

CASUALTY LOSS RESERVE SEMINAR

THE CURRENT AND EXPECTED FUTURE STATE OF US ASBESTOS LITIGATION

SEPTEMBER 19 - 20, 2016

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The logo for Navigant, featuring the word "NAVIGANT" in a bold, white, sans-serif font. The letter "V" is stylized with a green triangle pointing upwards, integrated into the letter's structure.

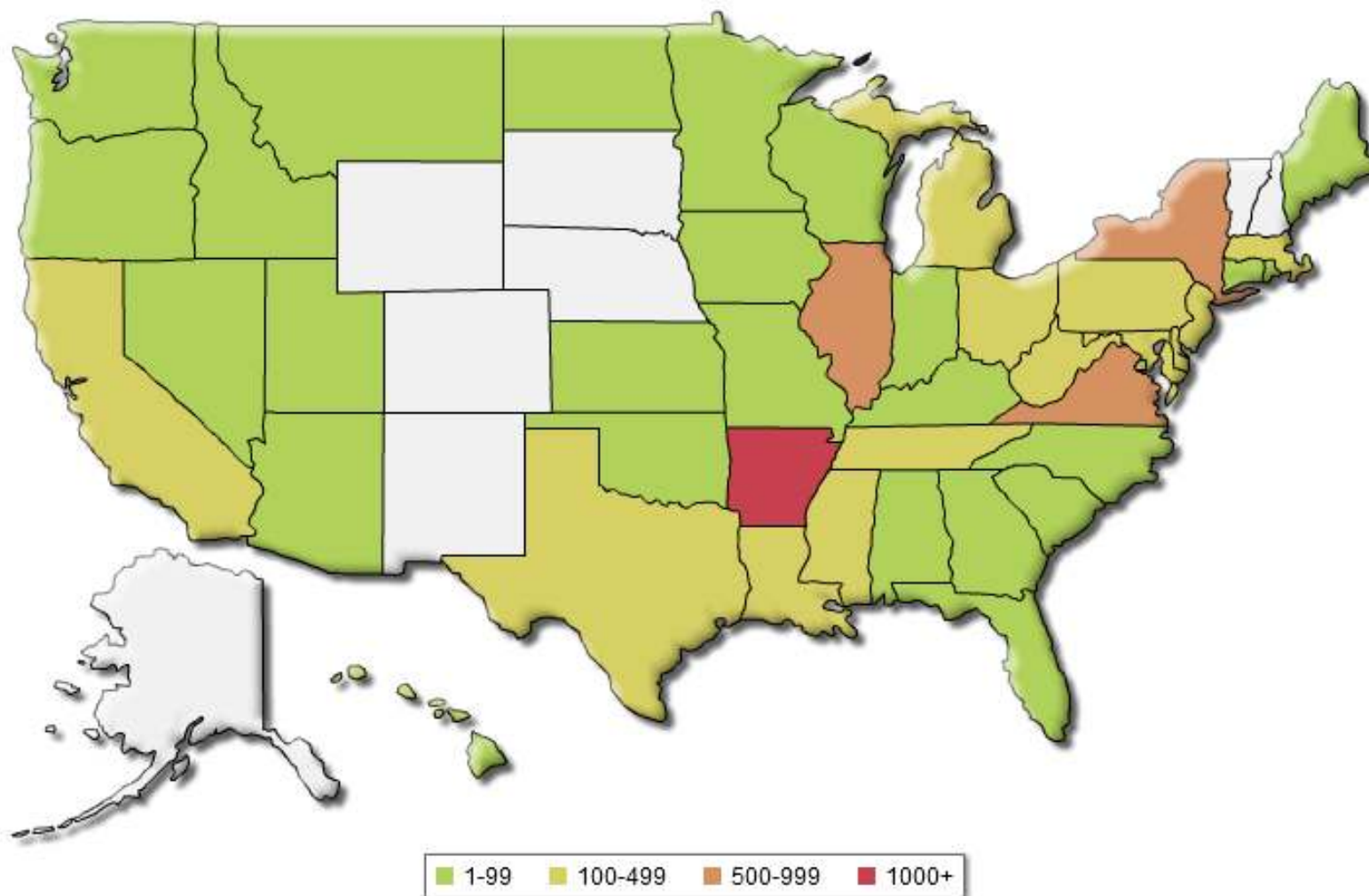
FILING TRENDS

OVERALL

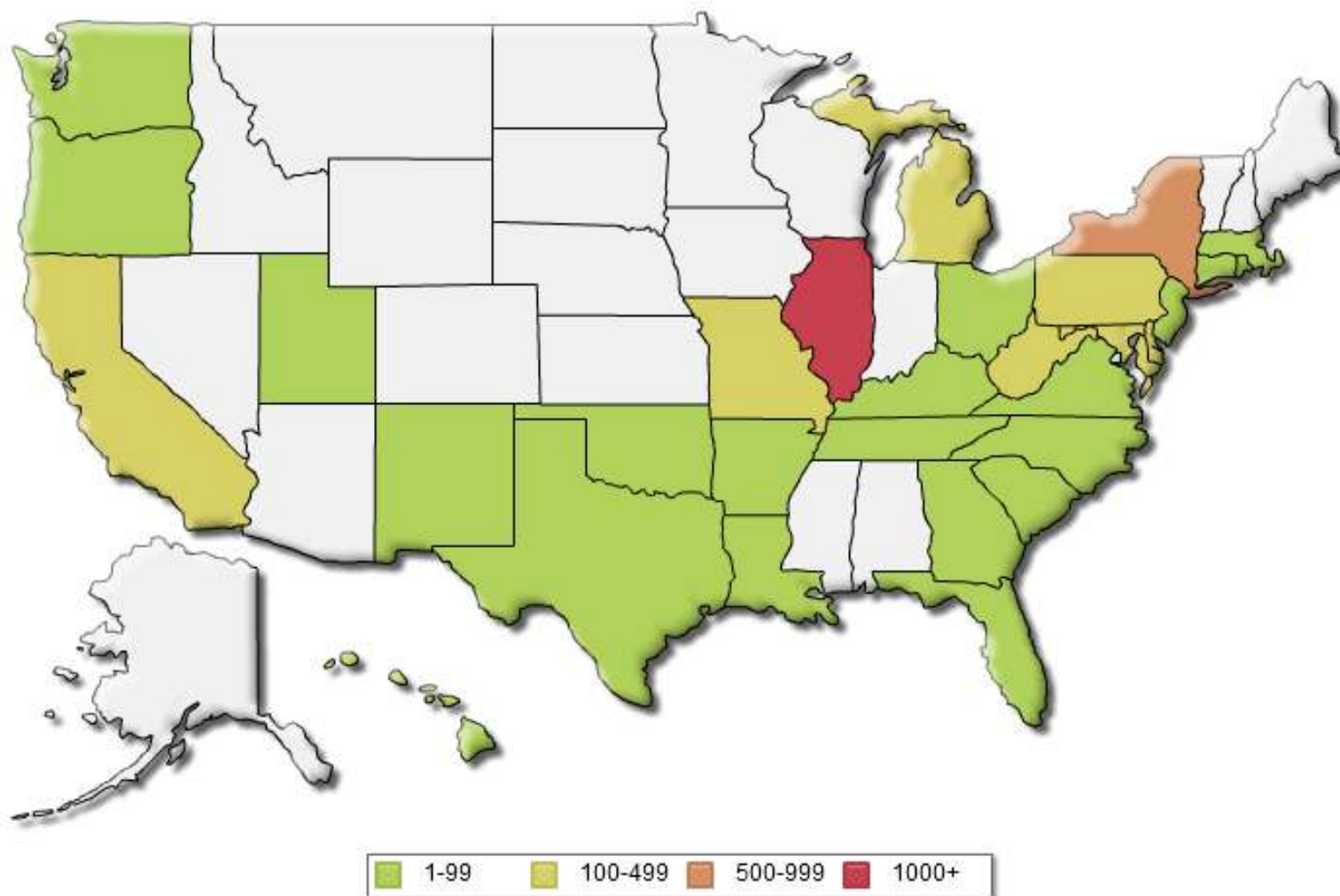
ASBESTOS FILINGS DECREASING

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NATIONWIDE FILINGS IN 2010 – ALL DISEASES



