


**2012 Casualty Loss Reserve Seminar**  
**Concurrent Session LOB-1: Current Issues With Asbestos**

Steven C. Lin, FCAS, MAAA  
 September 7, 2012

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### Agenda

- Claim statistics
- U.S. P&C insurance industry statistics
- Key considerations in evaluating asbestos liabilities

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## Asbestos: Claim Statistics



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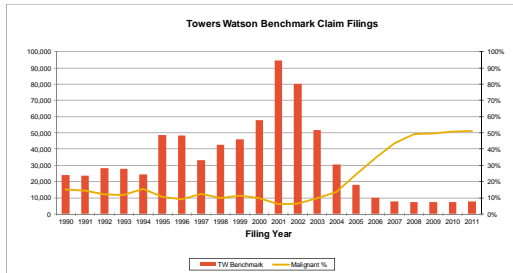
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## As rate of claim filings changed, so has composition of claims



- Currently more than 50% of new claims are for malignant diseases; compared to less than 10% in 2000-2003

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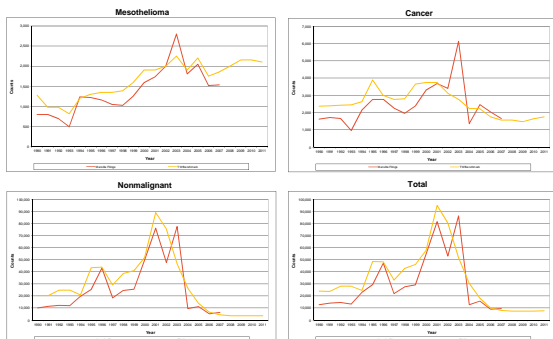
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## Asbestos claim filing trends vary by disease



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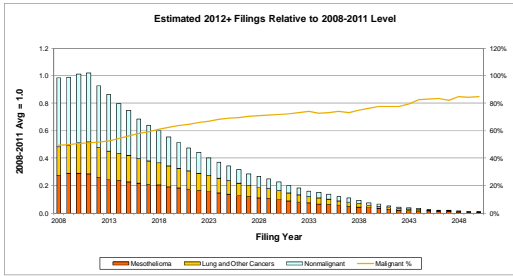
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## Projected future asbestos claim filings



- Towers Watson projects nearly 30,000 new mesothelioma claims in 2012 & subsequent
- More than 50% of the new mesothelioma claims are expected in first 10 years

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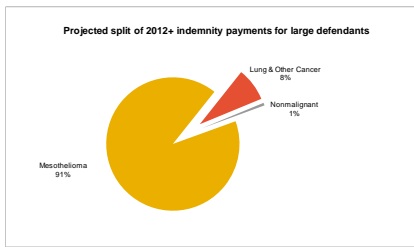
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## Mesothelioma claims are the driver of future litigation costs




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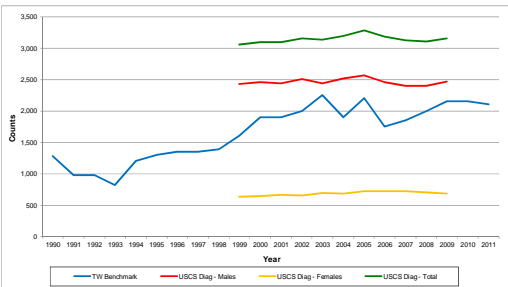
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## Mesothelioma incidence and claim counts



- Annual incidence counts show only slight changes over last decade
- Annual claim filing counts have fluctuated around 2,000 since 2000
  - Variation due to non-epidemiological factors

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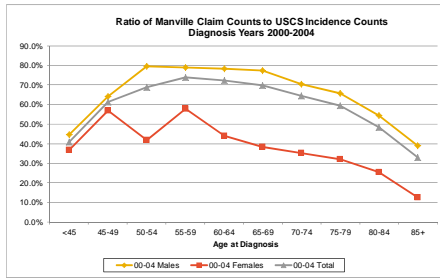
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**Propensity to sue varies by age and gender**



- Females and older age groups have lower propensity to sue

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**Asbestos: U.S. P&C Insurance Industry Statistics**




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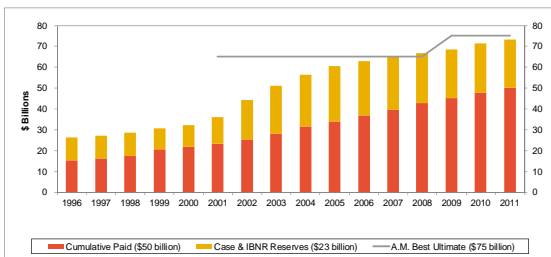
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**Asbestos: U.S. P&C insurers  
Cumulative net incurred loss & expense**



