



Realising Value



Enstar Group Limited

Run-off Challenges Outside North America

June 2016 – CA Re - Boston

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An Overview



We have evolved from the industry's largest standalone run-off consolidator to an insurance group with legacy and specialty underwriting and capabilities, and we have a vision to grow further.

17%

CAGR
Book Value Per Share

\$12bn

Assets
Billion

\$1.1bn

Enstar Group 2015 Billion
Gross Written Premium

19%

Debt to Capital
Ratio

\$7.0bn

Total Reserves
Billion

\$2.6bn

Market Capitalization
Billion

\$8.8bn

Total Cash & Investments
Billion

72

Acquisitions
To date

\$220m

2015 Net Earnings
millions

Enstar Background

- Overwhelmingly the run-off targets are property/casualty portfolios
- Size from \$2 million to multi-Billion
- Many different lines of business
- Acquirors cannot choose targets; no renewal customers (!)
- Global Scale
 - UK and European Continent
 - US
 - Australia and NZ
 - Far East
 - Others

Run-off is a Well-Defined Niche

- Run-off is different but yet the same; fundamentals apply
- Return on Capital is still applicable
- Reserves consume capital
 - Premium-to-surplus is ancient history
 - Deterministic Capital Spreadsheets should be as well
 - Length of run-off determines duration of capital commitment
- Different strategies are evident: buy-and-hold vs. fast-and-done
- Run-off is a value-added product; it releases capital
- Capital calculations vary by country, sort of
- Solvency II similar to Switzerland, Australia, Bermuda
- Reinsurance is international; possible to easily move portfolios

Actuarial Run-Off Analyses

- New Challenges Constantly
- Deadlines are inflexible
- Understand the Coverage; e.g. Auto Liability is unlimited
- Examine the data, patterns
- Follow the data
- US rules and benchmarks do not apply; e.g. downward development for Liabilities
- Words don't mean what they mean
 - Marine includes "incidental non-marine"
 - Comprehensive means just that, everything
 - Asbestos does not mean GL, rather WC
- Long-tail coverages dominate run-off, not surprisingly
- Triangles have less validity for losses 10+ years into run-off

Actuarial Challenges

- Recent challenges to actuarial orthodoxy
 - UK Asbestos
 - UK Deafness
- Asbestos resides in Employers Liability (similar to WC)
- Coverage is strict liability and unlimited
- ELTO – industry-wide database of policy coverage
- Losses are spread across affected insurers
- Significant claims “farming” by solicitors (lawyers)
- Most modelling is frequency-severity based;
- Frequency reflects mortality profile of exposed population
- Severity reflects future expected inflation



