Asbestos Reserving Issues

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1

US Insurance Industry Estimates

	A.M. Best	My Estimate
2001	$65 billion	$70 billion
Current	$75 billion	$85 billion

My range of Actuarial Central Estimates: $80 – 95 billion

2

What was the situation in 2001?

- We saw a significant spike in claim filings against defendants.

Year	Mesothelioma	Cancer	Non-Mal	Total
1993	817	2,151	23,005	25,973
1994	1,207	2,536	20,702	24,445
1995	1,306	3,624	43,283	48,213
1996	1,312	2,887	43,824	48,023
1997	1,347	3,132	28,978	33,457
1998	1,387	2,828	38,539	42,754
1999	1,520	2,863	40,815	45,198
2000	2,009	3,156	57,955	63,120
2001	2,126	4,172	95,208	101,506
2002	2,090	3,682	56,012	61,784

3

What was the situation in 2001?

- The number of defendants exposed to asbestos was believed to be over 8,000 (practically every industry was touched by asbestos in some way).
- Bankruptcies on the rise.
- A large percentage of the claims were non-malignant claims.
- There was a realization that past projections were too low.
- Tort reforms, medical tests to show actual injury, etc. were recognized as important.
- Calls for federal legislation and trust fund.

Current Situation

- Number of exposed defendants continues to be large.
- Tort reform / medical criterion requirement efforts have paid off as we see a significant decline in non-malignant claim filings.

	2000-2002 Actual		2008-2010 Benchmark	
	Annual Level	% of Total	Annual Level	% of Total
Mesothelioma	2,100	2.8%	2,000	13.3%
Other Cancer	3,700	4.9%	3,000	20.0%
Total Malignant	5,800	7.7%	5,000	33.3%
Non-Malignant	69,700	92.3%	10,000	66.7%

US Insurance Industry Estimates

	Total Tab for All Parties	US Insurance Industry Tab
2001	$275 billion	$70 billion
Current	$275 billion	$85 billion

- Total tab for all parties has not changed, although amount for malignant claims has increased while amount for non-malignant claims has decreased.
- Amount to be borne by US insurance industry has increased because:
  - Premises / operations or non-products exposure was assumed to be insignificant in 2001.
  - Significant shift in defendants involved in asbestos litigation leads to availability of more insurance limits.

Insurance Industry Sentiment

In 2001 — Top issue in management's mind

Current — Growth in recognized losses has slowed down considerably.

Asbestos can be managed over 10 – 20 year horizon. There are other issues that take up management's time: soft market, low investment returns, shrinking policyholder base.

7

US Insurance Industry Asbestos Loss

	Cumulative		Incremental	
	Paid	Recognized	Paid	Recognized
1999	20.7	31.1		
2000	22.1	32.6	1.4	1.5
2001	23.5	36.4	1.4	3.8
2002	25.6	44.6	2.1	8.2
2003	28.0	50.8	2.4	6.2
2004	31.4	55.0	3.4	4.2
2005	33.8	59.9	2.4	4.9
2006	36.6	62.1	2.8	2.2
2007	39.8	65.2	3.2	3.1
2008	42.9	66.4	3.2	1.2
2009	45.1	68.5	2.2	2.0

8

What are the threats?

1. Mesothelioma claims are being targeted.
2. There may be an uptick in propensity to sue.
3. Awards for mesothelioma claims are on the rise.
4. Non-Products exposure could become a significant issue – currently we are assuming an additional 5-8% of products insurance losses for non-products exposure.
5. The shifting of losses to new defendants with available limits continues.

9