



**The Actuarial Profession**

making financial sense of the future

# US Asbestos: Survival of the Fittest?

Darren Michaels & Keith Rayment

32<sup>nd</sup> ANNUAL GIRO CONVENTION

The Imperial Hotel, Blackpool

# US Asbestos: Survival of the Fittest

- Analysis of Footnote 33 Disclosures from Statutory Filings as at 31 December 2004
  - Reserve Strengthening
  - Survival Ratios
  - Calendar Year Payments
  - Reinsurance Cessions
  - Estimated “Unfunded Gap”
- Implications for the London Market
  - Importance of Data
  - Application of Insurance Coverage
  - Past, Present and Future
  - Impact of Insolvencies

# Footnote 33 Data

- Footnote 33 is the A & E disclosure in the Annual Statutory Filing for a US Property & Casualty Insurance Company
- Includes a 5-year history of Gross and Net A & E calendar year movements
- Does not contain Inception-to-Date payments
- Data elements are Beginning Reserves, Paid Losses, Incurred Losses and Ending Reserves
- Separately identifies the Gross and Net IBNR reserves held as of the Annual Statement date (i.e., Dec. 31, 2004)
- Publicly available from State Insurance Departments
- May be purchased from AM Best

# Reserve Strengthening (1)

- Change In Net Ultimate Losses (in millions)

<b><u>Company</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
St. Paul Travelers Cos	83	301	3,572	107	907
Hartford Insurance Group	3	126	513	2,565	(4)
ACE INA Group	251	141	852	-	594
CNA Insurance Companies	110	818	1	641	54
Allstate Insurance Group	38	94	121	519	463
Nationwide Group	121	194	213	193	377
Liberty Mutual Insurance Cos	218	185	296	320	5
Berkshire Hathaway Ins Group	187	144	245	(7)	187
Chubb Group of Insurance Cos	26	63	657	245	74
American Re Corporation Group	22	41	294	-	178
Top 10 Companies	1,060	2,107	6,763	4,584	2,836
Companies 11-20	91	1,640	813	923	322
All Other Companies	214	321	527	577	472
Total US Domestic Companies	1,365	4,067	8,103	6,084	3,630

- \$3.6 billion of reserve strengthening in 2004
- Significant increases in 2002 and 2003 mainly caused by Non-Product exposures

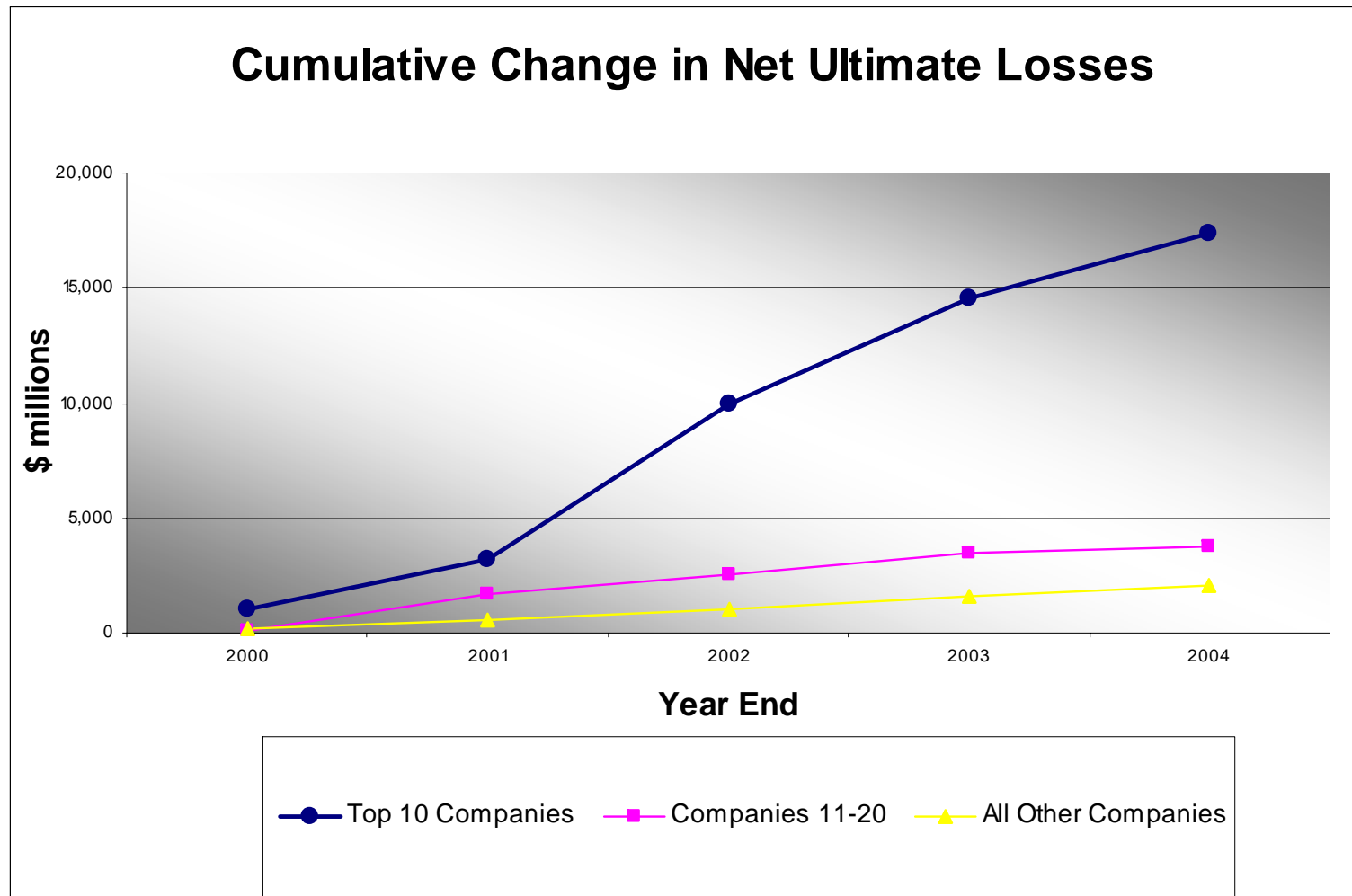
# Reserve Strengthening (2)