- Cumulative incurred loss and expense reached \$73 billion at year end 2011
- Source: Towers Watson analysis of financial statement data compiled by A.M. Best and other sources
- Grossed up for amounts ceded by Fireman's Fund, Munich Re America and Swiss Re America to respective non-U.S. parents

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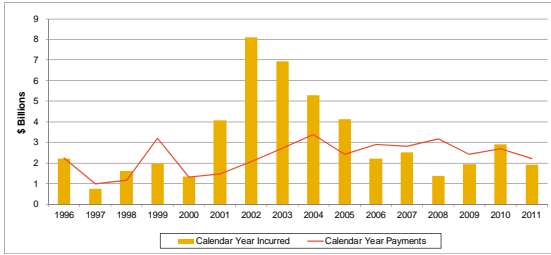
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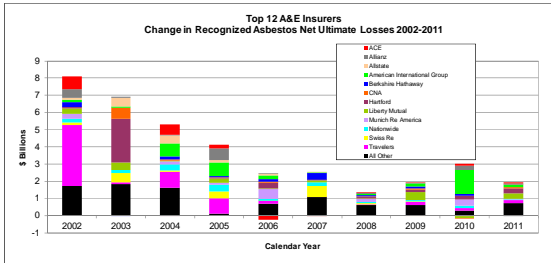
### Asbestos: U.S. P&C insurers Annual net incurred and payments



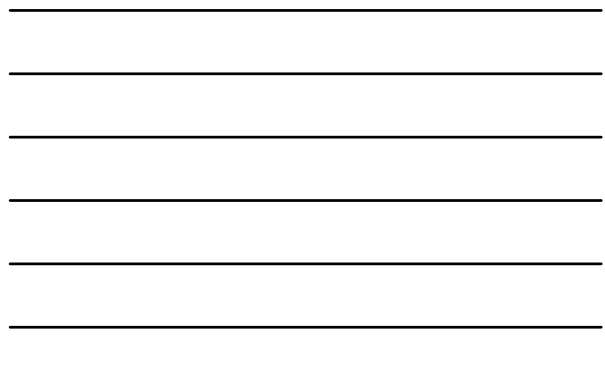
- Annual incurred peaked at over \$8 billion in 2002, and has averaged \$2.1 billion since 2006
- Annual payments seem to be slowly declining



### Asbestos: U.S. P&C insurers Patterns of reserve strengthening



- Top 12 A&E insurers (measured by year end 2011 A&E reserves) strengthened asbestos reserves by \$27 billion during 2002-2011
- Other insurers strengthened asbestos reserves by \$10 billion



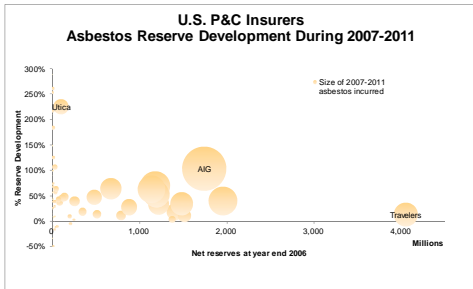
### Asbestos: U.S. P&C insurers Reserve strengthening in last 5 years

	Net Asbestos Reserves At 12/31/2006	Paid During 2007-2011	Net Asbestos Reserves At 12/31/2011	Development During 2007-2011	% Development During 2007-2011
ACE	\$1,401	\$769	\$666	\$264	19%
Allianz	1,218	451	1,169	401	33%
Allstate	9,320	345	7,933	46	3%
American International Group	1,737	1,074	2,465	1,793	103%
Berkshire Hathaway	1,197	264	1,559	626	52%
CNA	1,513	643	1,529	159	11%
Hartford	1,952	1,035	1,792	784	40%
Liberty Mutual	1,178	1,029	974	624	70%
Munich Re America	1,788	678	1,543	693	50%
Nationwide	1,481	640	1,344	604	34%
Swiss Re	1,194	833	1,215	716	60%
Towers	4,040	2,148	2,437	537	13%
All Other	6,480	3,452	6,342	3,314	51%
P&C Industry	25,900	13,300	23,200	10,600	41%

