



CASUALTY LOSS RESERVE SEMINAR

SEPTEMBER 10, 2015

LOB-3: THE THIRD WAVE OF ASBESTOS LIABILITIES

**ASSURED RESEARCH, LLC
LSP GROUP, LLC
GNARUS ADVISORS, LLC**

Research and Analysis for Insurance and Investment Professionals



OVERVIEW AND INTRODUCTIONS

1) Overview

- *New Science and Law in Asbestos Litigation*; Released July 21, 2015

2) Introductions of Panelists:

- Kirk Hartley, Founder/Partner of LSP Group, LLC
- Jorge Sirgo, Principal at Gnarus Advisors, LLC
- Bill Wilt, President of Assured Research, LLC

• 3) Organization of Session

- Recent Events in Asbestos Law, Science, and Data: Kirk Hartley
- Tail Risk Estimating Mesotheliomas; Depleted Reserves: Bill Wilt
- Improving Asbestos Quantification; What Can be Done?: Jorge Sirgo
- Summary: Bill Wilt

4) Q & A

- We value your questions now or by follow up. Author contacts in slide deck and available through www.casact.org.



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SECTION 1

Recent Events in Asbestos Law, Science, and Data

Kirk Hartley, LSP Group, LLC



Assured Research, LLC

SECTION 2

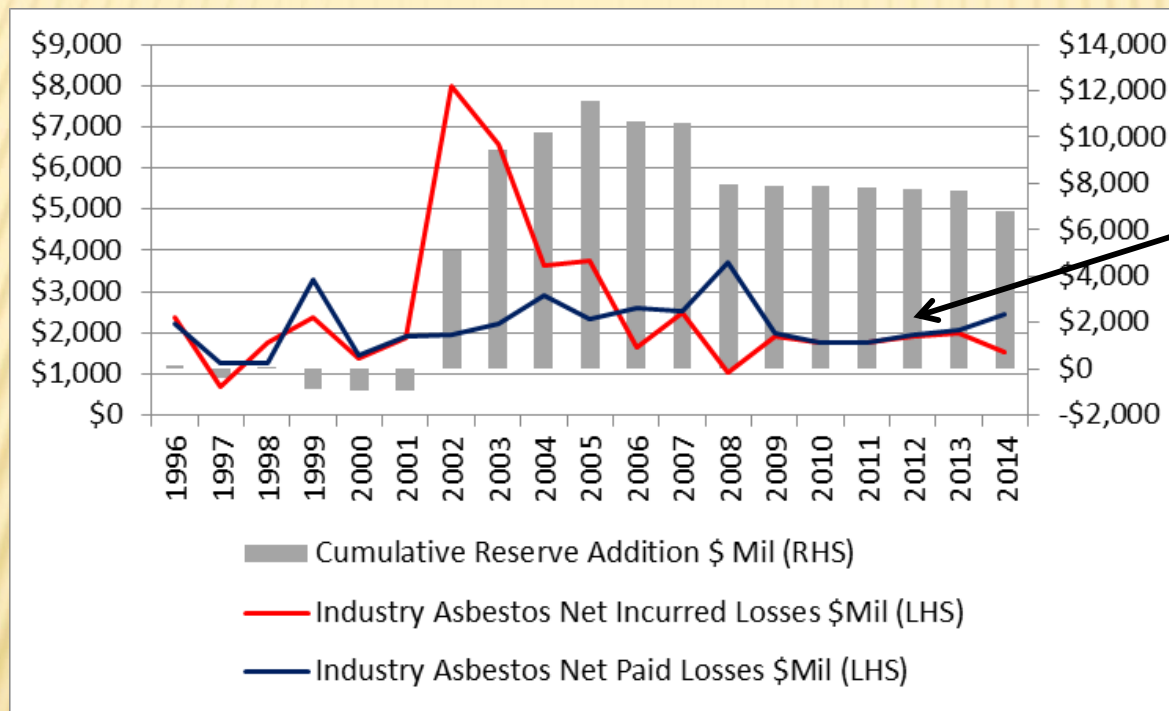
Tail Risk Estimating Mesotheliomas; Depleted Reserves

Bill Wilt, Assured Research, LLC



INSURANCE INDUSTRY IN PAY-AS-YOU-GO (“PAYGO”) MODE

Industry has accrued some \$49 billion for asbestos liabilities since 1996; adding \$7 billion in loss reserves to stay ahead of \$42 billion in net paid losses.



Paid and incurred losses have been around \$2 billion per annum since 2009.



COMMON QUESTIONS

Why PAYGO?

- Reasons often cited for asbestos reserve increase include:
 - Rising defense costs;
 - Lower than expected reinsurance recoveries;
 - *Larger-than-anticipated number of mesothelioma claims.*

What's wrong with PAYGO?