Institute
and Faculty
of Actuaries

Update from the UK asbestos working party

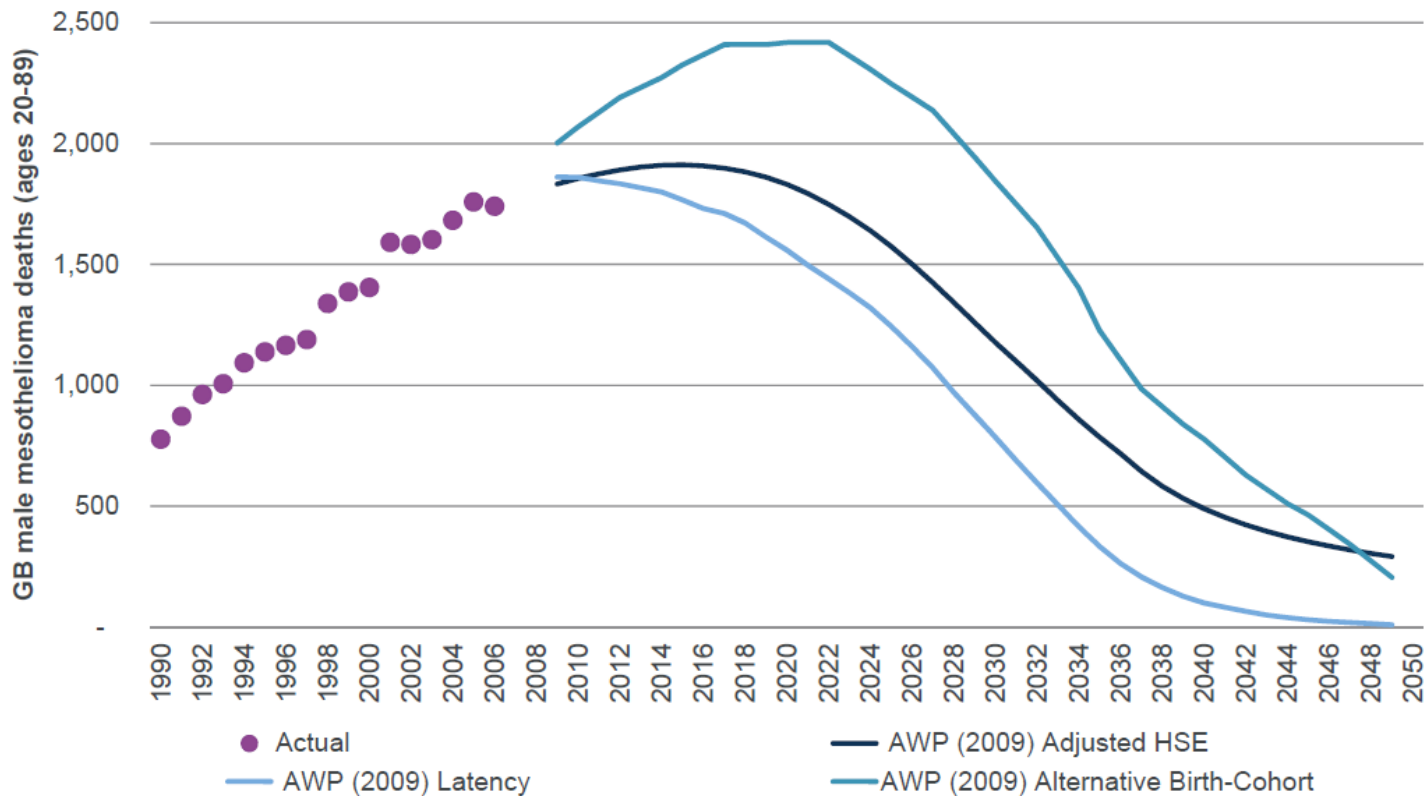
GIRO Conference 2015, 20-23
October, ACC, Liverpool

Update from the UK asbestos working party

- AWP developed three models for estimating future GB male mesothelioma deaths in the 2009 market estimates
- Each model had different pros and cons
- Each model used different parameters
- This helped the AWP to understand the uncertainty around estimating future mesothelioma deaths