NATIONWIDE FILINGS IN 2016 (ANNUALIZED) – ALL DISEASES



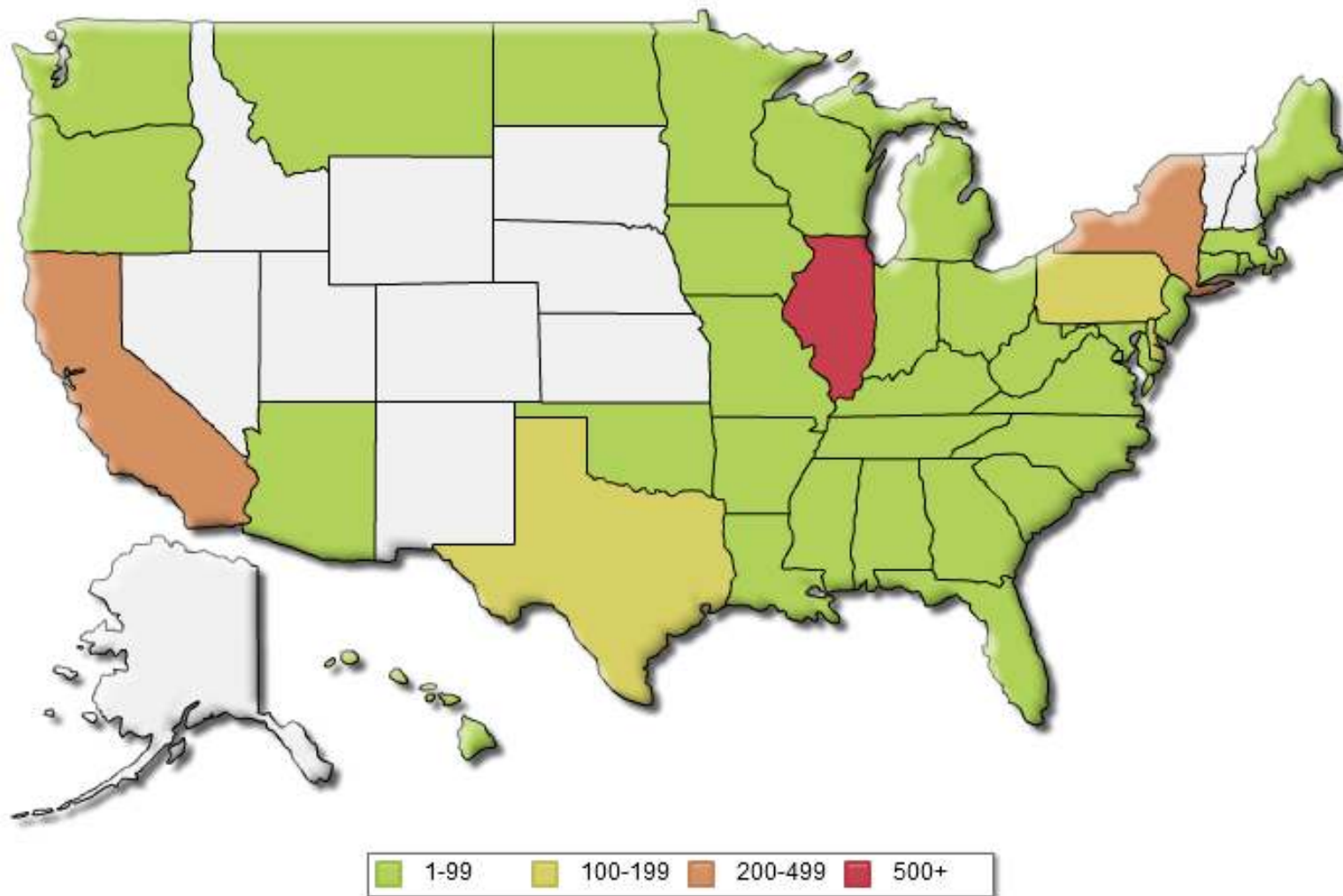
FEWER NAMED DEFENDANTS

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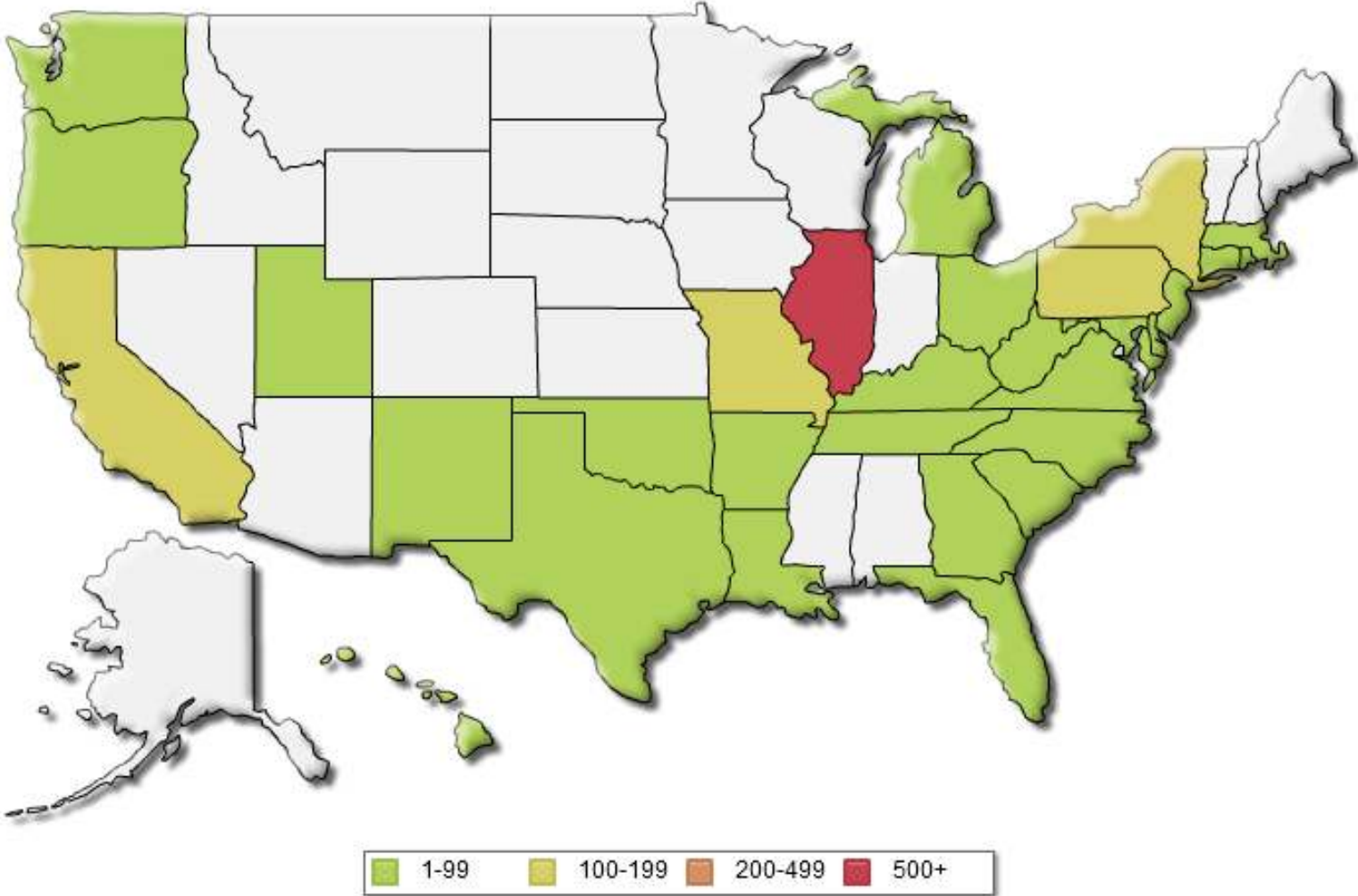
FILING TRENDS

