- Direct insurers
 - Ground up loss by assured
 - Apply to insurance
- Reinsurers
 - Ground up loss
 - Benchmarking
- Data issues

3. Can insurers price for currently unknown latent claims?





EL – pricing for disease claims

- Historic pricing
 - High uncertainty
 - Lack of data
 - Competition
 - Policies not claims made
- Split disease and non-disease components
 - Definition of long tail disease
 - Effective date
 - Funding
 - Potential cost savings and research benefits



EL – capital for disease claims

- Capital implications
 - Capital allocation – pricing & performance measurement
 - Disease claims – high insurance risk
 - EL capital intensive
 - CP190 - ICAs

4. Opportunities to debate how this applies to healthcare





Critical Illness

- Disease coverage / exclusions
 - Claims on existing policies – creeping definitions
 - Difficulty of pricing / reserving models
 - Data sources already poor
 - New diseases/conditions – excluded from experience
 - Maybe unexpectedly covered under PTD
- Claim date definition



Over to you ...





Final message – Always be paranoid

- Tight wordings – direct and reinsurance
- Future legal environment
- Compensation culture
- Reputation
- Data
- Uncertainty



The Actuarial Profession
making financial sense of the future

Skeletons in the Cupboard - Latent claim developments in General Insurance, Why they have happened and Possible inferences for healthcare

camilla.b.bennett@uk.pwc.com, +44 20 7212 3474

kenneth.w.mcgaughey@uk.pwc.com, +44 20 7212 6490