



Trends in European Casualty insurance

Case studies on Asbestos and Medical Malpractice

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Casualty Trend in Europe

- Hot topics
- Focus on Inflation and different compensation levels
- Medical Malpractice — Focus on Italy
- Asbestos in Europe — Focus on U.K.
- Conclusions



Inflation and level of compensation



Litigation environment in Europe is resembling the U.S. in a...



...Challenging market to make underwriting profits where...

High Frequency of Catastrophe Losses

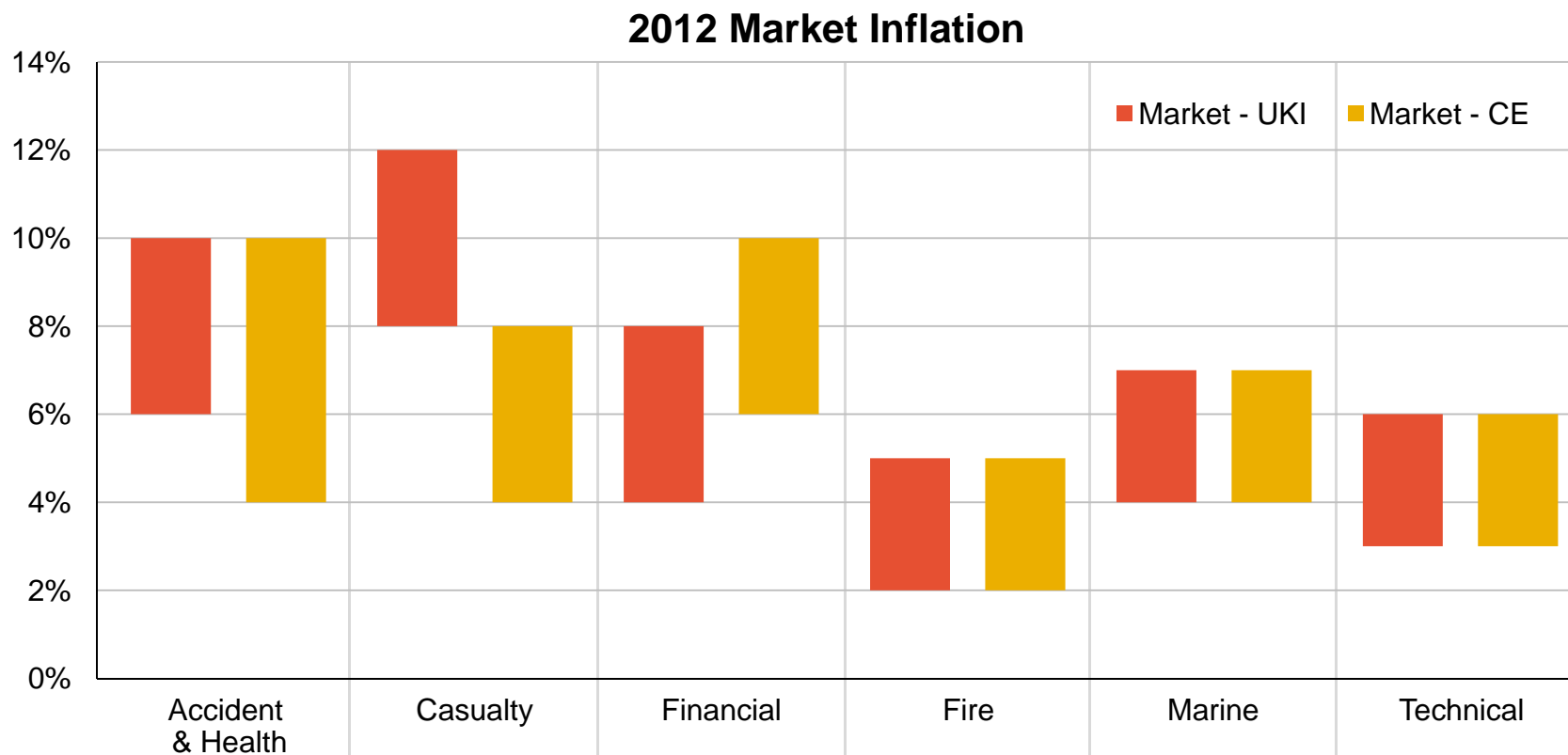


High Claims Inflation

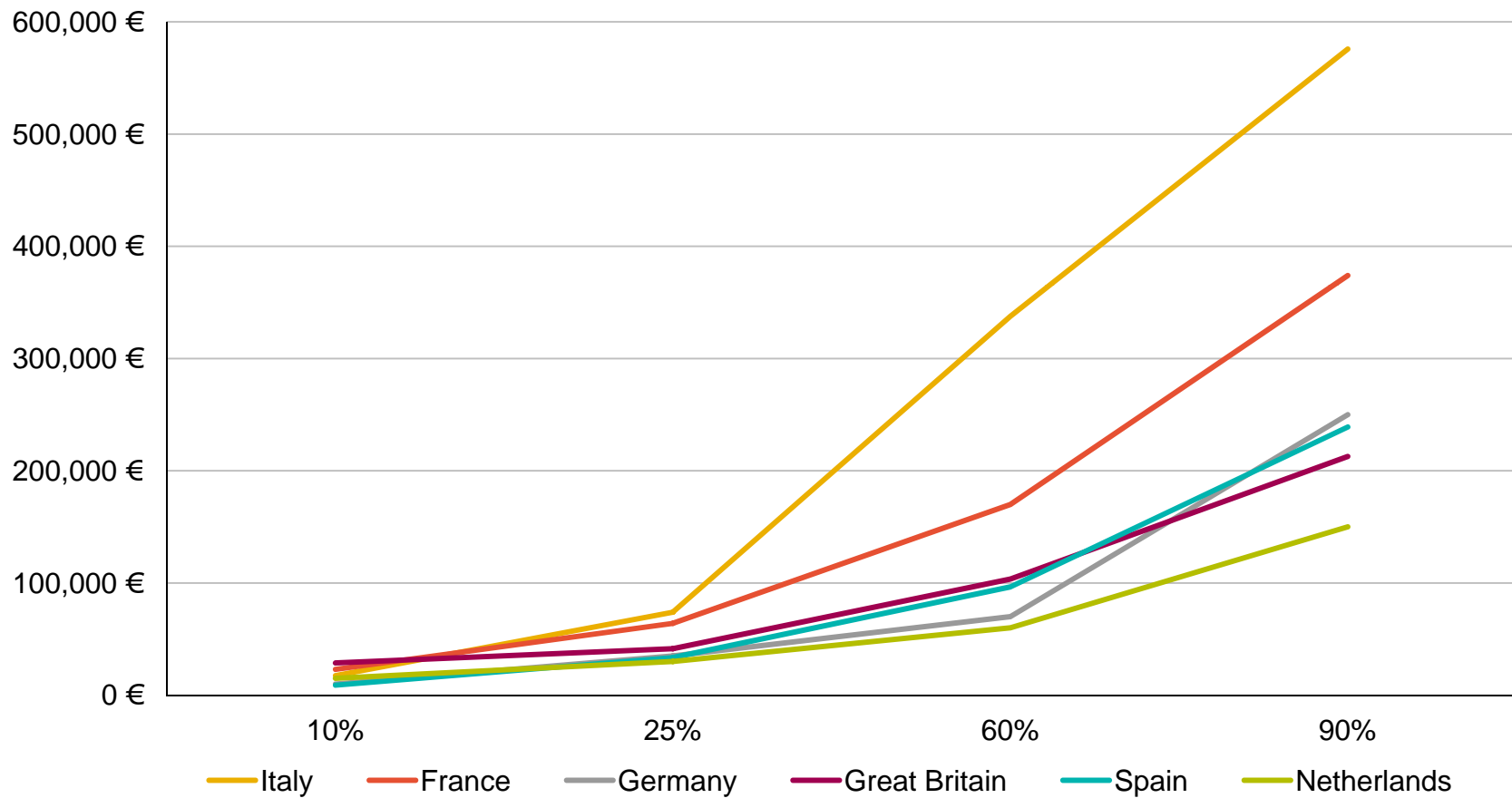


... Inflation is substantial and is on the rise, while...

- Inflation on the casualty lines is driven by both frequency as well as average claim cost