MESOTHELIOMA AND LUNG CANCER

NATIONWIDE FILINGS IN 2010 – MESOTHELIOMA



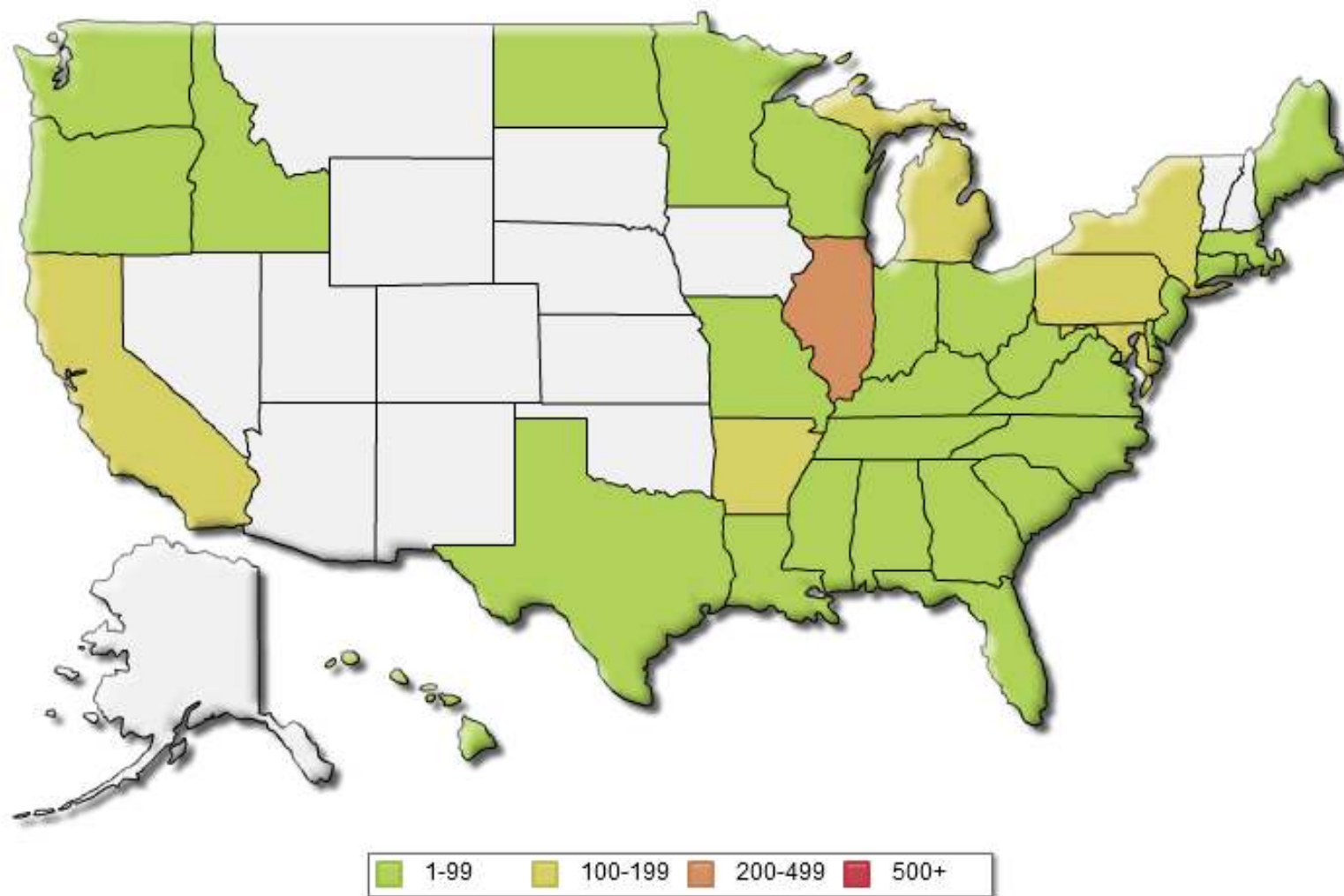
NATIONWIDE FILINGS IN 2016 (ANNUALIZED) – MESOTHELIOMA



