

Mohammad Khan

Liability Underwriters Group Conference

A financial review of the General Liability market

9 September 2009

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Introduction

1. Overview of the General Liability Market
2. Current issues:
 - Asbestos – still here
 - Financial Crisis
 - Rates
 - Emerging torts
3. Any questions?

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Section 1

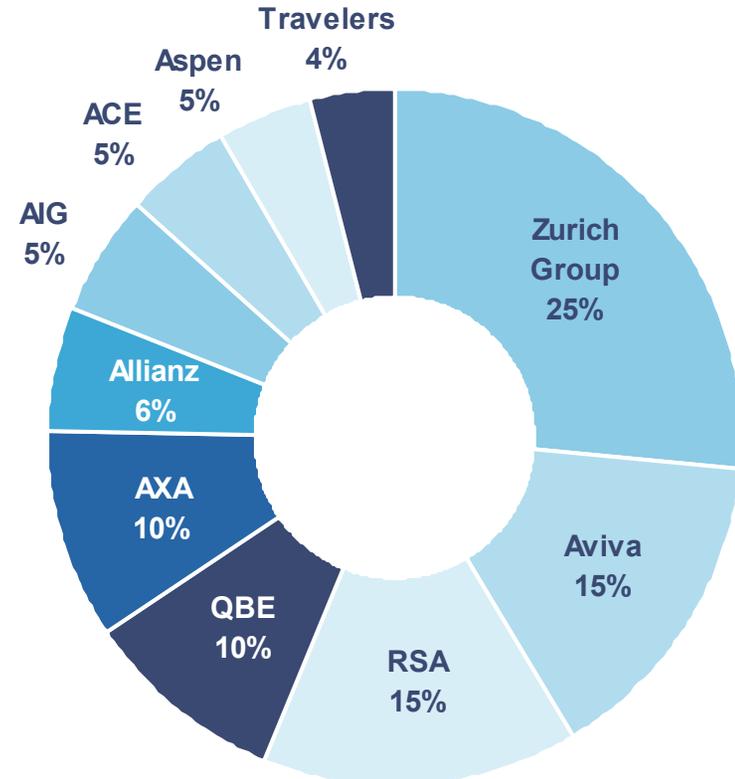
Overview of the General Liability Market

1. Overview of the General Liability Market

Largest 10 insurers by premium - Employers Liability

Ranking	Insurer	Gross Earned Premiums in 2004 (£m)	Gross Written Premiums in 2007 (£m)
1	Zurich Group	451	275
2	Aviva	156	156
3	RSA	213	152
4	QBE	139*	99
5	AXA	121	99
6	Allianz	90	63
7	AIG		57
8	ACE		50
9	Aspen	130	49
10	Travelers		39
	Total	1,299**	1,039

Top 10 Employers Liability Market Share - 2007



Source: Standard & Poors' SynThesys 2007

*Refers to gross written premium

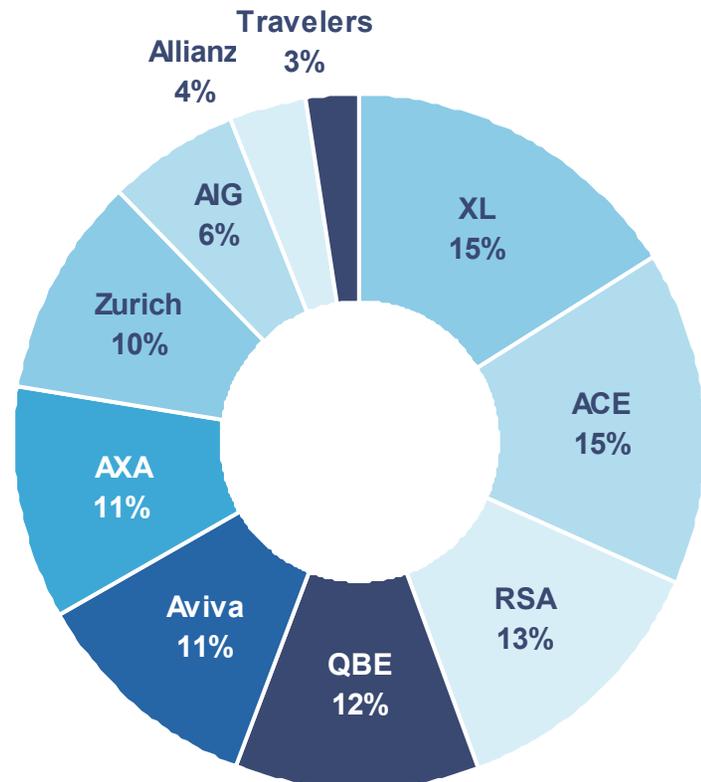
** Total of Top 10 insurers in 2004, includes NFU, XL and BRIT.