...claim cost around Europe differ substantially

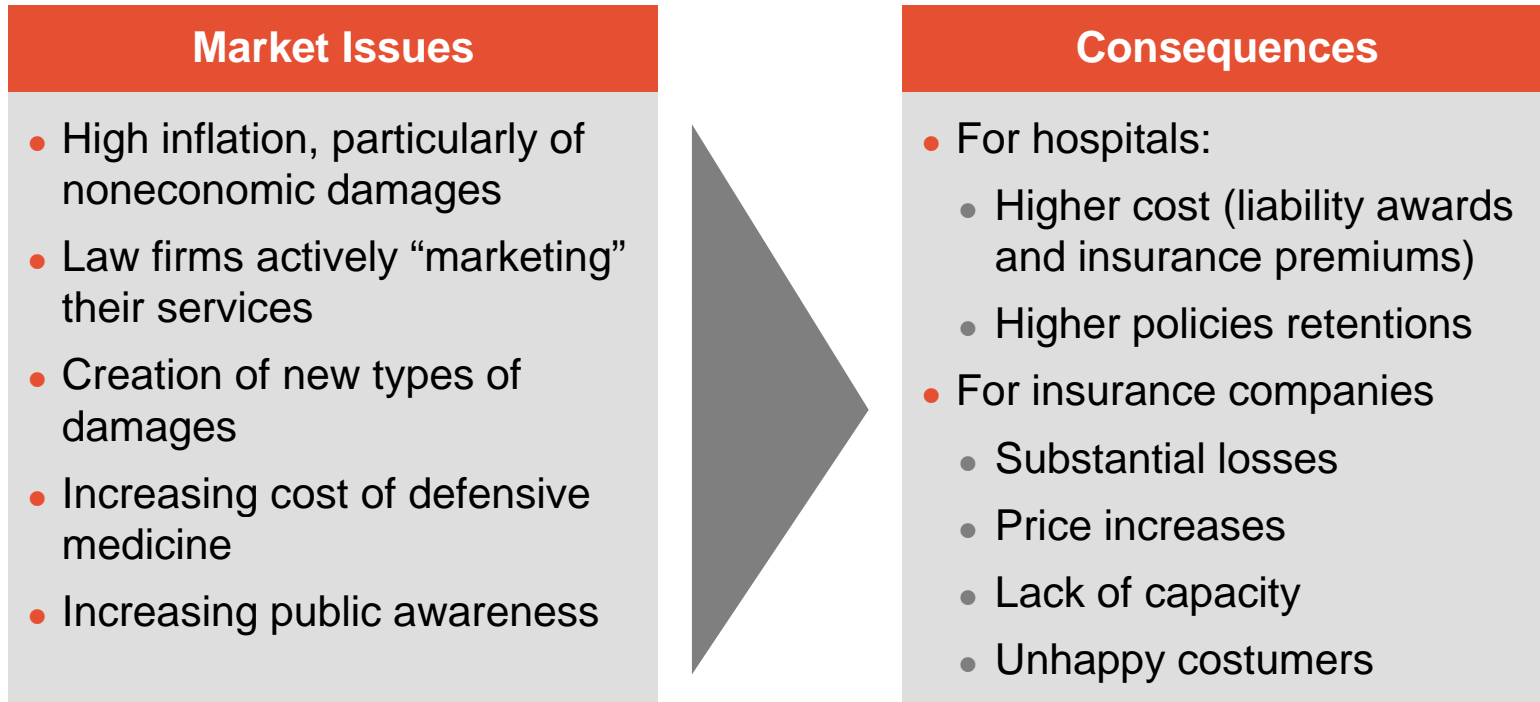


Non-economic damages, Average claim cost by impairment severity

Medical Malpractice



Market trends: Across Europe we have observed an increasing number of claims being reported



Insurance companies have been slow to recognize these issues in reserving and pricing