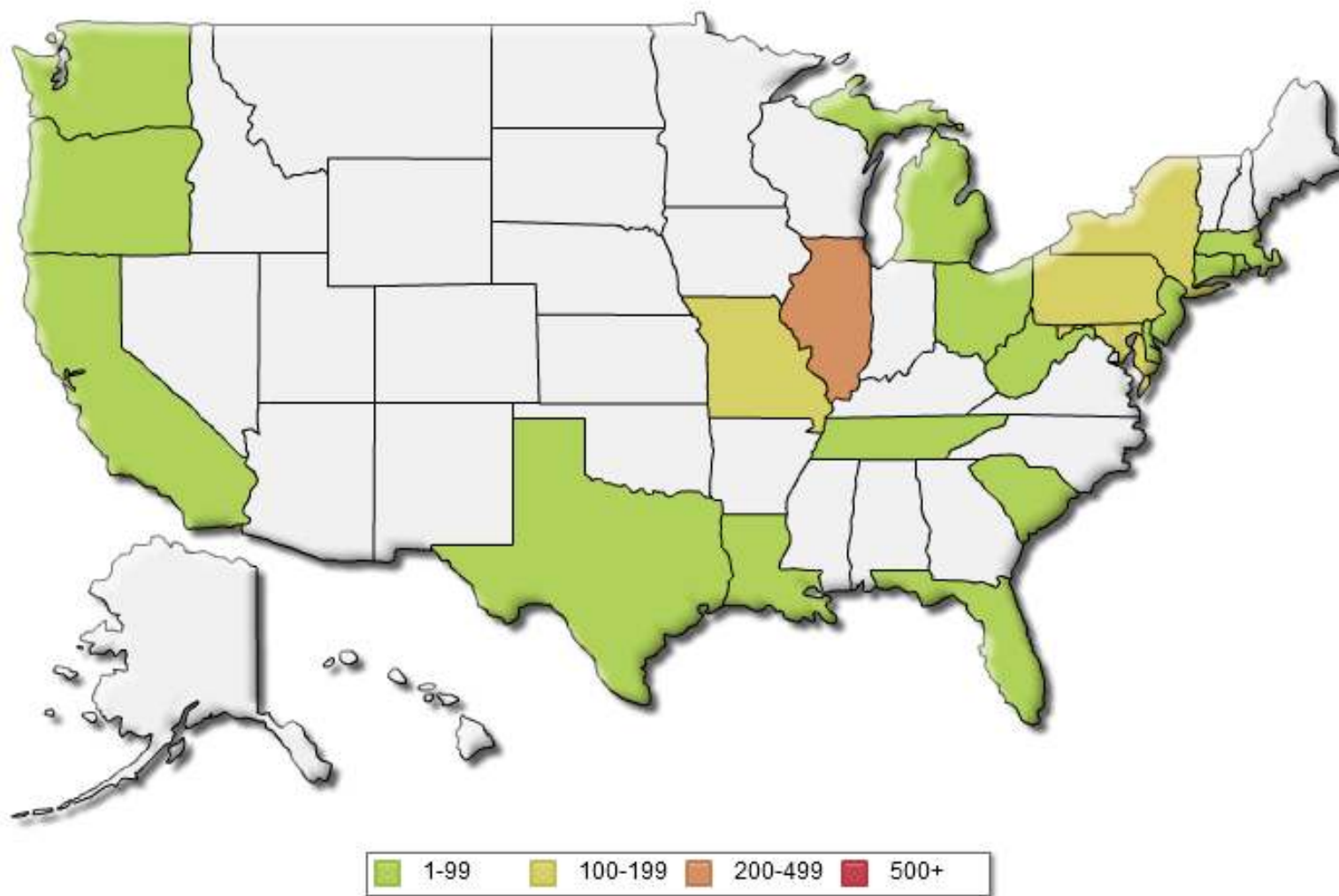
FEMALE FILINGS – APPROACHING 20%

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NATIONWIDE FILINGS IN 2010 – LUNG CANCER



NATIONWIDE FILINGS IN 2016 (ANNUALIZED) – LUNG CANCER



CURRENT TRENDS IN COSTS

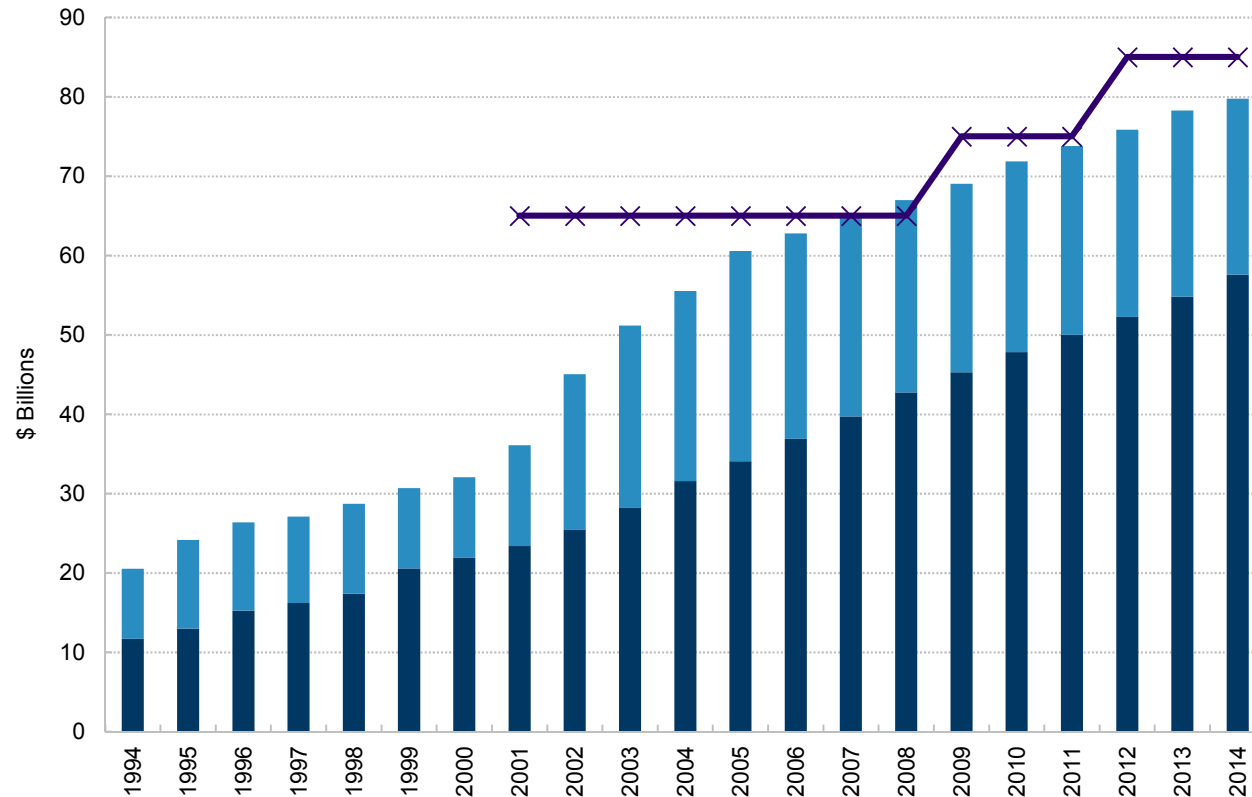
- Indemnity
- Defense Costs

Overview of Asbestos Loss Trends for U.S. P&C Insurers

U.S. P&C Asbestos – Cumulative Net Incurred

“Despite legislative changes that may benefit asbestos defendants, given the long latency period between exposure to asbestos and the manifestation of subsequent diseases and the large number of people directly or indirectly exposed, **there could be upward pressure on A.M Best’s ultimate industry loss estimates.**” A.M. Best Report