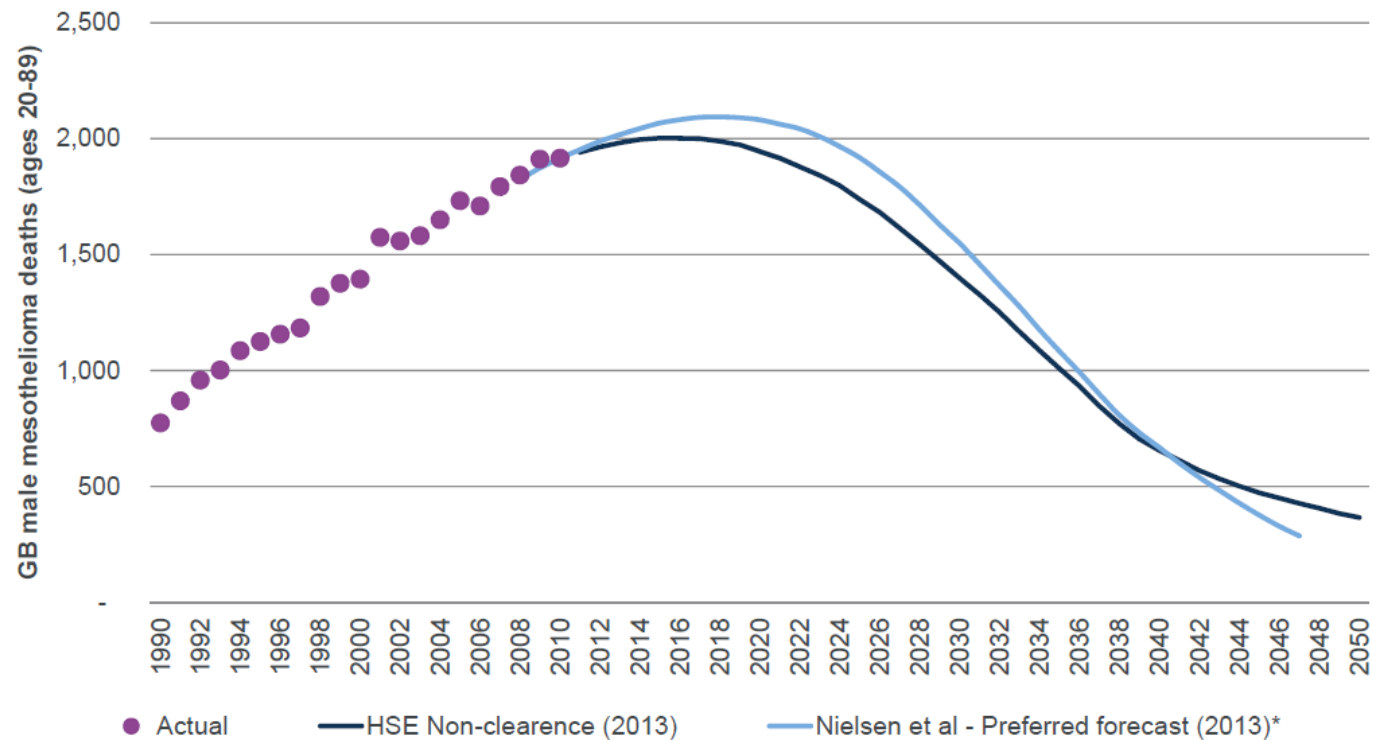
Mesothelioma deaths

Actual experience up to 2006 and AWP projections



Mesothelioma deaths

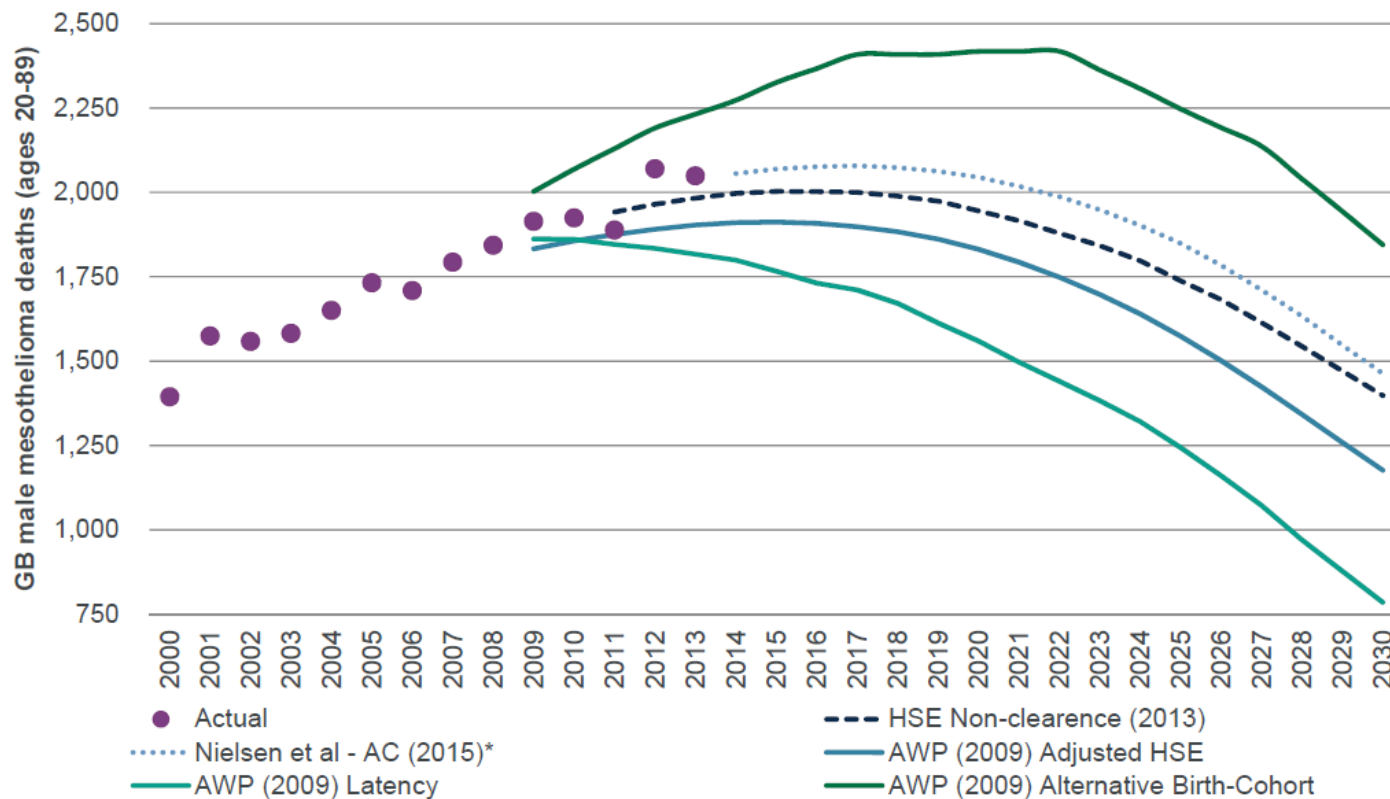
Actual experience up to 2010 and new HSE projection



* Inference and forecasting in the age-period-cohort model with unknown exposure with an application to mesothelioma mortality - Jens Nielsen et al - 8 March 2013