Some challenges the market has faced in the past

Long latency

Inadequate
claims-made
clauses

Inappropriate
pricing for
extended
exposure

Underestimation
of claims inflation

Multi-Year
policies

Lack of adequate
information to
manage risk

Inadequate
claims
management
strategy

Some challenges for the future

Some issues of the past will be unchanged

Increasing litigiousness

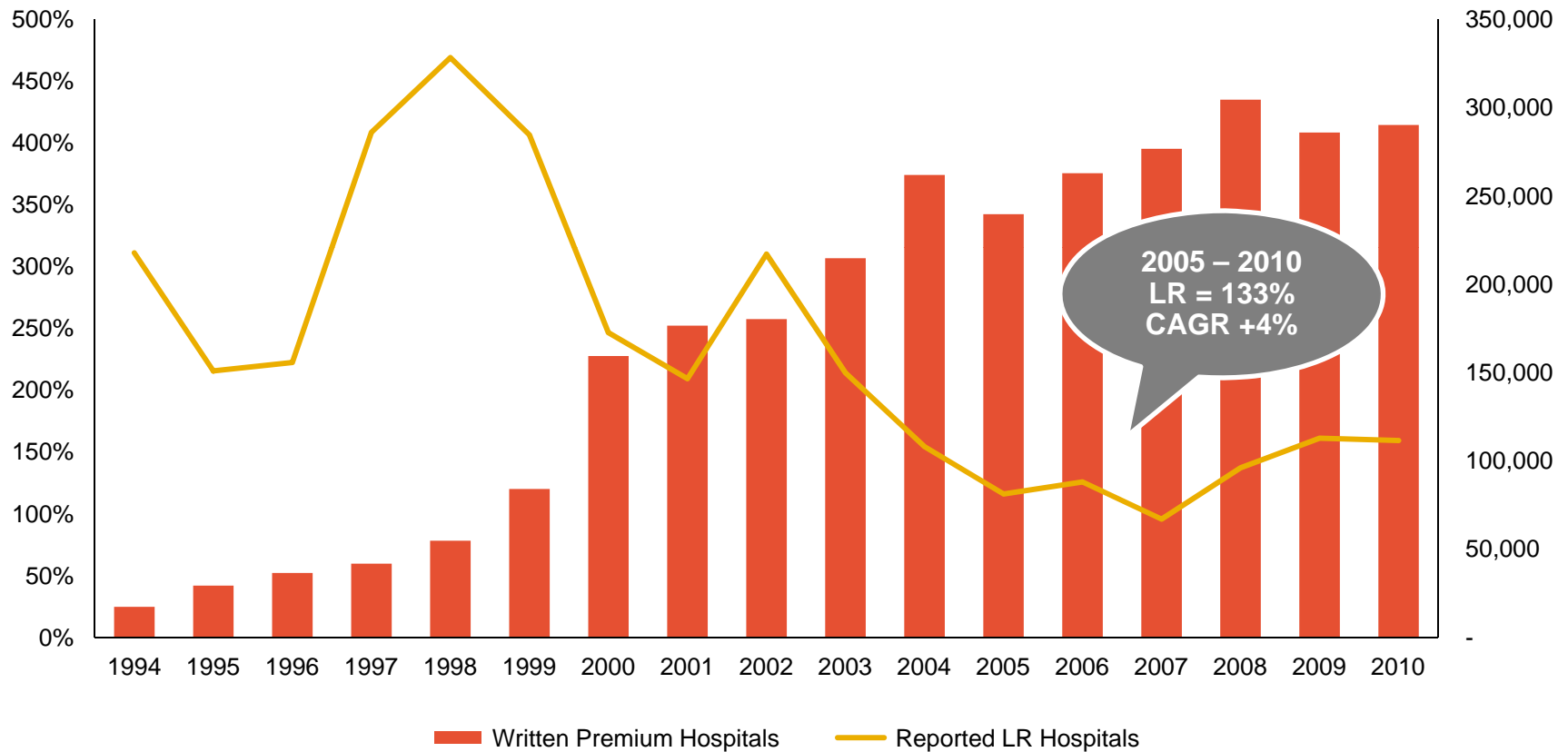
More dependents being compensated

Slow resolution of the legal system

Increasing capabilities of legal firms

More than 10% Claims inflation for more severe injuries

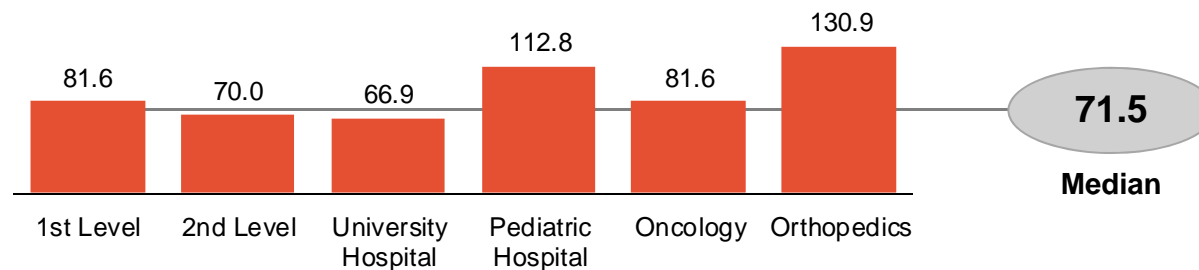
Italian med mal has been gaining the reputation of a toxic line due to very poor performance



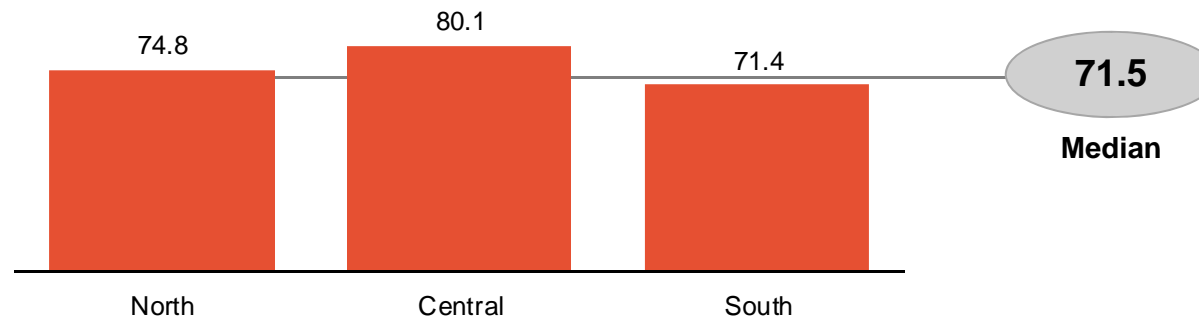
Source: Ania, Insurer association, TW study

Very diverse risk profile by specialization and geography

Claim Cost Per Recovery by Specialization (Euro)



Claim Cost Per Recovery by Geography (Euro)