U.S. Asbestos - Cumulative Net Incurred Loss & Expense

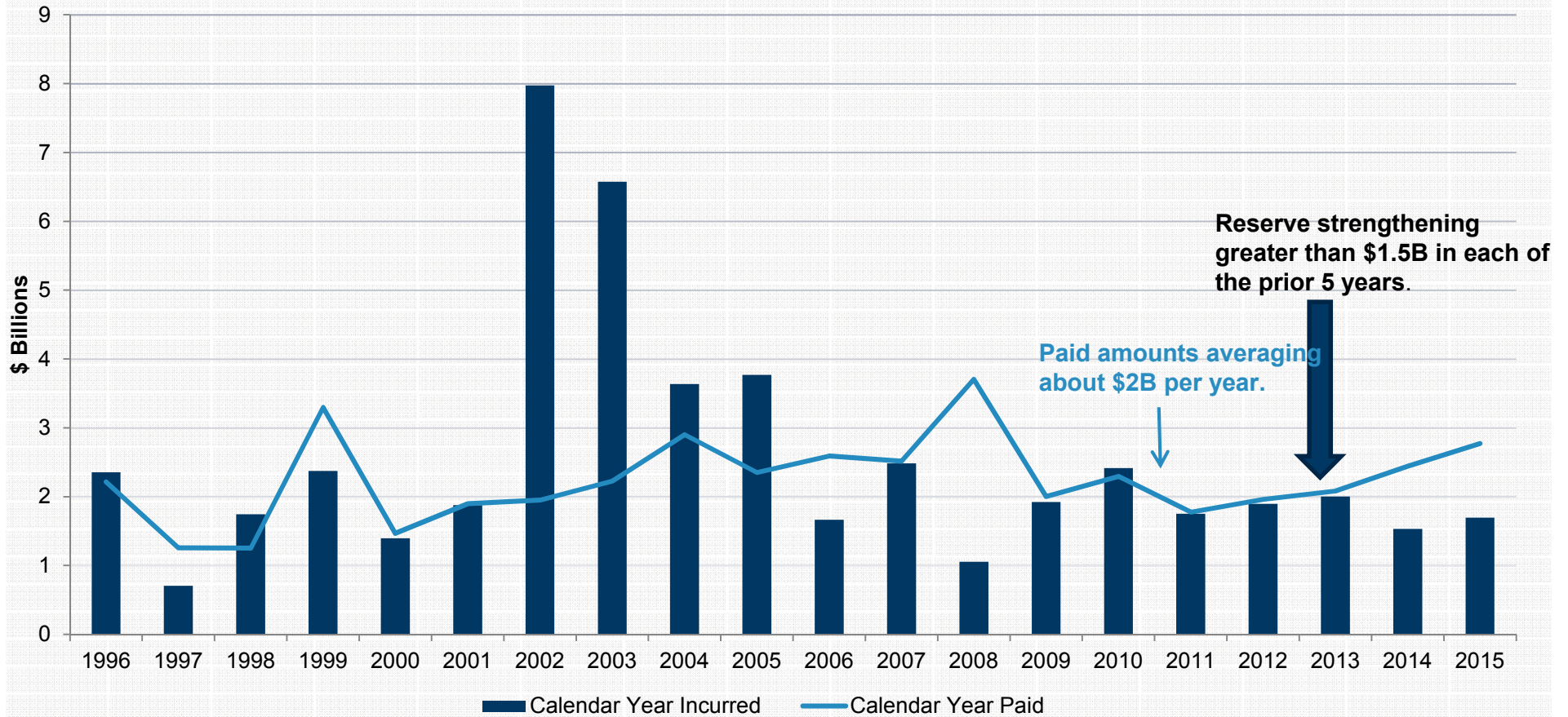


Source: A.M. Best data & research, 2015

■ Cumulative Payouts at Year-End (\$ Billions)
■ Carried Net Reserves at Year-End (\$ Billions)
✕ A.M. Best Ultimate (\$85 billion)

U.S. P&C Asbestos Calendar Year Incurred

Annual Net Incurred



Source: Data from SNL Financial



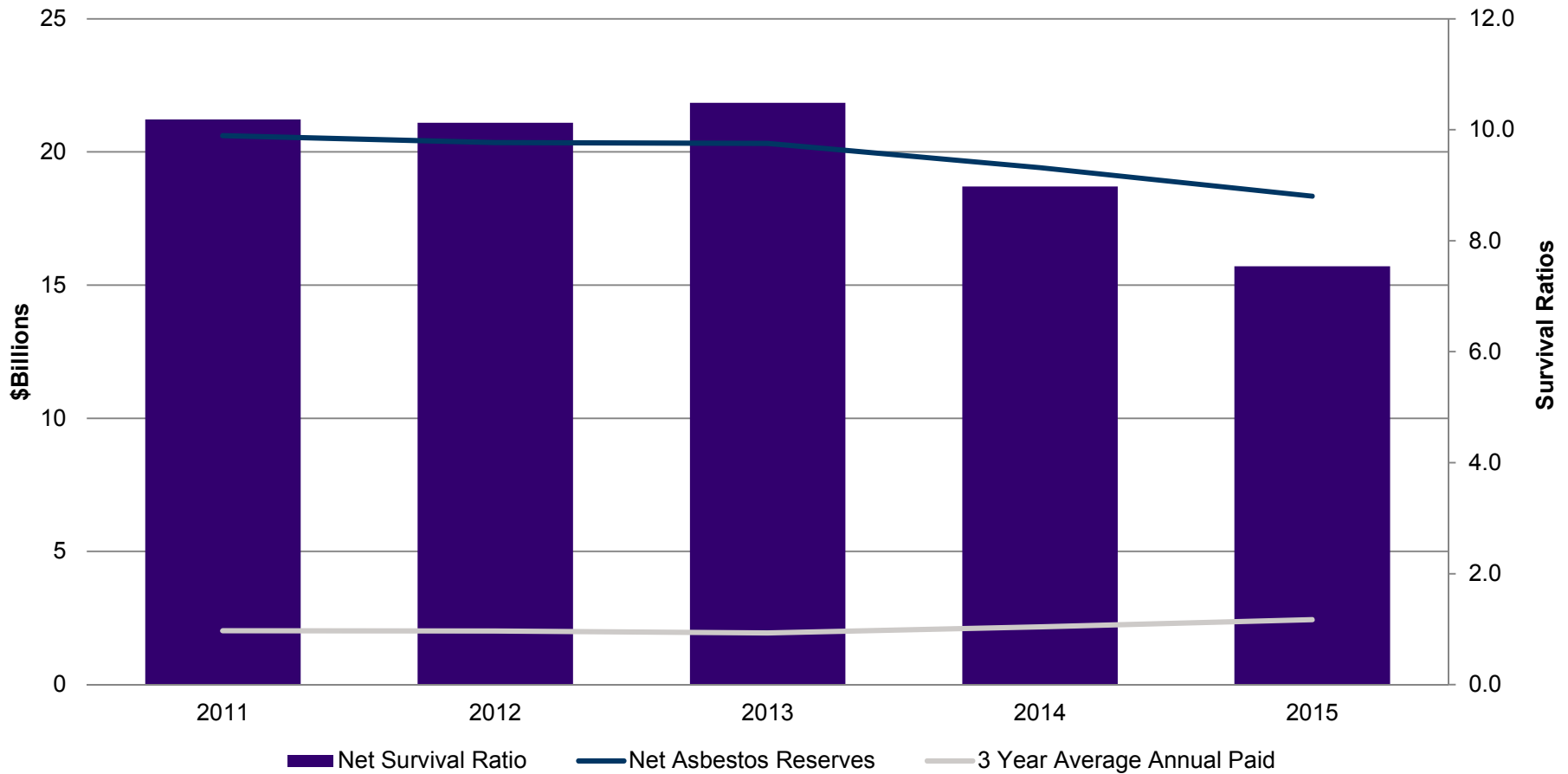
Survival Ratios

- Survival ratio is a common metric used for latent liabilities, such as asbestos, to assess adequacy of a company's reserve position against the industry, and also to measure the industry's relative reserve position over time.
- This metric reviews the average annual loss & LAE payments and the total loss & LAE reserves.

$$\textit{Survival Ratio} = \frac{\textit{Total Loss + LAE Reserves}}{\textit{Avg Annual Loss + LAE Payments}}$$

Industry Asbestos Survival Ratios are Declining (U.S. P&C)

