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

Premium rate movements – 31 December 2002 renewal season: Marine

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

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%

**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:
  - Incombustible
  - 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

![Graph showing cumulative number of US bankruptcies due to Asbestos over years 1970 to 2005.](image)
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.

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?

- 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

Developments in PI – D&O, Laddering etc

- Laddering
- Research
- Spinning
- Others

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

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

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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

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?

- 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

Any Questions?