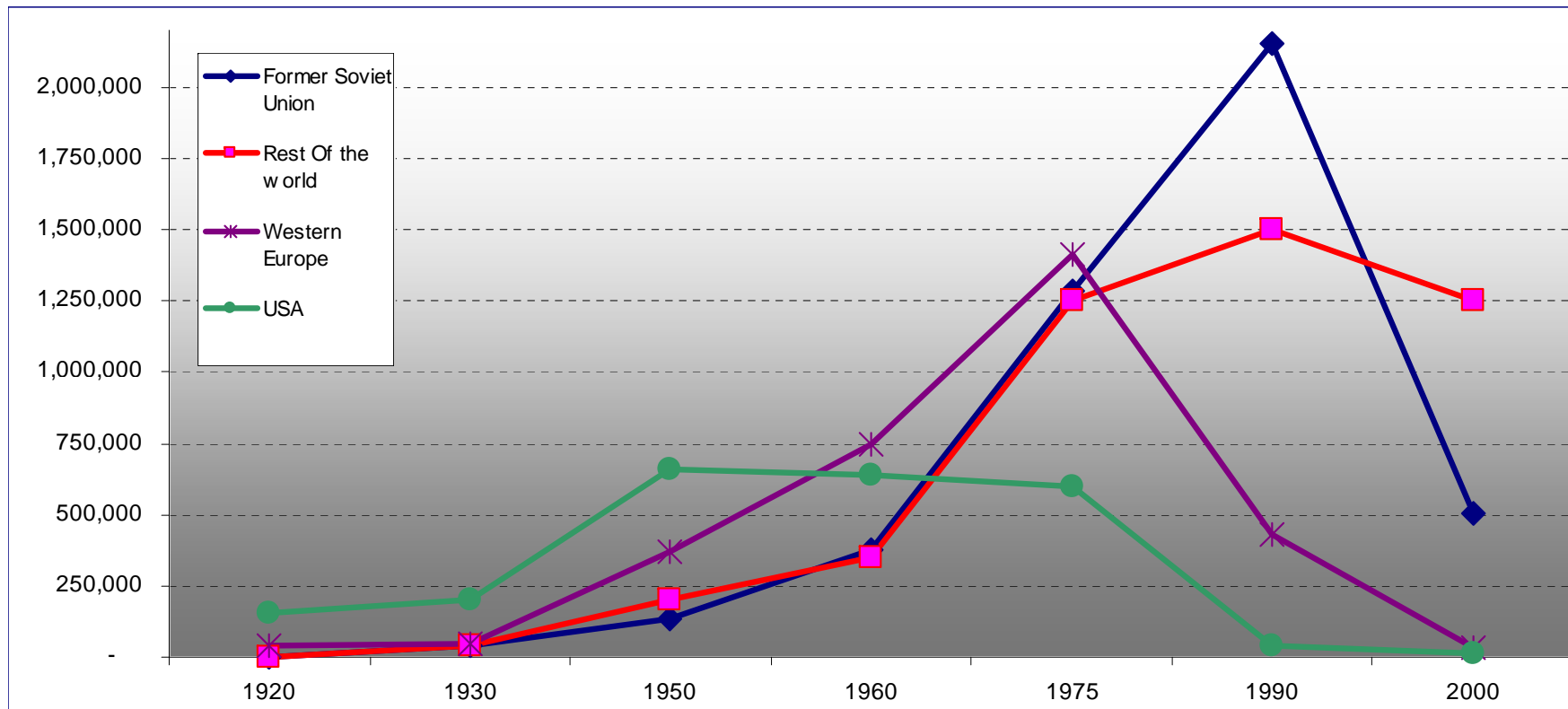


Asbestos in Europe



The emergence of asbestos-related diseases in the EU is repeating the U.S. experience, with a time lag due to the earlier exposure and earlier reduction in the U.S., and...

World Asbestos consumption (Production + Imports - Exports)



Source: Worldwide asbestos supply and consumption trends from 1990 to 2003 (Robert L. Virta).

....with some notable differences and areas of convergence

Feature	Europe	United States
Compensation	State health systems and employment liability	Manufactures and Producers, Product and premises liability
	Few companies named in each action	60 or more companies named in each action
	Today's policies may respond	Asbestos is currently excluded
	Between €50 and in excess of €1 Mil.	Substantially Higher
Litigation Environment	Civil trials, with no jury	Jury are more subjective
	Proof of disease, not all may impact insurance	Majority of compensation was for non-impaired claimants
	Contingent fees generally not allowed (no-win, no-fee in U.K.)	Contingent fees up to 40% of awards
	Forum shopping not relevant in most countries	Research for more favorable jurisdictions
	Number of Union screenings is rising	Union and Lawyers screening, plus more litigious culture
	Class actions are generally not allowed	Class actions

Asbestos-related claims are being compensated by the European insurance industry through different systems...