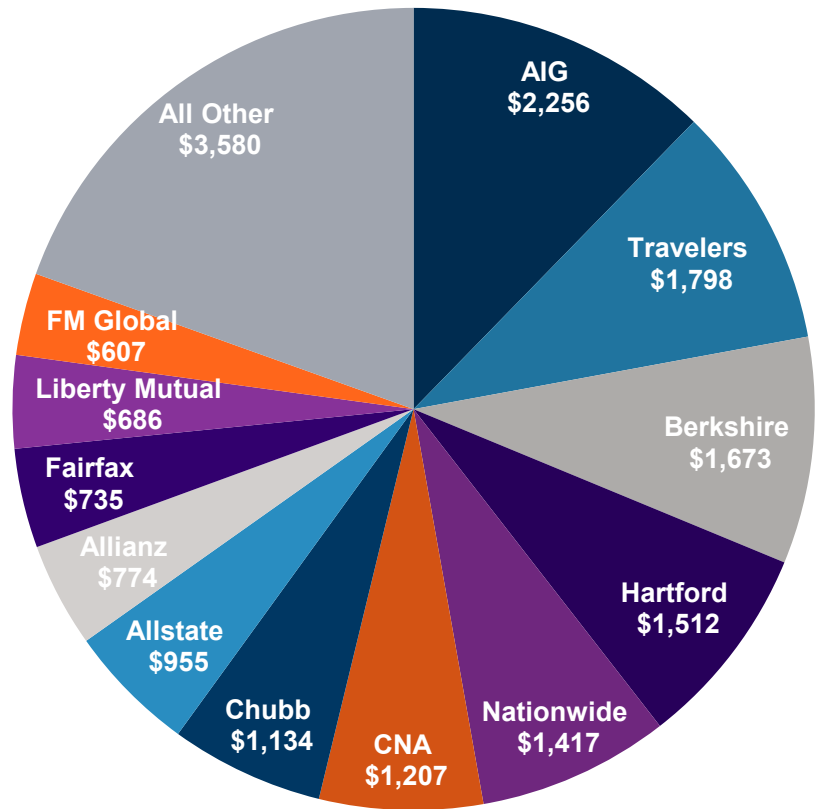
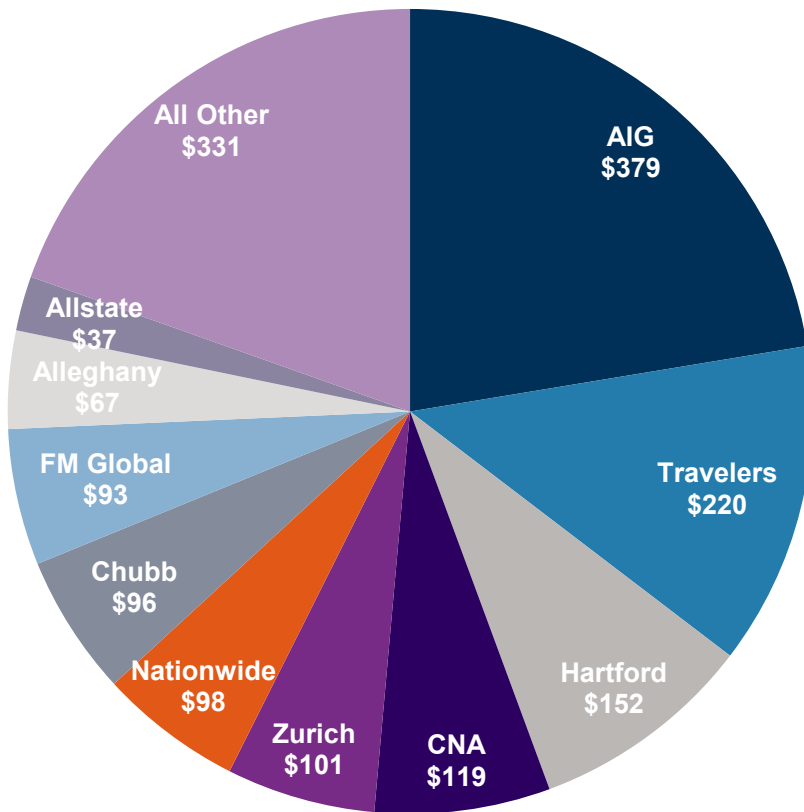
Net Industry 3 Year Survival Ratios



Source: Data from SNL Financial

Asbestos Loss & LAE 2015 by Group (U.S. P&C)

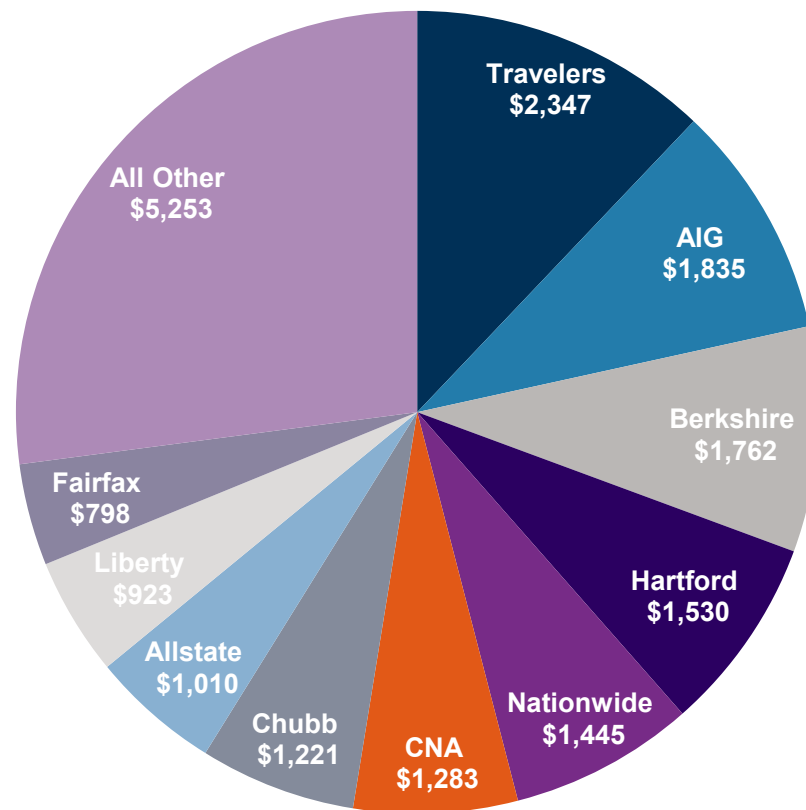
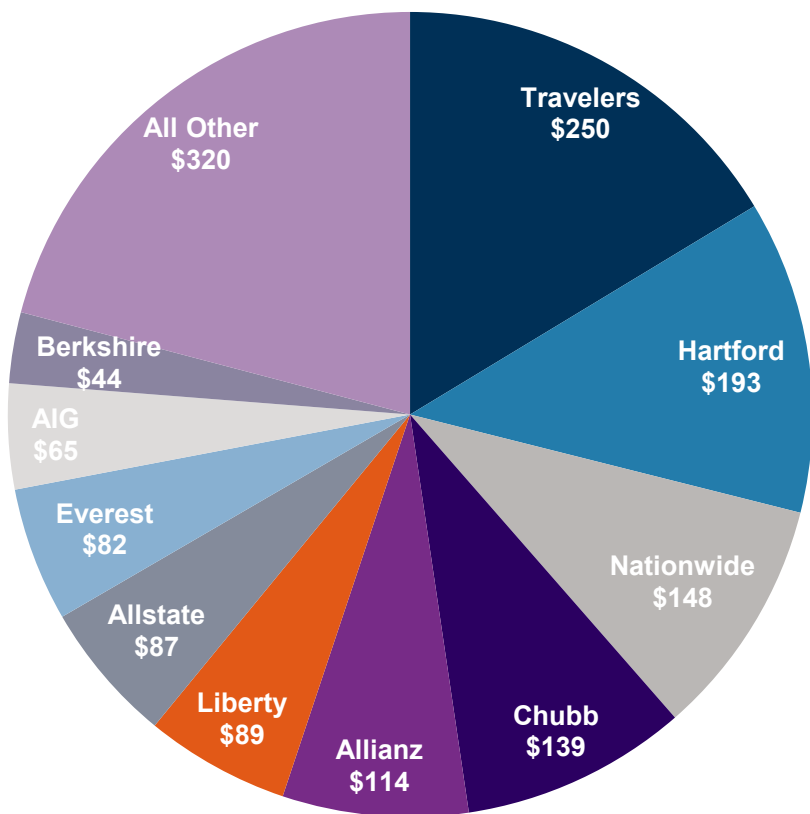
Asbestos Incurred Loss and LAE 2015 (\$M) Asbestos Unpaid Loss and LAE 2015 (\$M)



