

LOB-6: State of the Risk Transfer Market for Asbestos

Kara Raiguel, FCAS - Berkshire Hathaway

Berkshire Hathaway Reinsurance Division

- ▶ Resolute Management
 - 500 employees in US and UK
 - \$23B of liabilities - approx \$10B is asbestos
 - Total annual payments of approx \$1.3B per year
- ▶ Recent transactions include
 - Chartis \$1.65B prem for \$3.5B of limits - asbestos
 - CNA \$2.2B prem for \$4B of limits - A&E

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Counterparty wanting finality creates opportunity

- ▶ Balance sheet protection
- ▶ Earnings concern
- ▶ Volatility in results
- ▶ Management distraction from core business
- ▶ Rating agencies
- ▶ Acquisition or divestiture

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Information Berkshire requires

- ▶ External actuarial report/ground up analysis
 - Identification of policies and exposures
- ▶ Understanding classes of business written (primary vs excess/reins book/years of participation)
- ▶ Good historical paid information with details
- ▶ Historical reserve information, ultimate estimates, and past surprises

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Information Berkshire requires (cont'd)

- ▶ Reinsurance is an asset - understanding the program, collections, commutations, bad debt, etc.
- ▶ Data that is in a format to analyze - claims/policies

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Evaluation of liabilities

- ▶ Assumptions in current analysis
 - How do you arrive at your IBNR in footnote 33
 - Survival ratio, IBNR to case, ground up analysis?
- ▶ Analysis on large known accounts
 - Impact of legal issues (allocation)
- ▶ Unaggregated exposures/non-products
- ▶ Unreported/undocumented insureds
- ▶ Settlement strategies - commutations, CIPs, structured settlements
- ▶ Estimating true ultimate ULAE costs

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Berkshire will structure a transaction as needed

- Premium/limit/retention
- Covered liabilities/ALAE/DJ
- ULAE
- Reinsurance collections (bad debt)
- Acquisition

Post deal/completion issues...

- Regulatory and financial reporting
 - Data for "yellow book"
- Litigation/disputes with other partners
 - New clients more sensitive to conflicts
- Claims process integration/preservation of historical knowledge
- Systems/IT integration
- Reinsurance collections

Uncertainties

- Epidemiology study and correlation with annual filings - frequency
- Average severity by disease type
- Legal changes and forum shopping
- New product exposures
- Accuracy of ground up modeling assumptions
- Non-products evaluation
- Lost policies that are then found
- Co-insurer solvency risk (all sums states)

Why Berkshire is a good partner

- ▶ Financial strength
- ▶ Ease of executing transaction
 - Flexibility on structure
 - Timing
 - Size
 - Presence in industry assists in approvals where required
- ▶ Synergies with other books
- ▶ As a global insurance player our own reputational interests protect those of our counterparties

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Kara Raiguel, FCAS

Kara Raiguel is currently a Vice-President of the Berkshire Hathaway Reinsurance Division in Stamford, Connecticut. She is involved with pricing loss portfolio transfers and acquisitions in the Reinsurance Division as well as prospective reinsurance and insurance opportunities. Ms. Raiguel is also responsible for Berkshire India's newly formed corporate agency selling personal lines insurance through the internet as well as Berkshire Hathaway's financial guaranty insurer, BHAC. Prior to that, she oversaw the ground-up establishment of a California workers' compensation portfolio that generated over \$1 billion of premium written by Berkshire Hathaway Group member National Liability & Fire Insurance Company. Ms. Raiguel started her career in 1994 with CIGNA Property & Casualty in Philadelphia, joining the Berkshire Hathaway Group in 2001. Her experience as an underwriter spans most casualty lines including general liability, workers compensation, and medical malpractice. Ms. Raiguel obtained an undergraduate degree in mathematics from Ursinus College and is a Fellow of the Casualty Actuarial Society.

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