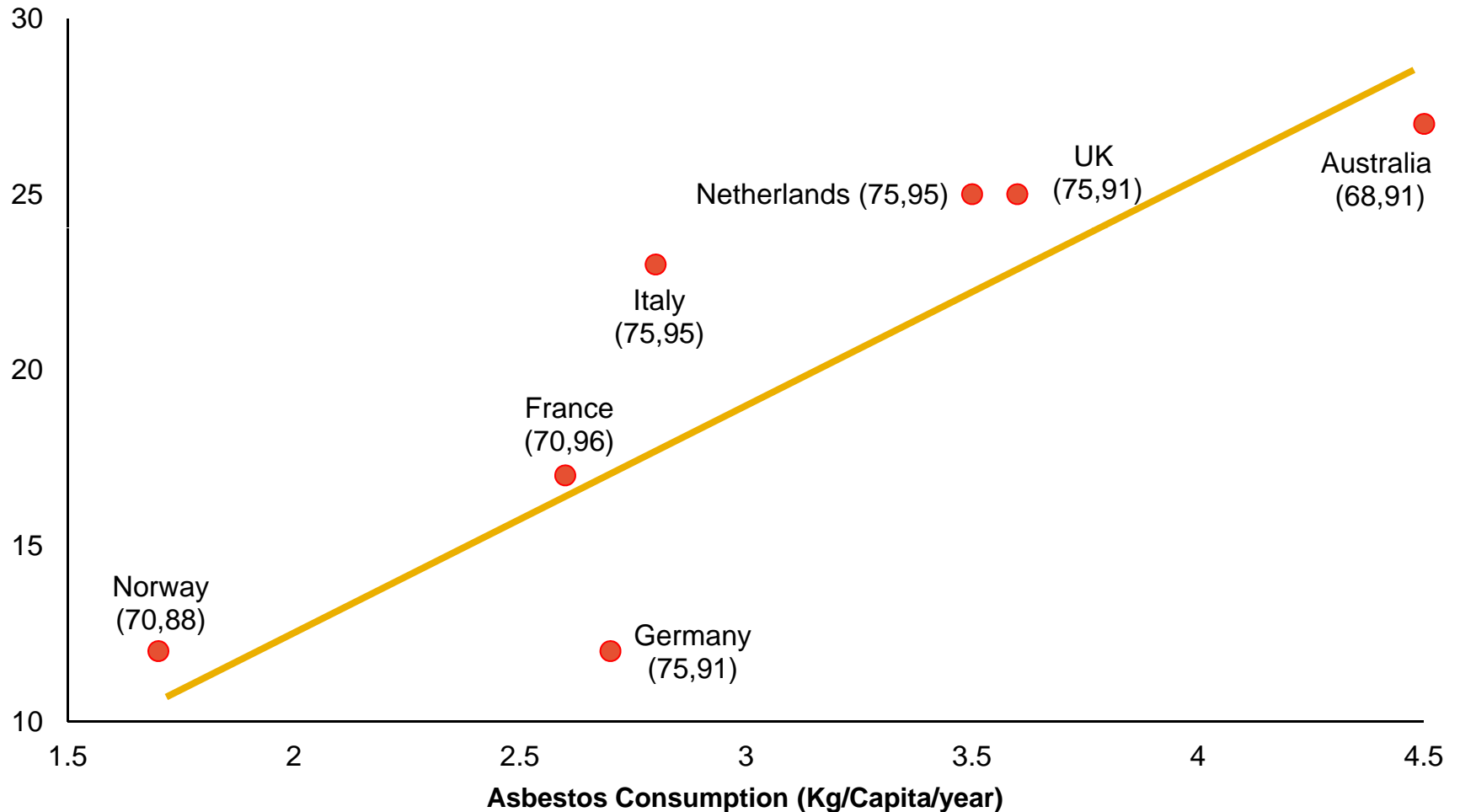
- Occupational diseases can be compensated through:
 - **No-fault:** Workers compensation or social security
 - **Tort:** Employers liability, public liability or general/products liability
- The potential sources of compensation differ not only in what must be proven, but also in the damages they will compensate
- Differences exist between the various EU countries. In general, no-fault systems do not pay for non-economic losses, which are, at least in theory, available from the tort system



...With a different impact by country

U.K. and the Netherlands are the most impacted; developments in Italy and France make it particularly at risk