Source: Data from SNL Financial

Asbestos Loss & LAE 2014 by Group (U.S. P&C)

Asbestos Incurred Loss and LAE 2014 (\$M) Asbestos Unpaid Loss and LAE 2014 (\$M)



Source: Data from SNL Financial



Note 33 Information

- Prior slides show data aggregated from Annual Statement, Note 33.
- Thus, data does not include significant liability from non-U.S. Insurers. For example,
 - Munich Re Group Annual Report – Total asbestos reserves of about €1.7 Billion
 - Swiss Re Group Annual Report – Total asbestos & environmental reserves of about \$2.1 Billion
- LPTs are booked as retroactive reinsurance. Thus, ceded reserves remain on ceding company's Note 33.
 - For example, Berkshire's NICO has assumed a number of LPT's containing asbestos liabilities, including:
 - Equitas \$7.6B 2015 Assumed Reserves
 - Liberty Mutual \$6.1B 2015 Assumed Reserves

Observed Increase in Ground-Up Projections



Overview of Actuaries' Considerations in Developing Liability Estimates Related to Asbestos

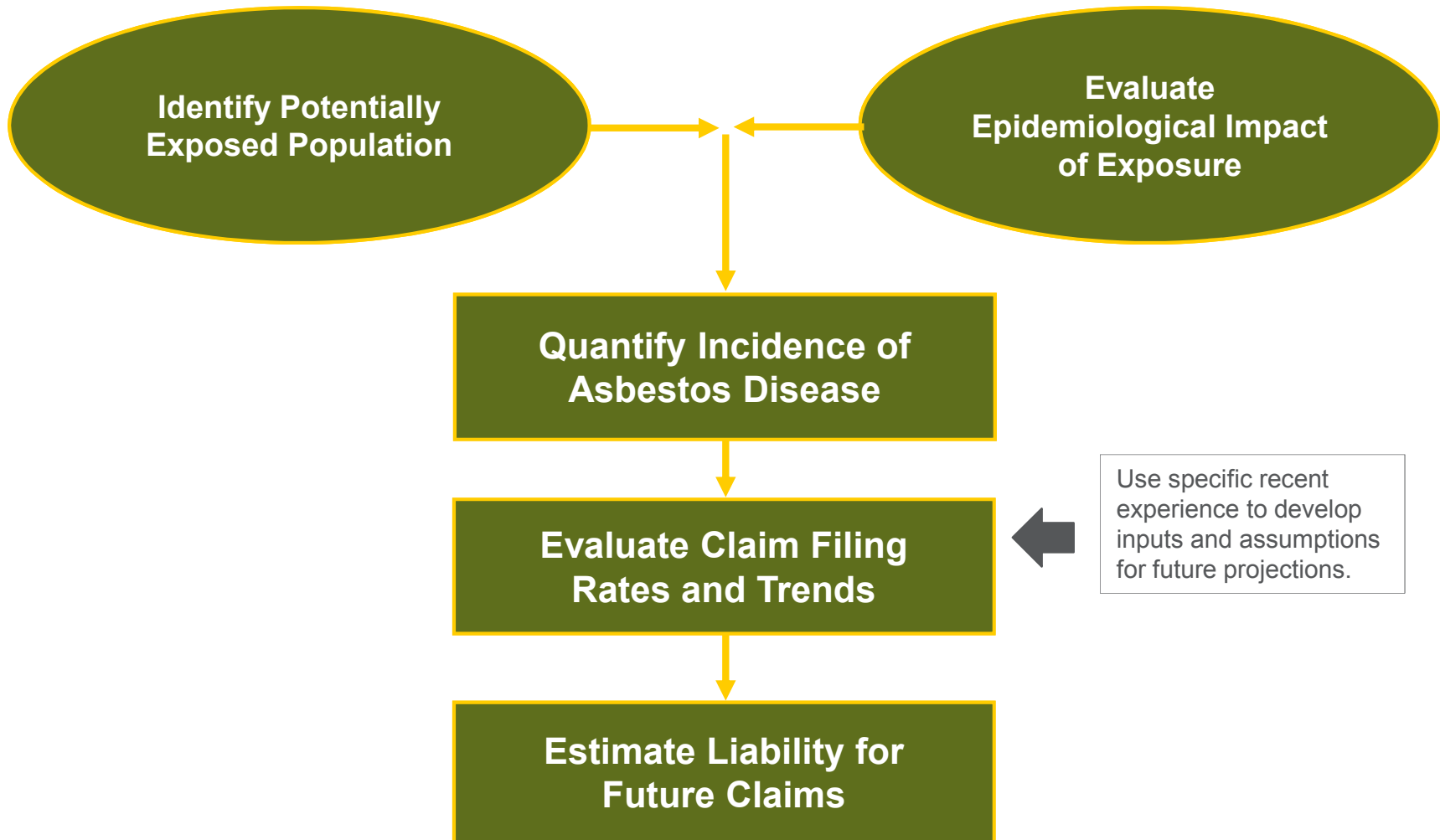
- Traditional loss development techniques are typically not relied upon, due to latency of diseases and that asbestos claims are allocated over many accident years.
- Typically, insurers use a model as follows (or something similar, depending on the availability of data)
 - Project ground-up losses by insured;
 - Allocate aggregate ground-up losses to coverage years;
 - Determine amount applicable to layers of coverage by coverage year.
- In order to estimate ground-up losses, a frequency/severity approach is typically used. Projections of future claims frequency typically based on epidemiological projections.



What are Companies saying?

- Reserve strengthening in large part due to more reported claims than expected, notably among peripheral defendants and for mesothelioma claims.
 - “Reserve development in 2015 was primarily due to ... a small percentage of the Company’s direct accounts have experienced **greater than expected claim filings**, including mesothelioma claims. This was driven by a subset of **peripheral defendants** with a high concentration of filings in specific, adverse jurisdictions. As a result, the aggregate indemnity and defense costs have not declined as expected.” Hartford 2015 10-K
 - “Reserve development in 2014 was primarily due to ... a **higher than previously estimated number of mesothelioma claim filings** and an increase in costs associated with asbestos litigation.” Hartford 2015 10-K
 - “During 2013, unfavorable development was recorded [in part due to] **higher than anticipated claim reporting**.” CNA Financial 2015 10-K
 - “Reserve additions for asbestos in 2015 [and 2014] were [in part due to] **more reported claims than expected**.” Allstate 2015 10-K
- Companies also cite an increase in ultimate claim severity.
 - “While overall payment patterns have been generally stable, there has been an increase in severity for certain policyholders due to the continued high level of litigation activity” Travelers 2015 10-K
 - “During 2013, unfavorable development was recorded [in part due to] an increase in ultimate claim severity.” CNA Financial 2015 10-K
 - “Reserve additions for asbestos in 2014 were [in part due to] increased severity.” Allstate 2015 10-K

BASIC ESTIMATION METHODOLOGY



NCI MODIFIED NICHOLSON INCIDENCE

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MESOTHELIOMA INCIDENCE AGAINST NCI MODIFIED NICHOLSON INCIDENCE

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What could be causing these trends?