Mesothelioma deaths

Actual experience up to 2013 and all recent projections



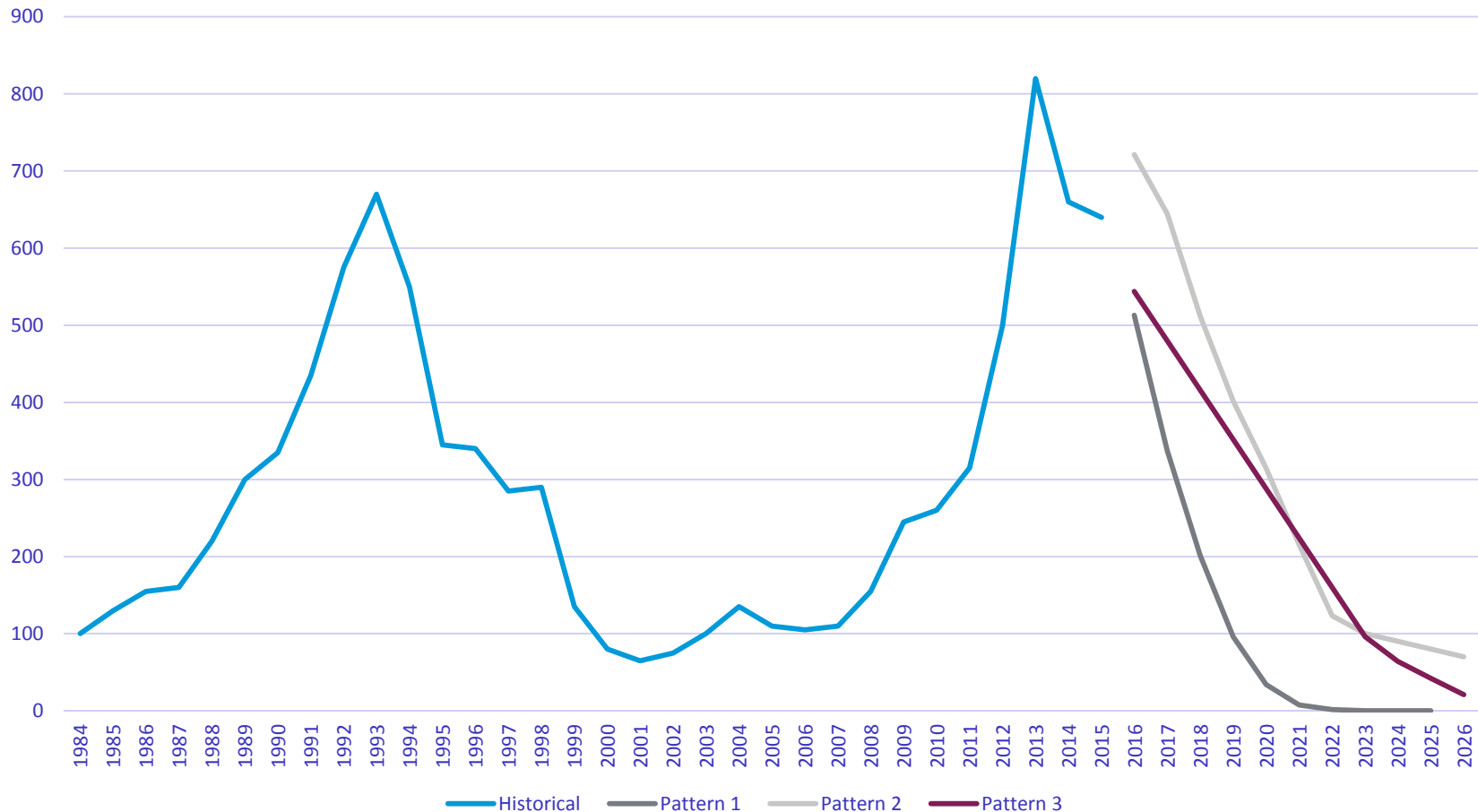
* A simple benchmark for mesothelioma projection for Britain - Jens Nielsen et al - September 2015

- Huge variation in projected reserves
- Inconsistent adoption of AWP 2009
- Adaptations for unique exposure profile by company
- Will the frequency peak in 2016? 2019? 2023?
- Variations in scenario chosen
- Variations in severity:
 - starting point – average vs trended average
 - inflation selection
- Variations in reflecting recent experience
- Impact of increased diagnostic frequency? Technological advances

UK Deafness

- Also within Employers Liability
- Recent years have exhibited an explosion of claims
- High Frequency but very low severity
- Very large claim rejection rate
- Changes in Legal environment will create unknown future improvements
- Variations in reflecting extent of recent experience
- Huge variation in projected reserves

UK Deafness Report Year Emergence



UK Deafness

- Imagine setting reserves in 2001; 2011
- Will the frequency decay to zero?
- Will the frequency exhibit a third peak?
- Huge variation in projected reserves

Generic Actuarial Challenges for Run-off

- Despite the extremeness of these examples they provide useful lessons
- Current loss reporting is divorced from historical “normal” losses
- Triangle methods will not work; accident year boundaries are blurred
- Alternative exposure measures required for projecting future loss payments
- “Calendar year” methods should be examined as a reasonableness test.
- Constant recalibration may be required
- Stair-stepping is not an acceptable practice; if the answer is wrong year after year then a new method is indicated
- Mid-year actual-versus-expected testing is highly recommended
- Examine the literature; there are very few “new” problems