

# Unsupported Umbrella/Excess – Carrier Perspective

CAS Spring Meeting San Diego

May 26, 2010




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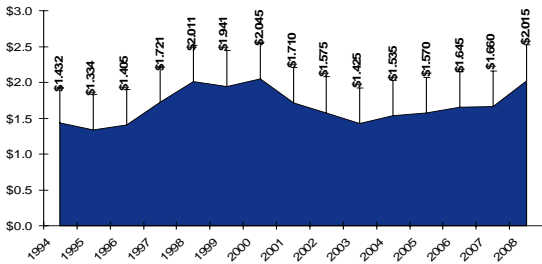
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## Excess Liability Market Capacity North America (\$ Billions)



In 2008, capacity is back to 2000 levels.



Source: Marsh, 2008 Limits of Liability Report  
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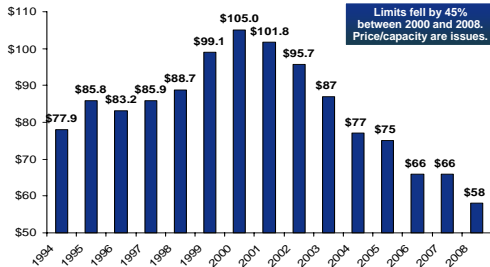
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## Average Total Limits Purchased by All U.S. Firms\* (\$ Millions)



Limits fell by 45%  
between 2000 and 2008.  
Price/capacity are issues.



\*Includes underlying primary limits  
Source: Limits of Liability 2008, Marsh, Inc.  
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Reinsurance Company  
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### Insurance Company Management

Issues Related to Unsupported Umbrella

**Company Tolerance for Volatility**  
Surplus position, expectation of owners, target markets, expertise, reinsurance strategy

**Segmentation and Book Composition**  
Middle market/Large account/Surplus Lines  
Select Industries  
Lead/Excess

**Reserving/Pricing/Selection Discipline**

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### Select Underwriting Issues

- **Strength/Practices of Underlying carrier(s)**
- **Underlying Terms and Conditions**
- **Base premium rating – 1<sup>st</sup> million of coverage**
- **Excess Layering/Minimum Premiums**
- **Aggregate Severity and Clash**
- **Loss Development – Auto vs GL**
- **Limits Pull**
- **Auto Underwriting and Pricing**
- **Claims handling**
- **"Comprehensible Exposures"**
- **Book Mix/Profile**

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### Unsupported Umbrella Issues Matrix

	Middle Market	Surplus Lines	Large Accounts
High Excess	Underlying carrier Minimum premiums Coverage/Book Mix	Analyze/Verify Exposures Minimum premiums Aggregate exposure Relative pricing Coverage Extensions	Minimum premium Hazard relativity Control book mix Duty to Defend Punitive damages
Lead	Producer relationships Consistent method AL vs GL Development Limits Pull	Analyze/verify exposures Cycle management Rate/attachment Knucklehead Test	Attachment SIR issues Claims expertise Perfume syndrome

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### Loss Development Factor Comparison

#### 15 to 27 month LDF

Year	Supported	Unsupported	High Admitted
2001	1.43	3.75	0.45
2002	1.29	2.41	2.80
2003	1.58	1.91	31.03
2004	3.14	1.53	1.04
2005	2.07	1.46	37.82
2006	0.87	1.34	1.01
2007	7.91	4.60	7.46
2008	1.52	1.15	2.74
Average	2.48	2.27	10.54
Average exc. Hi/Low	1.84	2.07	7.68
Standard Deviation	2.30	1.26	15.01

\*Loss development is representative of Fireman's Fund Insurance Company loss experience.

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### Loss Development Factor Comparison

#### 27 to 39 month LDF

Year	Supported	Unsupported	High Admitted
2001	1.23	1.46	1.59
2002	1.20	1.23	1.12
2003	1.14	1.40	1.91
2004	2.10	0.83	4.55
2005	1.00	1.48	1.13
2006	1.13	1.40	1.06
2007	1.94	1.72	1.29
Average	1.39	1.36	1.81
Average exc. Hi/Low	1.33	1.39	1.41
Standard Deviation	0.44	0.27	1.25

\*Loss development is representative of Fireman's Fund Insurance Company loss experience.

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### Loss Development Factor Comparison

#### 39 to 51 month LDF

Year	Supported	Unsupported	High Admitted
2001	1.03	1.06	5.76
2002	1.01	1.22	1.33
2003	1.39	1.11	1.04
2004	1.17	1.51	1.01
2005	1.44	1.55	1.03
2006	1.16	1.14	1.02
Average	1.20	1.26	1.87
Average exc. Hi/Low	1.19	1.25	1.11
Standard Deviation	0.18	0.21	1.91

\*Loss development is representative of Fireman's Fund Insurance Company loss experience.

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Emerging Issues  
Headlines from Law.com



- 1) **FTC Blogging Rules Pose Advertising Risks (Feb 2010)**
- 2) **Supreme Court Ruling Opens Federal Courts to More Class Actions (April 2010)**
- 3) **Feds: Homes with Chinese drywall must be gutted (April 2010)**
- 4) **House Hears Testimony on Medical Device Bill That Would Reverse Supreme Court Ruling (May 2010)**
- 5) **Claims of 'Greenwashing' on the Rise (June 2009)**
- 6) **Companies in Hot Seat as Courts Advance Climate-Change Claims (April 2010)**

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