

Asbestos and Pollution: Will it Ever End?

A.M. Best's Perspective

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A.M. Best's Revises Industry Estimates: 12/7/2009



- Asbestos Loss Raised \$10 billion, to \$75 billion
- Pollution Loss Lowered \$14 billion, to \$42 billion
- Total A&E Estimate Lowered \$4 billion, to \$117 billion

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Why the Higher Asbestos Estimate?



- Stubbornly High Annual Losses
- Subtle Shift Away from Products
- Increase in % of Mesothelioma Claims
- Some Weakening of Impact of Tort Reforms

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Why the Lower Pollution Estimate?

- Declining Losses (until 2009) since 1999
- Mega (Petrochemical) Losses Largely Settled
- Policy Buybacks / Waivers Late 1990s, Early 2000s

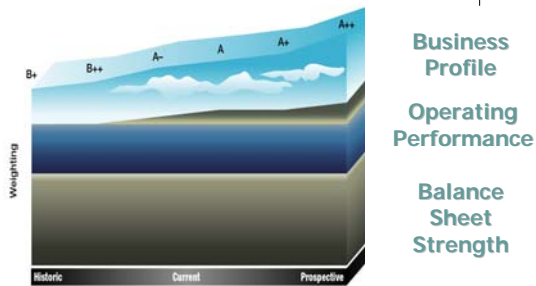
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Industry Funding Analysis

	Asbestos	Pollution
Ultimate Industry (Net) Exposure	\$75.0 b	\$42.0 b
Est. of Industry Paid to 1990	7.7	3.0
Industry Paid 1991 – 2009	37.3	26.0
Industry Net Reserves: 2009	23.2	5.9
Est. Industry Incurred-to-Date	68.2 b	34.9 b
<i>Implied Shortfall</i>	<i><u>\$ 6.8 b</u></i>	<i><u>\$ 7.1 b</u></i>

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Best's Rating Components



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Individual Insurer / Reinsurer Funding Analysis



- Historic Premium Market Share
- Historic Paid Loss Share
- Survival Ratio (AMB Benchmarks: Asb. 11x; Env. 13x)
- Average All Three
- Tempered With Credible Ground-Up Evaluation
- Adjustment for Est. of Deficiency in Loss Reserves
 - Deficiency and Discount Factors Adjusted Accordingly

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Unfunded Methods



Market Share Unfunded A&E	\$47.0
Paid Share Unfunded A&E	\$47.4
Survival Ratio Unfunded A & E	\$52.0
Average Unfunded A&E	\$48.8

Reserves Carried In Lines with A&E Exposure: \$ in Millions

A&E Exposed LOB	Carried Reserve	Adequacy Factor	PY Deficiency	(A) Pre-A&E Required	Allocation of A&E Deficit	New Adequacy Factor
Other Liab - Occ	\$50.2	1.23	\$4.6	\$57.1	\$30.6	1.75
Products Liab - Occ	\$9.6	1.34	\$1.9	\$11.0	\$12.7	2.00
Reinsurance B	\$34.3	1.30	\$0.7	\$43.9	\$4.9	1.42
CMP	\$27.6	1.10	\$0.1	\$30.3	\$0.6	1.12
Total	\$121.8		\$7.3	\$142.3	\$48.8	

(A) ((Carried * Adequacy Factor) - PY Def) = Required Reserve EXCLUDING A&E Losses

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Some Industry Statistics ...



Total P&C Industry: 2009 Asbestos and Pollution

Year	Asbestos Reserves	Asbestos Incurred	Asbestos Paid	Pollution Reserves	Pollution Incurred	Pollution Paid
2005	26,429	4,093	2,419	7,881	1,153	1,244
2006	25,813	2,143	2,818	7,281	473	1,073
2007	25,522	2,533	2,798	6,965	643	959
2008	23,644	1,292	3,173	6,226	371	1,085
2009	23,170	1,955	2,429	5,887	512	851

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Some Industry Statistics ...



Total Commercial Lines Industry: 2009 Asbestos and Pollution

Year	Asbestos Reserves	Asbestos Incurred	Asbestos Paid	Pollution Reserves	Pollution Incurred	Pollution Paid
2005	20,172	3,300	1,628	5,474	753	953
2006	19,335	1,126	1,989	4,991	318	801
2007	18,372	1,073	2,010	4,717	409	682
2008	16,538	721	2,557	4,183	299	809
2009	16,325	1,660	1,872	3,967	422	638

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Some Industry Statistics ...



Total Reinsurance Industry: 2009 Asbestos and Pollution

Year	Asbestos Reserves	Asbestos Incurred	Asbestos Paid	Pollution Reserves	Pollution Incurred	Pollution Paid
2005	4,350	534	506	1,648	255	164
2006	4,539	795	639	1,530	27	145
2007	5,146	1,181	573	1,368	-5	158
2008	5,051	368	463	1,256	25	137
2009	4,801	178	529	1,166	9	99

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Questions



- Age of ground-up loss reserve analysis?
- How well have “old” projections held up?
- Range of actuarial projections and position of company’s reserves within that range?
- What % of asbestos reserves is held in IBNR and has that changed over time? Why?

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Questions



- What was the insured profile of casualty business written during 1960s through the mid-1980s?
- To what extent has the company utilized policyholder buyouts to contain exposures?
- Current status of buyouts?
- Underlying trends in asbestos “book”?
- What is the company’s strategy for dealing with asbestos losses? Dedicated claims team?

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A Solvency Issue?



Not Likely (for Most) ...

More Likely to Be the Occasional
Uninvited Guest to the Earnings Party

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