- Percentage Change in Reserves (in millions)

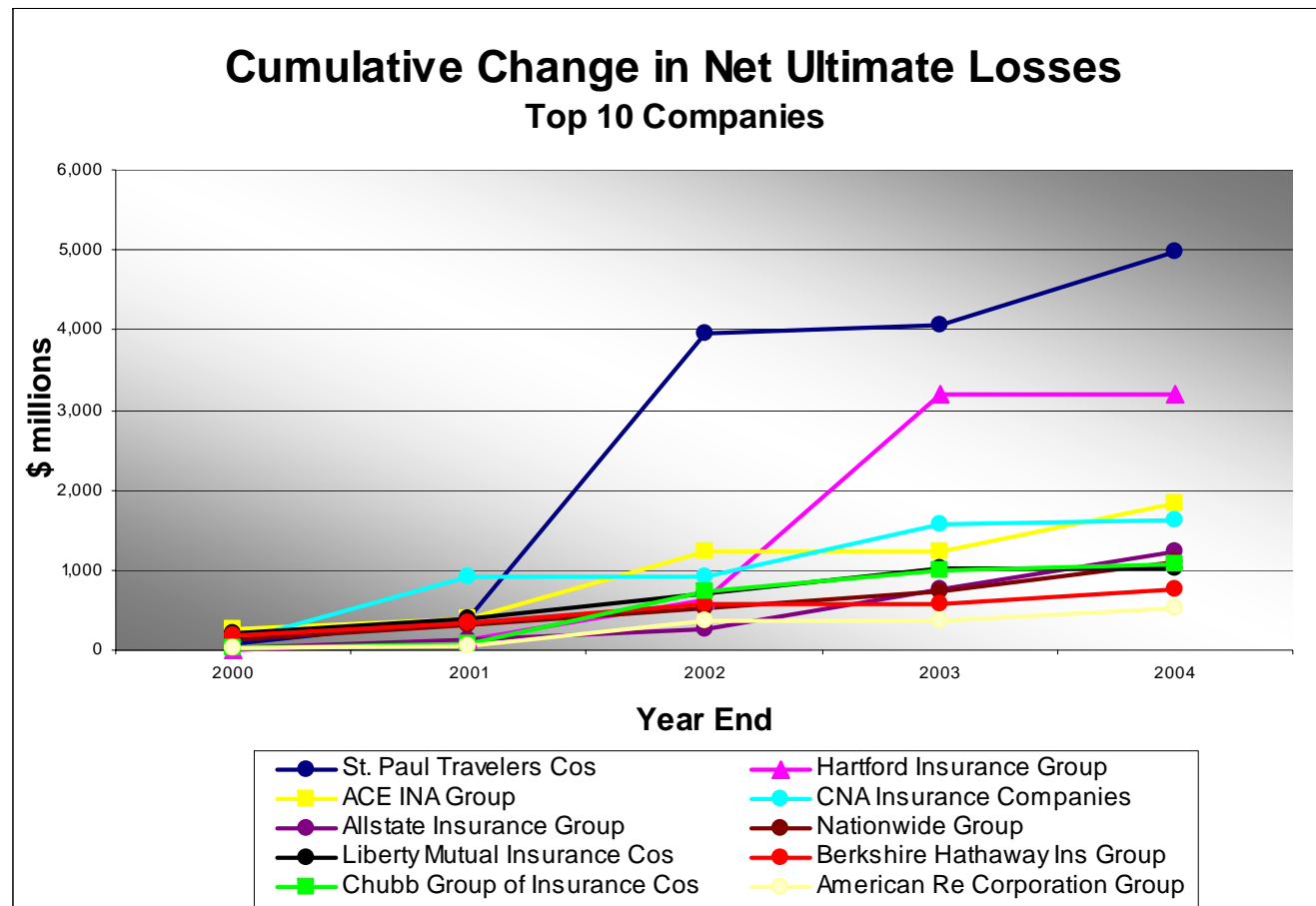
	2004	2003	
	Net Reserve	Net	Pct.
	Adj.	Reserves	Change
St. Paul Travelers Cos	907	3,271	27.7%
Hartford Insurance Group	(4)	3,397	-0.1%
ACE INA Group	594	1,295	45.9%
CNA Insurance Companies	54	1,767	3.1%
Allstate Insurance Group	463	1,076	43.0%
Nationwide Group	377	1,000	37.7%
Liberty Mutual Insurance Cos	5	1,258	0.4%
Berkshire Hathaway Ins Group	187	901	20.8%
Chubb Group of Insurance Cos	74	1,008	7.4%
American Re Corporation Group	178	608	29.3%
Top 10 Total	2,836	15,581	18.2%
Companies 11 to 30	556	5,623	9.9%
Total US Domestic Companies	3,630	22,350	16.2%