Effect of Increased Life Expectancy

- “In the past, individuals who were exposed to asbestos may have died of unrelated health problems. However, **more people are now living long enough to begin to see the effects of their asbestos exposure.**
 - In 1973, which was the height of asbestos consumption in the U.S., the average life expectancy was **71.4** years.
 - Today, the Center for Disease Control and Prevention (CDC) puts the U.S. average life expectancy at **78.8** years, and the trends show a clear pattern of increasing life expectancy over time.
 - This 10% increase from 71.4 to 78.8 is particularly important for mesothelioma cases, of which 80% can be attributed to asbestos exposure, because the **average age of a person diagnosed with mesothelioma is 74**, according to the Mesothelioma Cancer Alliance.” A.M. Best Report
- “The emergence of a greater number of asbestos claims than anticipated as a result of **extended life expectancies** resulting from medical advances and lifestyle improvements” Travelers 2014 10-K

POTENTIAL EFFECT OF SECONDARY EXPOSURE CLAIMS

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Effect of Litigation Landscape

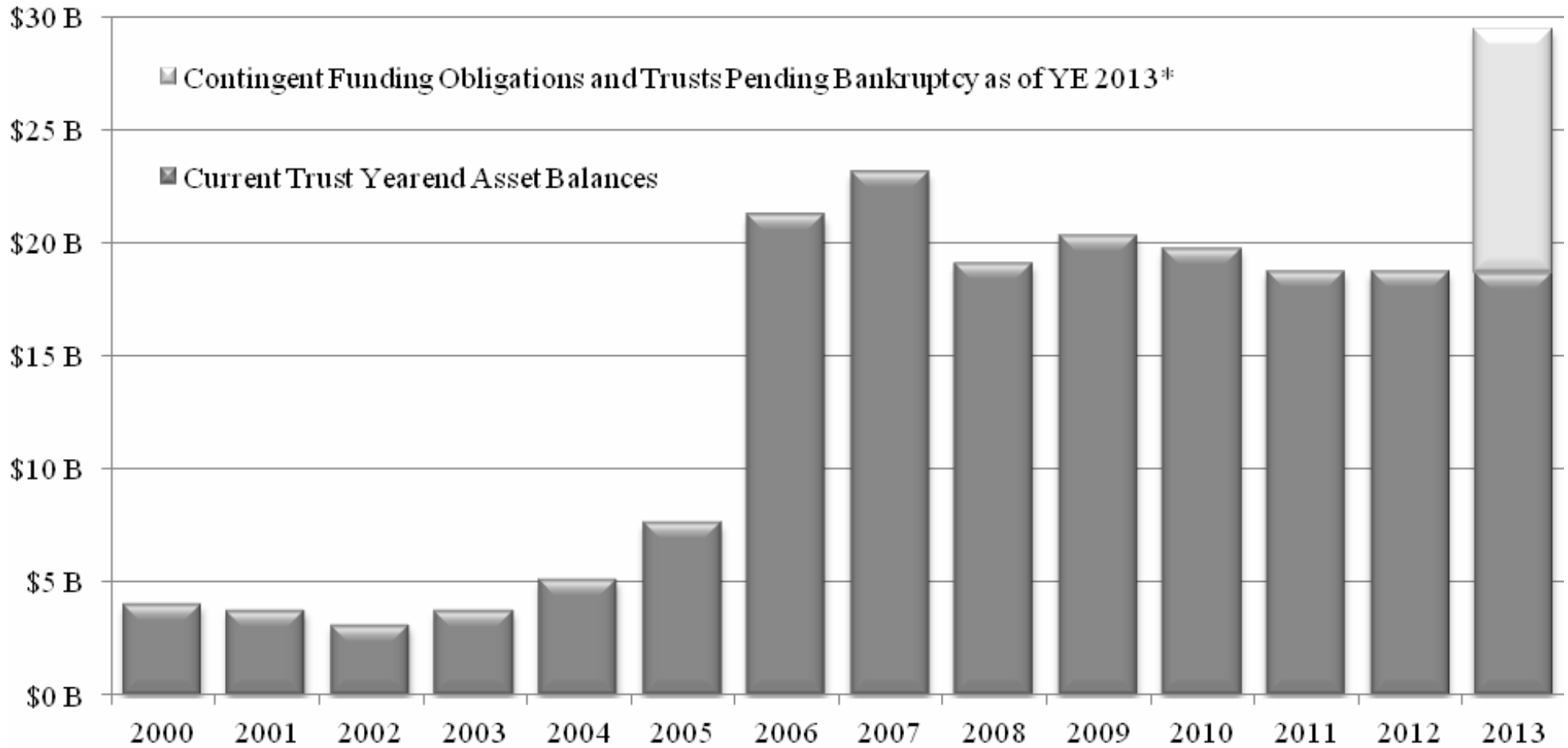
- Many companies are citing expanding coverage theories for liability.
 - “Recent industry-wide trends regarding **expanding coverage theories for liability.**” AIG 2015 10-K
 - “The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have **expanded insurance coverage for asbestos claims far beyond the original intent of insurers and policyholders.**” Travelers 2015 10-K
 - “Among the complications are ... **plaintiffs’ evolving and expanding theories of liability.**” Allstate 2014 10-K
- Courts tend to prioritize claims involving credible evidence of injuries.
 - “Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. This trend of **prioritizing claims involving credible evidence of injuries**, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, has contributed to the claims and claim adjustment expense payments we experienced.” Travelers 2014 10-K



Bankruptcies Continue to Concern U.S. P&C Insurers

- “Uncertainty remains as to our ultimate liability for asbestos and environmental claims, which is due to several factors, including ... the number of **insureds seeking bankruptcy protection** and the **effect of prepackaged bankruptcies.**” AIG 2015 10-K
- “Continued moderate level of **asbestos-related bankruptcy activity**” Travelers 2015 10-K
- “Among the complications are ... the **impact of bankruptcy protection sought by various asbestos producers** and other asbestos defendants.” Allstate 2014 10-K
- “The bankruptcy of many traditional defendants has also **caused increased settlement demands against those policyholders who are not in bankruptcy but remain in the tort system.**” Travelers 2014 10-K
- “Continued focus by plaintiffs on defendants who were not traditionally primary targets of asbestos litigation. **The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years.**” Travelers 2014 10-K

Bankruptcy Trusts



**Estimated present value of proposed funding based on bankruptcy disclosures*



Other Observations from U.S. P&C Insurers

■ Claims are sometimes filed under Prem/Ops section of GL policy.

- “Uncertainty remains as to our ultimate liability for asbestos and environmental claims, which is due to several factors, including ... claims filed under the **non-aggregate premises or operations section** of general liability policies” AIG 2015 10-K
- “We also continue to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are **not subject to aggregate limits** on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a **separate occurrence** under the policy. It is difficult to predict whether these policyholders will be successful on both issues.” Travelers 2014 10-K

■ Unavailability of other insurance sources

- “The Company’s asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether **through exhaustion of policy limits or through the insolvency of other participating insurers.**” Travelers 2014 10-K
- “Among the complications are ... **availability and collectability of recoveries from reinsurance.**” Allstate 2014 10-K

■ Direct Claims

- “Further, in addition to claims against policyholders, **proceedings have been launched directly against insurers**, including us, by individuals **challenging insurers’ conduct with respect to the handling of past asbestos claims** and by individuals seeking damages arising from alleged asbestos-related bodily injuries.” Travelers 2014 10-K

Critical Thinking at the Critical Time TM