Source: Towers Watson analysis of financial statement data compiled by A.M. Best and other sources  
 \*Grossed up for amounts ceded by Fremont's Fund, Munich Re America, and Swiss Re America to respective non-U.S. parents  
 \*% terms of combined net A&E reserves at 12/31/2011



### Asbestos: U.S. P&C insurers Reserve development in last 5 years



- Few insurers have released asbestos reserves, and only by small amounts
- None of the insurers with large asbestos reserves have released reserves

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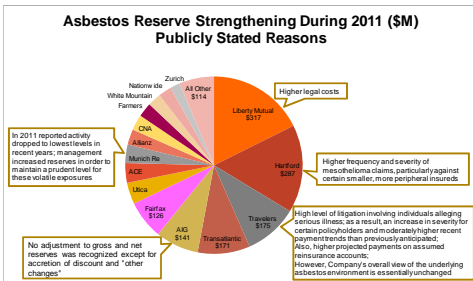
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### Asbestos: U.S. P&C insurers Reasons for reserve strengthening in 2011



- Very limited public discussion
- Mixed signals as to whether litigation environment deteriorated

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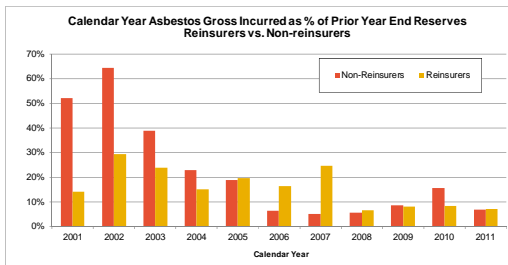
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### Asbestos: U.S. P&C insurers Reserve strengthening of reinsurers vs. non-reinsurers



- Reinsurers have strengthened asbestos reserves less than non-reinsurers
- Reinsurers seem to lag non-reinsurers in recognizing liabilities

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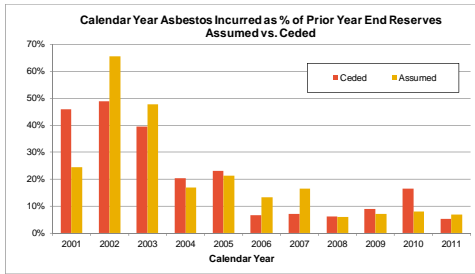
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## Asbestos: U.S. P&C insurers Reserve strengthening of assumed vs. ceded



- Recognition of assumed liabilities seems to lag recognition of ceded liabilities, though not as clear cut as for reinsurers vs. non-reinsurers

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## Asbestos: U.S. P&C insurers Earnings drag

Top 12 A&E Insurers\*  
Earnings Drag Caused By Asbestos Losses during 2007-2011

	Earnings Drag (Calendar Year Incurred Losses / Calendar Year Earned Premium)					
	2007	2008	2009	2010	2011	2007-2011
ACE	-0.1%	0.7%	0.9%	3.0%	1.4%	0.0%
Allianz	-0.2%	1.4%	0.8%	5.0%	1.0%	1.4%
Altores	0.1%	0.9%	0.9%	0.9%	0.1%	0.1%
American International Group	0.1%	0.3%	0.7%	6.7%	0.7%	1.4%
Berkshire Hathaway	1.9%	0.3%	0.5%	0.5%	0.0%	0.8%
Chia	0.1%	0.4%	1.3%	0.0%	0.9%	0.8%
Hartford	0.8%	0.8%	1.8%	2.2%	2.9%	1.8%
Liberty Mutual	0.5%	0.1%	2.2%	-0.5%	1.5%	0.7%
Munich Re America	0.9%	0.9%	0.9%	8.5%	0.4%	0.9%
Nationwide	1.4%	0.9%	0.4%	0.9%	0.3%	0.7%
Swiss Re	28.3%	3.2%	2.8%	-2.0%	-0.7%	5.3%
Travelers	0.0%	0.2%	0.9%	0.7%	0.8%	0.6%
All Other	0.4%	0.2%	0.2%	0.1%	0.3%	0.2%
P&C Industry	0.6%	0.3%	0.4%	0.7%	0.4%	0.5%

Source: Towers Watson analysis of financial statement data compiled by A.M. Best and other sources  
Crossed up for amounts ceded by Fireman's Fund, Munich Re America, and Swiss Re America to respective non-U.S. parents  
\*In terms of combined net A&E reserves at 12/31/2011

- Earnings drag = (Incurred losses) ÷ (Earned premium)

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## Asbestos: U.S. P&C insurers Net survival ratios