- Net reserve strengthening in 2004 represented 16% of 2003 reserves

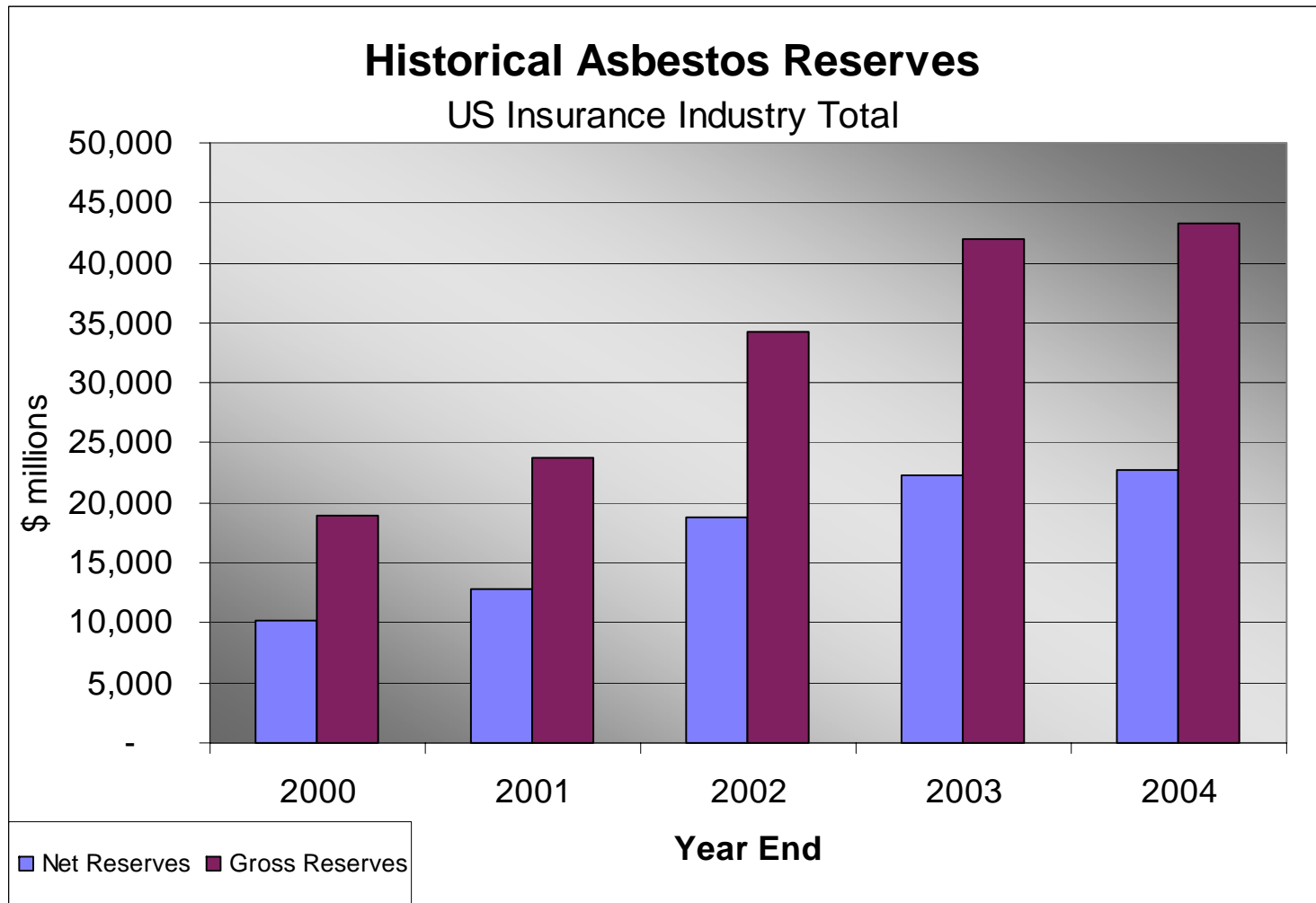
# Reserve Strengthening (3)