- Setting aside accounting and actuarial literature...
- In midst of revolution of changes affecting quantification of asbestos liabilities:
 - Medical – people living longer;
 - Societal – Changes in smoking rates;
 - Legal – changes in statute of repose
 - Scientific – new biomarkers, new understandings of dose/response
- Mounting evidence of fundamental changes to parameters used to quantify liabilities

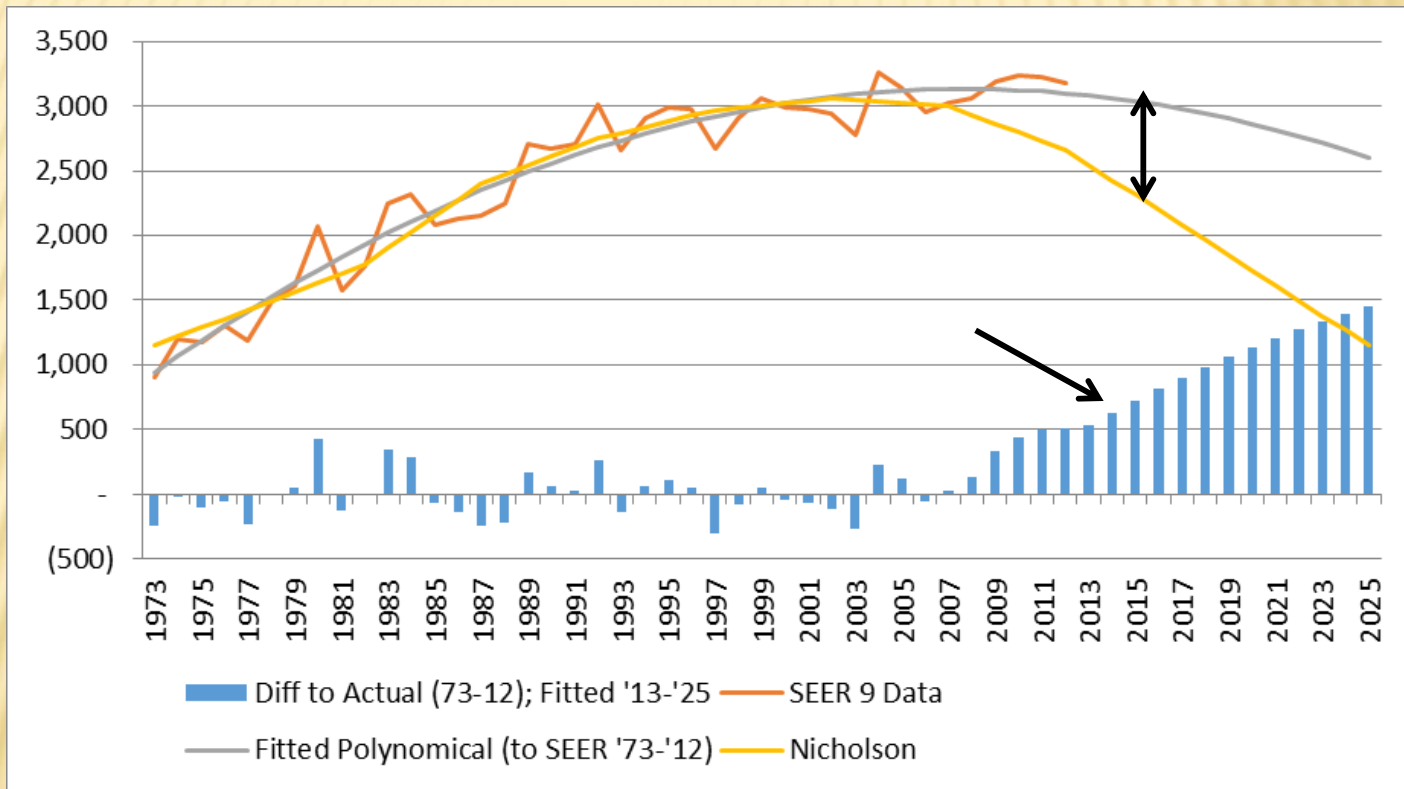
Why is it different this time?

- “Peripheral defendants”, not mesos, root cause of last round of reserve strengthening
- Developments today based on science and actual data; not aggressive attorneys arguing novel theories of liability



FLAWED ACTUARIAL MODELS AND TAIL RISK

The widening gap between observed and projected mesothelioma cases is a leading cause of insurance reserve charges.