Top 12 A&E Insurers\*  
Asbestos Net Survival Ratio as of 12/31/2011 (\$ in millions)

	Net Asbestos Reserves	Paid During	3-Year Average	Net Survival Ratio
	At 12/31/2011	2009-2011	Annual Paid	
ACE	\$66	\$48	\$16	5.8
Allianz	1,169	248	83	14.1
Altores	5,093	152	58	18.6
American International Group	2,455	591	197	12.5
Berkshire Hathaway	1,559	89	30	52.5
Chia	1,029	305	118	8.7
Hartford	1,702	591	197	8.6
Liberty Mutual	974	600	200	4.9
Munich Re America	1,843	495	165	11.8
Nationwide	1,344	401	134	10.1
Swiss Re	1,915	323	108	9.4
Travelers	2,437	375	125	7.5
All Other	6,342	1,390	463	9.6
P&C Industry	23,020	7,329	2,443	9.5

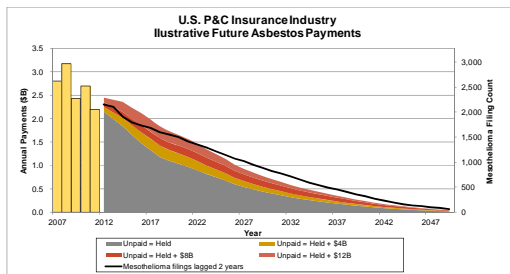
Source: Towers Watson analysis of financial statement data compiled by A.M. Best and other sources  
Crossed up for amounts ceded by Fireman's Fund, Munich Re America, and Swiss Re America to respective non-U.S. parents  
\*In terms of combined net A&E reserves at 12/31/2011

- Survival ratios are subject to distortion and must be interpreted with caution

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**Asbestos: U.S. P&C insurers  
Held reserves and future payments**



- In illustrative scenarios above, unpaid survival ratios range from 9.5 to 14.4
- Lagged meso filing pattern would imply survival ratio of 14.9
  - Insurer payments are accelerated by settlements and other factors

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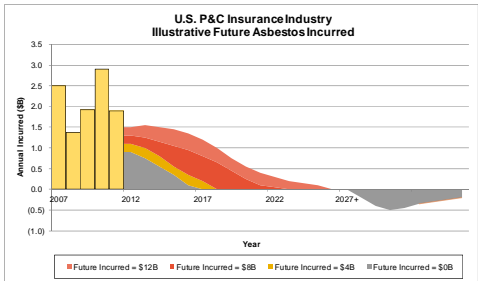
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**Asbestos: U.S. P&C insurers  
Future incurred**



- Illustrative scenarios above imply 0 to 6 years of future reserve strengthening at 2011 rate

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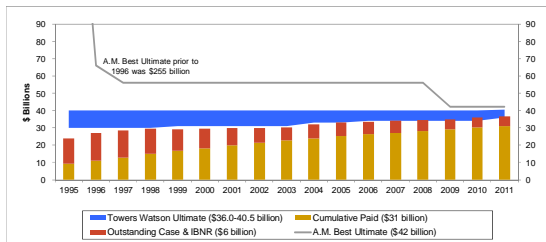
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**Comparison with pollution insurers:  
Cumulative net incurred loss & expense**



- Slow increase in cumulative incurred reflects largely stable litigation environment
  - Source: Towers Watson analysis of financial statement data compiled by A.M. Best and other sources
  - Grossed up for amounts ceded by Fireman's Fund, Munich Re America and Swiss Re America to respective non-U.S. parents

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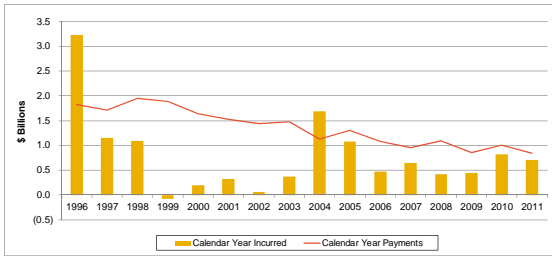
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**Comparison with pollution insurers:  
Annual net incurred and payments**



- Annual incurred averaged \$0.6 billion during 2006-2011
- Annual payments declined from nearly \$2.0 in 1998 to less than \$1.0 billion in 2011