# Reserve Strengthening (4) – Top 10 Companies



# Reserve Strengthening (5)



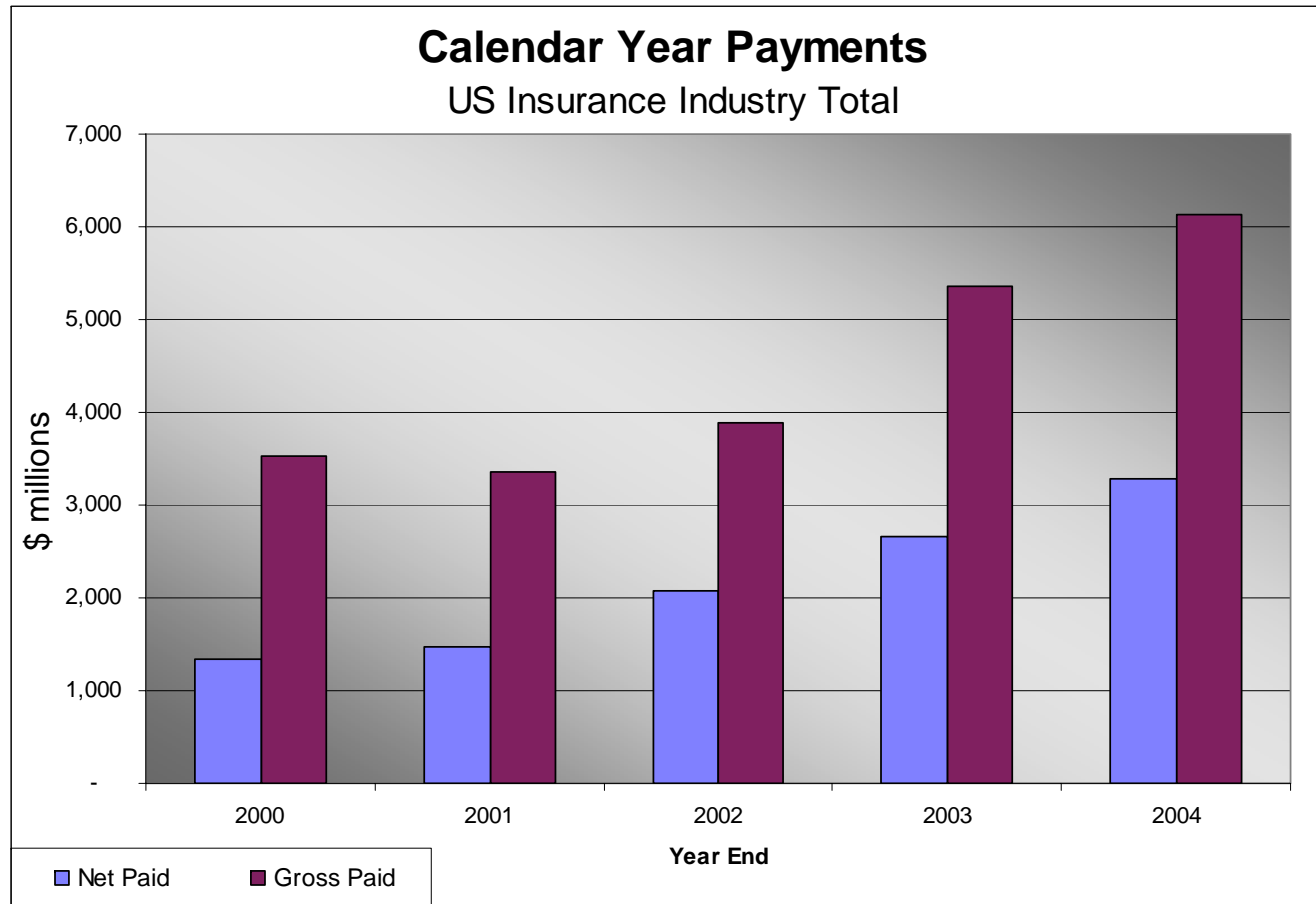


# Unadjusted Survival Ratios

	Gross Reserves	Gross Survival Ratio	Net Reserves	Net Survival Ratio
St. Paul Travelers Cos	4,637	5.2	3,858	6.0
Hartford Insurance Group	4,136	5.7	2,188	4.8
ACE INA Group	4,564	12.3	1,754	13.7
CNA Insurance Companies	4,930	15.1	1,686	18.2
Allstate Insurance Group	2,424	16.0	1,461	13.9
Nationwide Group	1,352	9.0	1,218	8.7
Liberty Mutual Insurance Cos	2,386	7.2	1,083	6.4
Berkshire Hathaway Ins Group	1,959	13.5	1,023	18.7
Chubb Group of Insurance Cos	1,265	9.0	902	9.3
American Re Corporation Group	1,074	11.5	704	12.1
Top 10 Total	28,727	8.6	15,876	8.2
Companies 11 to 30	12,141	8.3	5,617	10.4
Total US Domestic Companies	43,347	8.5	22,691	8.5

- Significant variance by Company
- Surprisingly little difference Gross versus Net

# Calendar Year Payments



- Payments accelerating
- Pct. Retained over 50% in 2004

# 2004 Gross and Net Payments as % of 2003 Reserves

- Top 10 Gross Payees in 2004
- Top 10 Net Payees in 2004