Mesothelioma Incidence

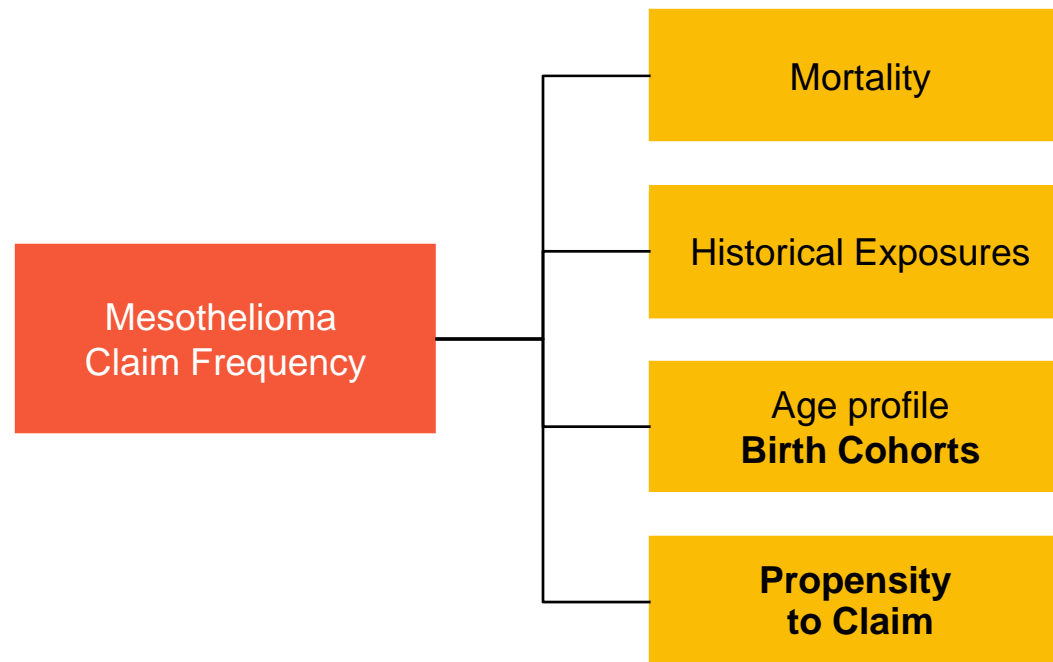


Source: Ken Takahashi et al.: Ecological relationship between mesothelioma and Asbestos.

Projecting Mesothelioma Claim Numbers

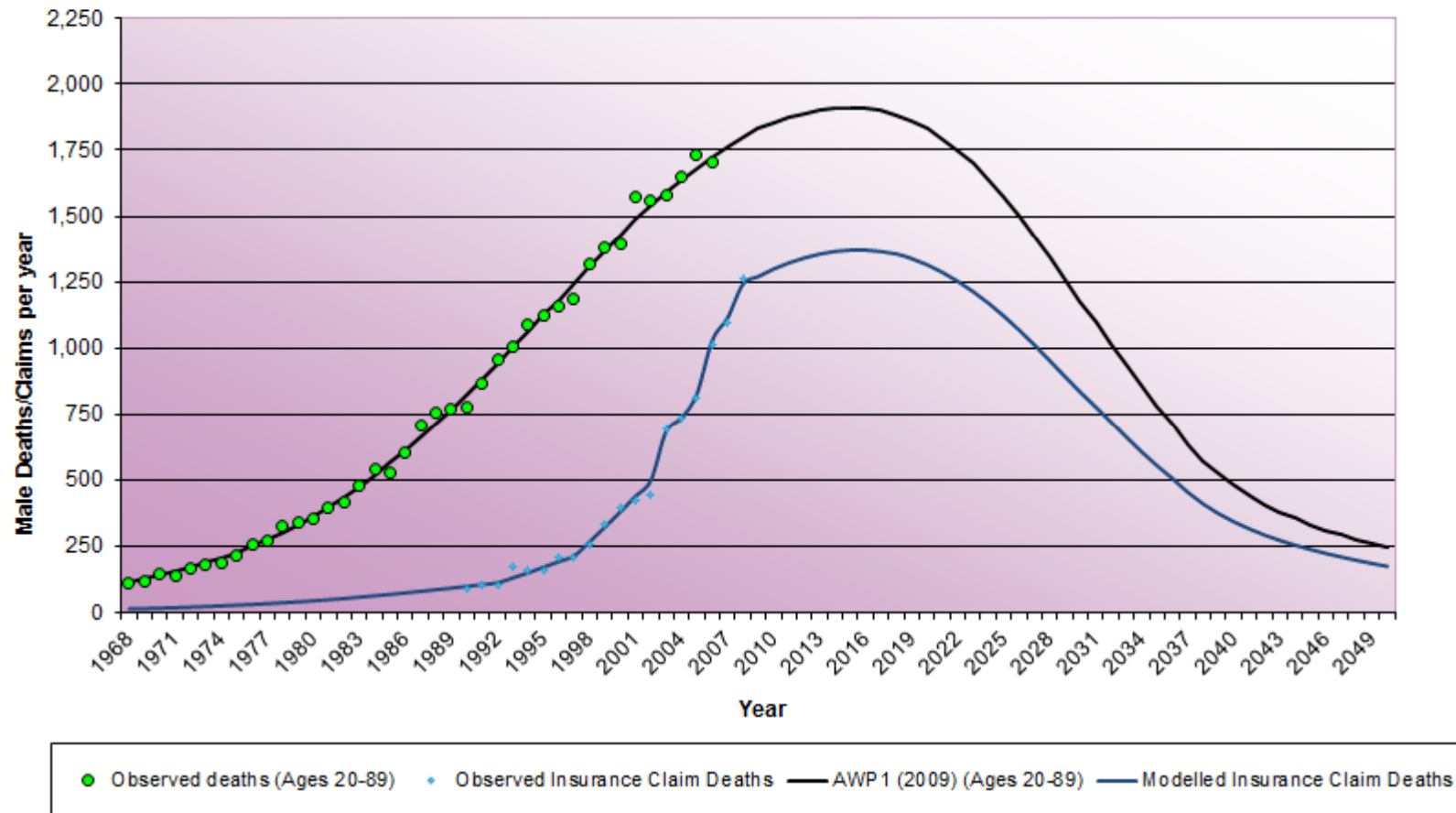
- Mesothelioma
 - Mainly using models derived from the UK Actuarial Profession's 2009 Asbestos Working Party (AWP) model and underlying HSE/HSL projected mesothelioma deaths models