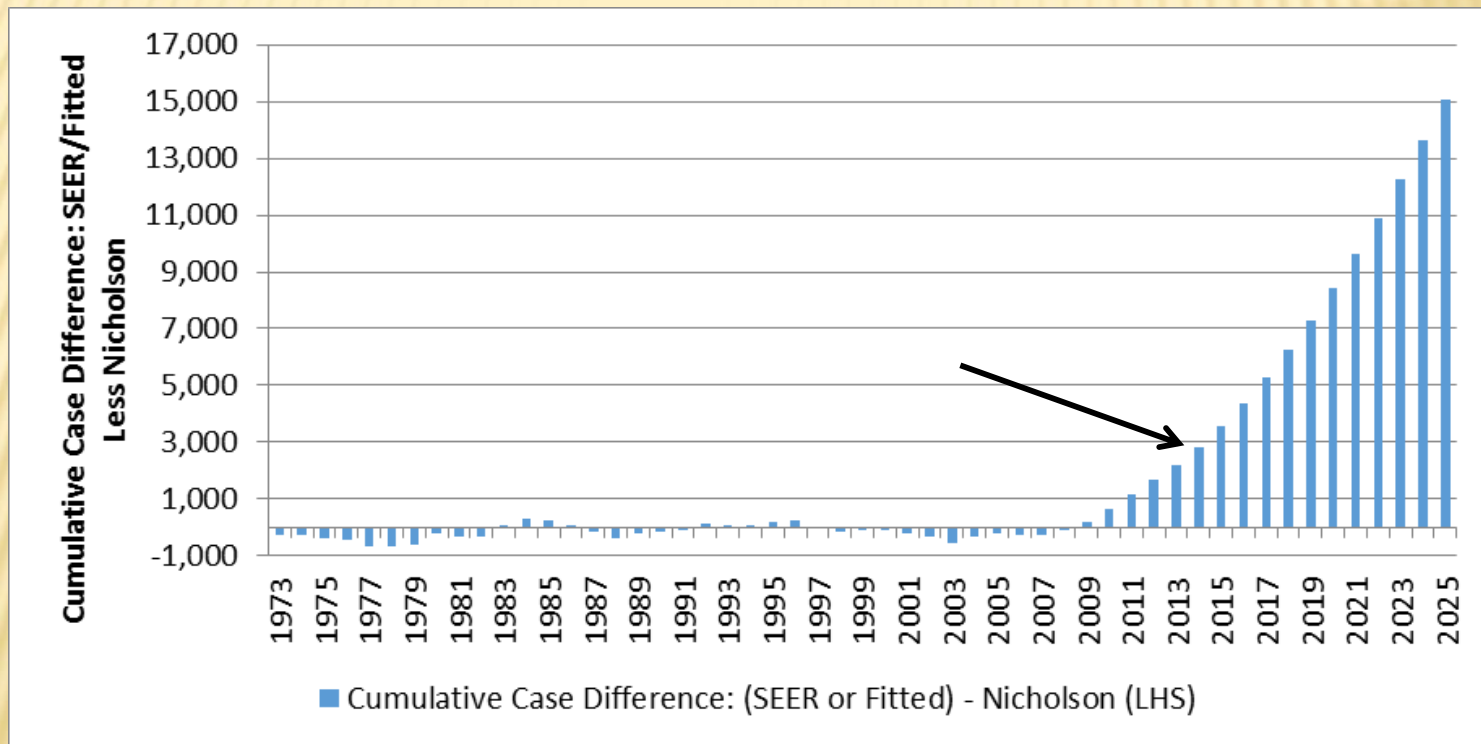
The industry may be on the leading edge of a dramatic escalation in forecasting error

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FLAWED ACTUARIAL MODELS AND TAIL RISK

The cumulative difference in Mesos (forecasted vs. actual/fitted) tells the story



The industry may be on the leading edge of a dramatic escalation in forecasting error



RESERVE ESTIMATES

We estimate an additional \$7 to \$13 billion for *mesothelioma* claims.

- Major assumptions include:
 - Used curve fitted to SEER data to forecast claims 2015-2025.
 - “Fattened” Nicholson curve by 25% relative to past slides.
 - Assumed severities ranging from \$1.5 mil. to \$2.5 mil. per claim.
 - Reduced estimates by 33% to account for bankruptcies, exhausted limits (etc.)
- Industry asbestos reserves currently \$19.4 billion



CATALYSTS FOR CHANGE

Catalysts for change

- Auditors, regulators, SEC, other policymakers, etc.
- Actual data, scientific developments, further legal changes
- Developments in Europe and Asia (scientific, legal, and actual data)
- Rating agencies? *Maybe*
- Shareholders? *Probably not*
- M&A. *Why?*
 - Assuming a no-holds-barred review of asbestos liabilities;
 - If our work is correct, then...
 - Changes in assumptions by one set of auditors and consultants could cause others to revisit their own assumptions.



Improving Asbestos Quantification; What Can Be Done?

Jorge Sirgo, Gnarus Advisors, LLC



Summary and Scorecard of Positive/Negative Developments

Bill Wilt, Assured Research, LLC