	2004 Gross Paid	2003 Gross Reserve	Pct. Of Reserve Paid
Hartford Insurance Group	1,557	5,738	27.1%
St. Paul Travelers Cos	488	4,142	11.8%
ACE INA Group	481	3,170	15.2%
CNA Insurance Companies	420	5,457	7.7%
Everest Re U.S. Group	340	1,019	33.4%
Liberty Mutual Insurance Cos	326	2,034	16.0%
American International Grp Inc	277	1,277	21.7%
Chubb Group of Insurance Cos	270	1,447	18.6%
Fairfax Financial (USA) Group	191	1,401	13.7%
Nationwide Group	177	1,108	15.9%
Total Top 10	4,528	26,793	16.9%
Total US Domestic Companies	6,128	41,920	15.5%

	2004 Net Payments	2003 Net Reserve	Pct. Of Reserve Paid
Hartford Insurance Group	1,205	3,397	35.5%
St. Paul Travelers Cos	320	3,271	9.8%
Chubb Group of Insurance Cos	181	1,008	17.9%
Liberty Mutual Insurance Cos	179	1,258	14.3%
Nationwide Group	159	1,000	15.9%
CNA Insurance Companies	136	1,767	7.7%
ACE INA Group	135	1,295	10.4%
American International Grp Inc	98	372	26.3%
Swiss Reinsurance Group	92	691	13.3%
American Re Corporation Group	83	608	13.6%
Total Top 10	2,587	14,666	17.6%
Total US Domestic Companies	3,286	22,350	14.7%