1. Frequency assumptions



Mesothelioma Claim Numbers 2009 AWP projections

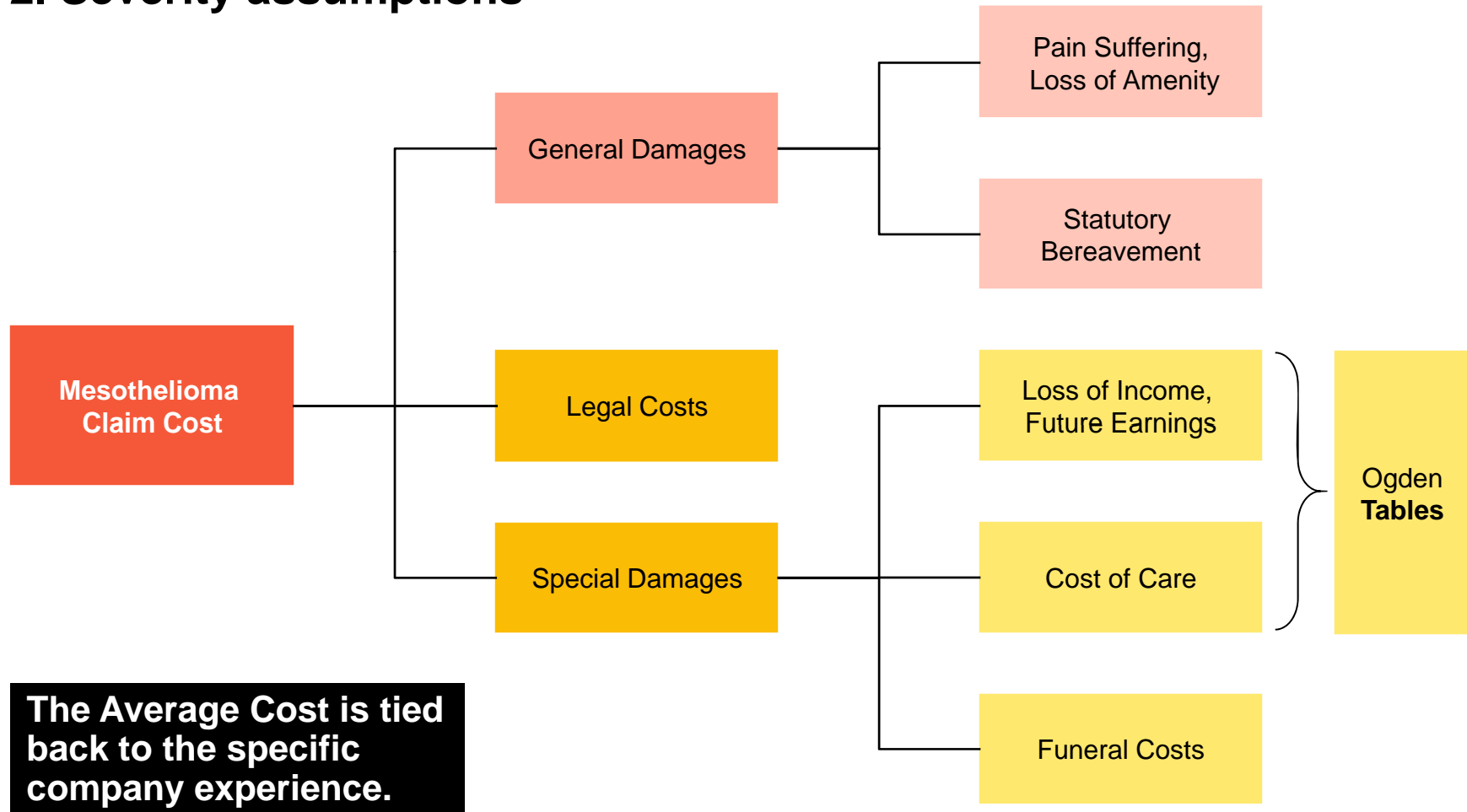
Modelled male mesothelioma deaths and claims



Mesothelioma Claims Severity

Types of Damage

2. Severity assumptions



Conclusions

- Liability trends in Europe are resembling the U.S. environment; claims inflation is higher in countries where level of compensation is below average
- Claims inflation tends to rise more than CPI and GDP
 - It is important to factor inflation assumptions explicitly into reserving models and time lag of recognition into pricing
- Local issues are often understated
 - It is key to understand evolution of local regulation and tort system and to properly estimate the impact on pricing and contract terms and conditions