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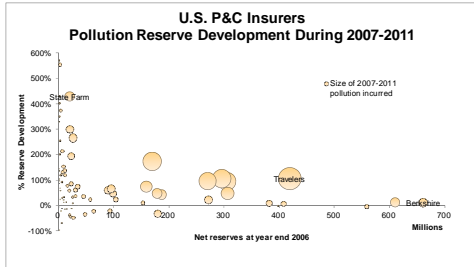
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**Comparison with pollution insurers:  
Reserve development in last 5 years**



- As with asbestos, pollution reserves developed upward for most insurers
- However, a number of large and small insurers released pollution reserves

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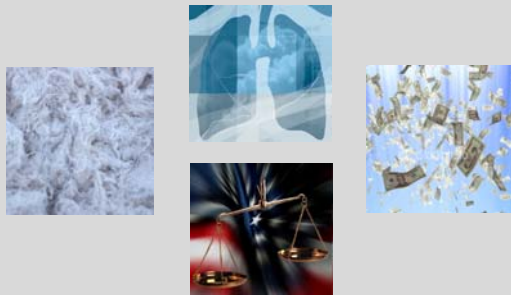
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**Key Considerations in Evaluating  
Asbestos Liabilities**




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**Key considerations in evaluating asbestos liabilities**

- Disease incidence and claiming rates
- Asbestos bankruptcies and trusts
- Legal issues

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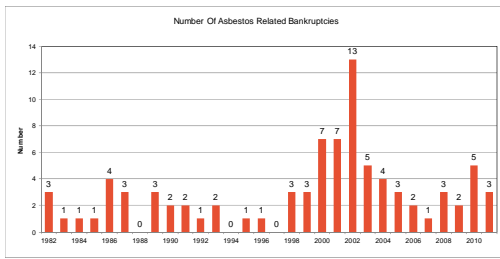
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**Over 90 asbestos-related bankruptcies through 2011**



- The rate of annual bankruptcy filings slowed after 2002

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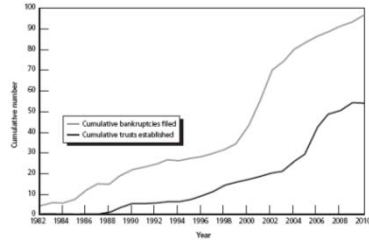
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**Many bankruptcy trusts have begun paying claims; more money to come**

Figure 4.2  
Cumulative Number of Bankruptcies Filed and Trusts Established as of June 2010



Source:  
Reprinted with permission  
by the RAND Corporation  
(www.rand.org);  
Figures S.1 and 4.2 from  
"Asbestos Bankruptcy  
Trusts" published 2010

- Established trusts paid at least \$17.5 billion through 2010 (GAO), with another \$2 billion paid in 2011 and \$18 billion in remaining assets at year end 2011 (Bates White)
- Significant additional sums will be available once NARCO, Pittsburgh Corning, Quigley, WR Grace and other pending trusts become operational

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### Battle over bankruptcy trusts and claimant information

- After major defendants go bankrupt, peripheral defendants pay more
  - Theoretical mechanisms to ensure that defendants pay only their fair share
    - Several liability, offsets, indirect claims, trust payment caps
  - But mechanisms only work if other parties cooperate
- Defendants believe “transparency” of trust claimant information is key
  - Exposure and compensation data
  - Bankruptcy trusts resist demands for data
    - Privacy, cost
- Transparency unlikely to be achieved in key states in near term
  - CA, IL, NY
  - Legislative initiatives by defendants have stalled or are at very early stages
  - Claim filing requirements and other workarounds have had limited success

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### Other recent legal developments

- Components parts liability
  - CA Supreme Court rules in favor of equipment makers (Jan. 2012)
- Second hand exposure
  - IL Supreme Court remands case to lower court (Mar. 2012)
  - CA appellate court holds no duty of care to employee's family (May 2012)
- Causation
  - PA High Court rejects “Any Fiber Theory” (May 2012)
    - Similar ruling by Texas Supreme Court in 2007 (Borg v. Flores) resulted in sharp drop in new claims in Texas
- Case management and docket control
  - Tide of claims has strained judicial resources in plaintiff-favored venues
    - Budget cuts in California court system
    - Changes in Madison County

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### Asbestos: Industry outlook

- Some key legal issues still being litigated
  - Claim litigation and coverage litigation
- Mesothelioma claims will remain the cost driver
  - Slow decline in new claims and high settlement values
    - Settlement values have been volatile with no clear trend, though CWP % may have declined
- Expenses have increased from a few years ago
  - Increase seems to have leveled off
- Insurance industry overall will continue to add to its reserves for some years
  - Individual companies will diverge in their experience

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