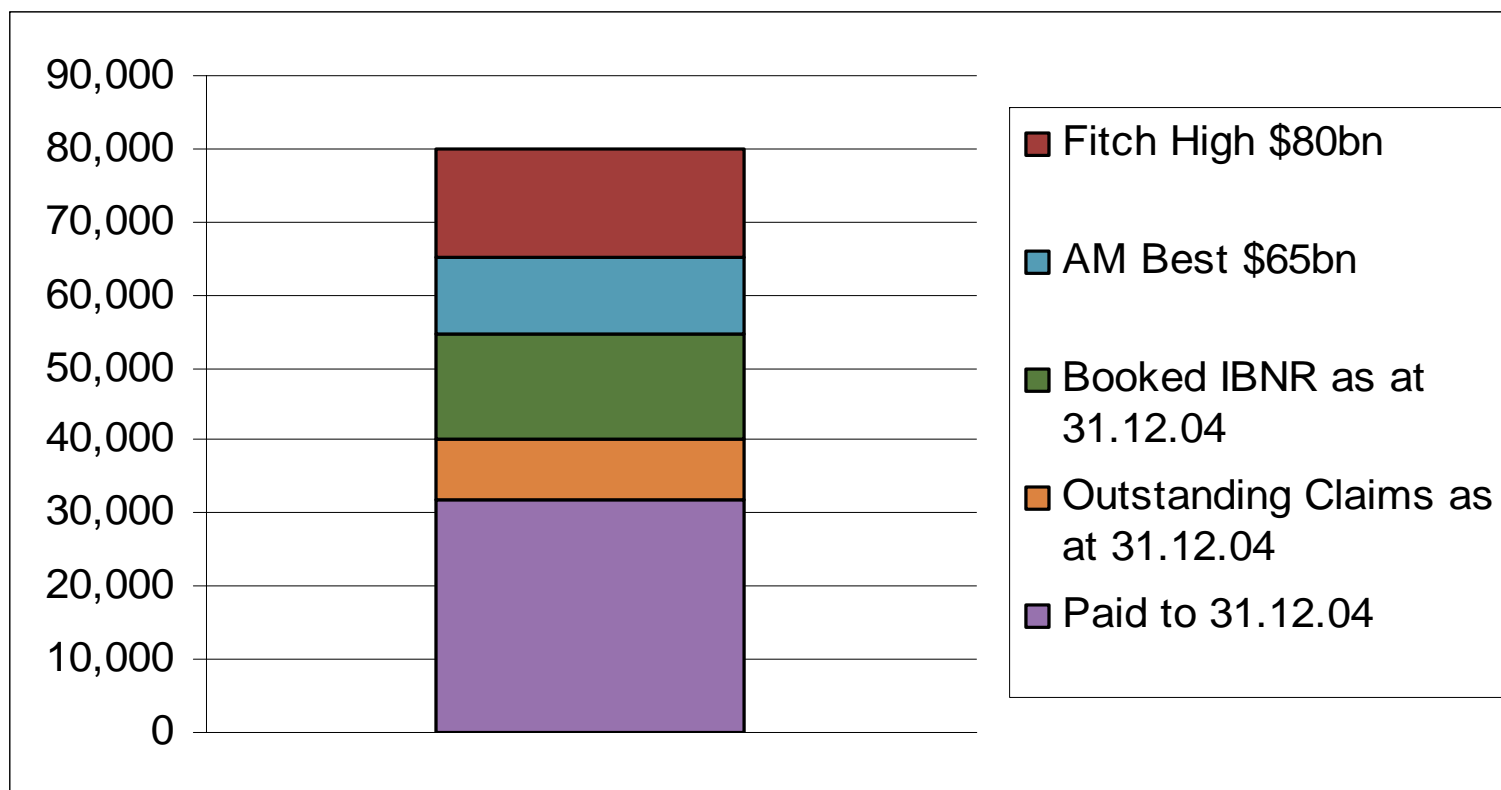
# Where are the Reinsurance Cessions?

- Primary vs. Reinsurers

	Gross Reserves	Gross Survival Ratio	Net Reserves	Net Survival Ratio
Primary Companies	35,640	8.4	18,588	8.0
Reinsurance Companies	7,708	8.6	4,103	12.1
Total US Domestic Companies	43,347	8.5	22,691	8.5

- Allocation between primary and reinsurance based on assumed core business activity
- Implies \$13 billion of reserves reinsured outside of US
- Reinsurance Companies have higher Net Survival Ratio

# How Big is the Unfunded Gap?



- Booked 31.12.04 \$54.5bn
- AM Best Implied Shortfall \$10.5bn
- Fitch Implied Shortfall \$25.5bn

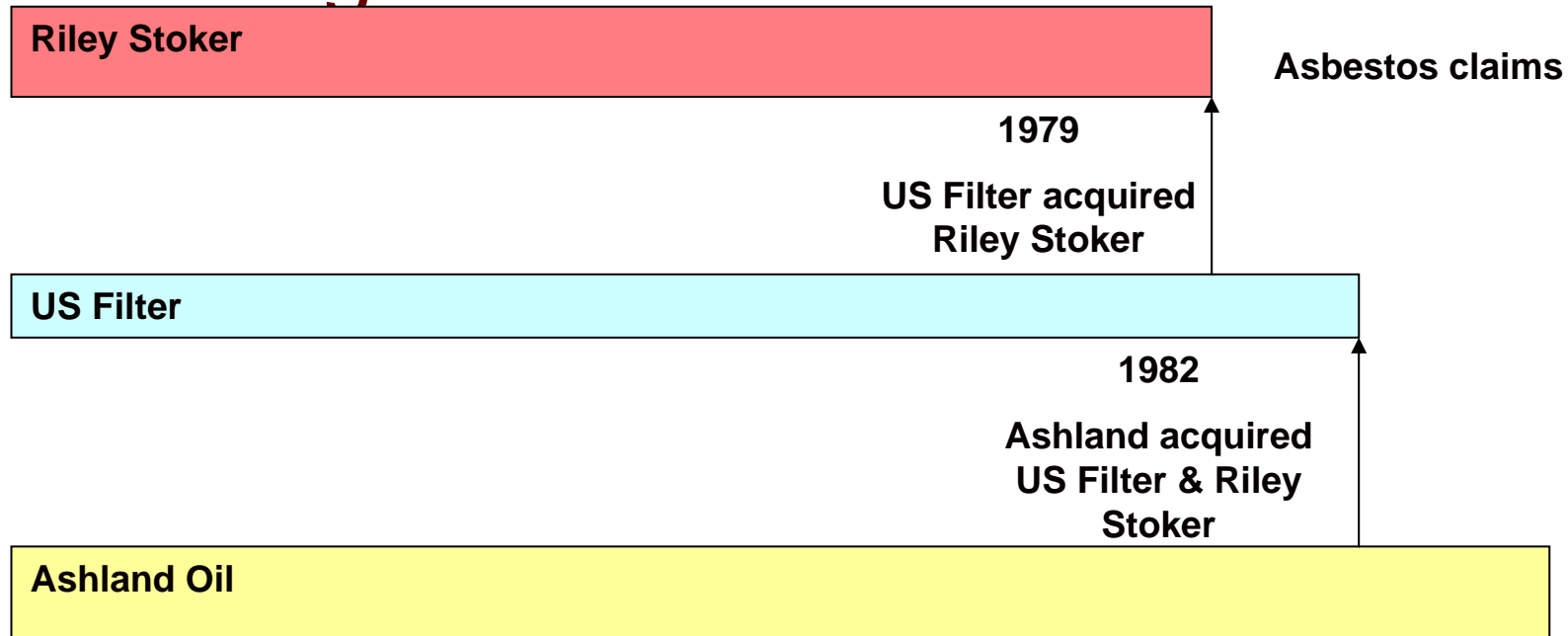
# Importance of Data

- Quality
  - accuracy of pertinent data and possible gaps
- Understanding & Interpretation
  - limits, excess points, cost conditions,
  - Who is the policyholder?
  - Types of losses

# Application of Insurance Coverage

- Key issues: -
  - Products – Non-Products
  - Wellington Agreement or Non-Wellington Agreement
  - Predecessor or Successor companies
  - Coverage exclusions
  - Cost conditions

# Assured Specific Analysis Coverage

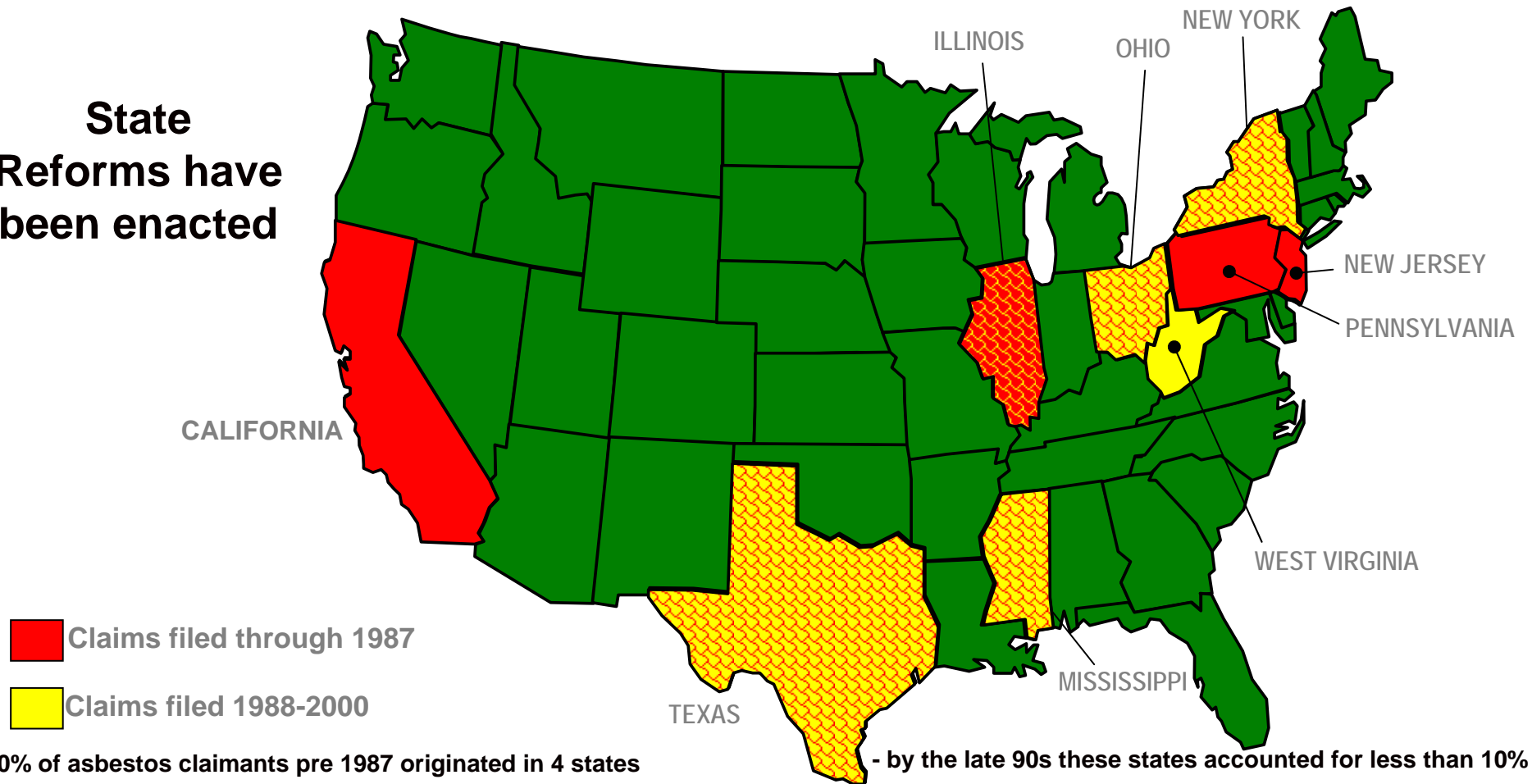


- Riley Stoker asbestos claims allocated to:
  - Riley coverage until 1979
  - US Filter coverage 1979 through 1982
  - Ashland Oil from 1982
- Ashland Oil coverage pre 1982 not liable for Riley Stoker asbestos claims



# Past, Present & Future

**State  
Reforms have  
been enacted**



60% of asbestos claimants pre 1987 originated in 4 states

From 1988 – 2000 - 66% of filings emanate from 5 states

- by the late 90s these states accounted for less than 10%

- pre 1998 these states accounted for less than 10%

# Past, Present & Future

## Example – Policyholder Claims Filings 2004

2004 Claim Filings	%	State Reform Effort
Ohio	16.97%	Medical Criteria
Florida	15.22%	Medical Criteria
Mississippi	14.65%	Forum Shopping
Texas	10.73%	Inactive Dockets & Forum Shopping
Michigan	10.05%	Inactive Dockets
New York	7.42%	Inactive Dockets
Others	24.96%	
	100.00%	

# State Reform Efforts

- Focus on medical criteria (FA, TX, OH, GA)
- Inactive dockets being considered/created in several state courts: -

Michigan

Syracuse

Chicago

Texas

Boston

Baltimore

New York City

Seattle

Madison County

- Penalise frivolous lawsuits (e.g.. MS, TX)
- Focus on forum shopping/consolidations (MS, TX, GA, SC, MO)
- Focus on joint and several liability (NY, SC)
- Each case tried on its own merits, not as a group of claims (TX)

# US Asbestos - Signs of Change?

**Statute of Limitations**

**Establishment of Inactive  
Dockets/Pleural Registries**

**Overpayment to “unimpaired” claimants**

**Strict Medical Criteria**

**Forum Shopping**

**State Legislation**

**Joint and Several Liability**

**State Legislation**

**Consolidated Lawsuits**

**State Legislation**

**Screening**

**Not economically viable**

# Impact of Insolvencies

- 70 original policyholders have gone into insolvency

Implications	-	impact on cash-flow
	-	claims notification rate

- Insurer insolvency

- Midland Insurance Company – went into insolvency in April 1986.
- Almost no activity in respect of reinsurance recoveries until 2004/5

- Vagaries

- Settlement agreements
- Cash-flow caps
- Buy-outs



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