1. Overview of the General Liability Market

Largest 10 insurers by premium - Public and Product Liability

Ranking	Insurer	Gross Earned Premiums in 2004 (£m)	Gross Written Premiums in 2007 (£m)
1	XL		278
2	ACE		265
3	RSA	238	217
4	QBE	130*	198
5	Aviva	212	185
6	AXA	222	184
7	Zurich	264	180
8	AIG	301	101
9	Allianz	98	62
10	Travelers		45
	Total	1,436**	2,282

Top 10 Public and Product Liability Market Share - 2007



Source: Standard & Poors' SynThesys 2007

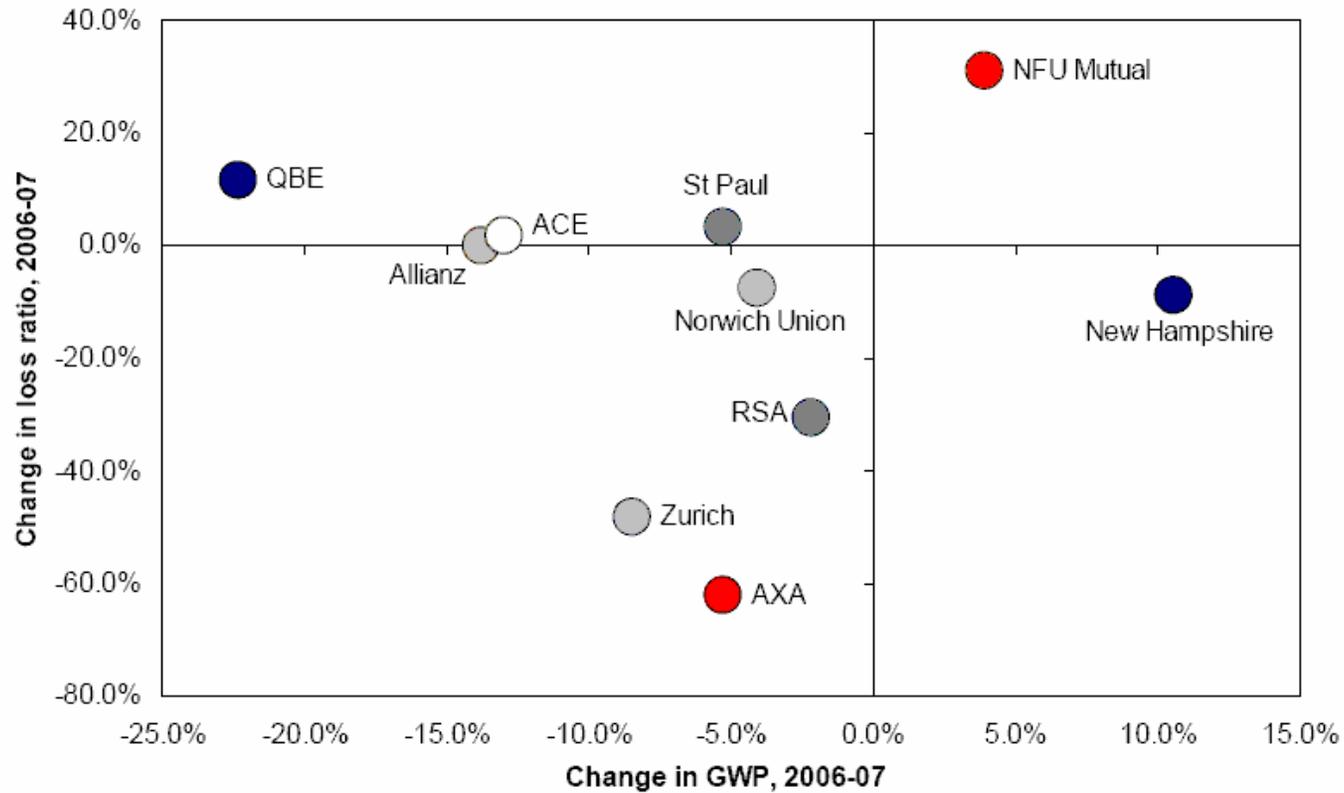
*Refers to gross written premium

** Total of Top 10 insurers in 2004, includes RBS, Converium and Liberty

1. Overview of the General Liability Market

Changes in Loss Ratio and Written Premium

Half of the top 10 UK liability insurers saw their loss ratios improve in 2007

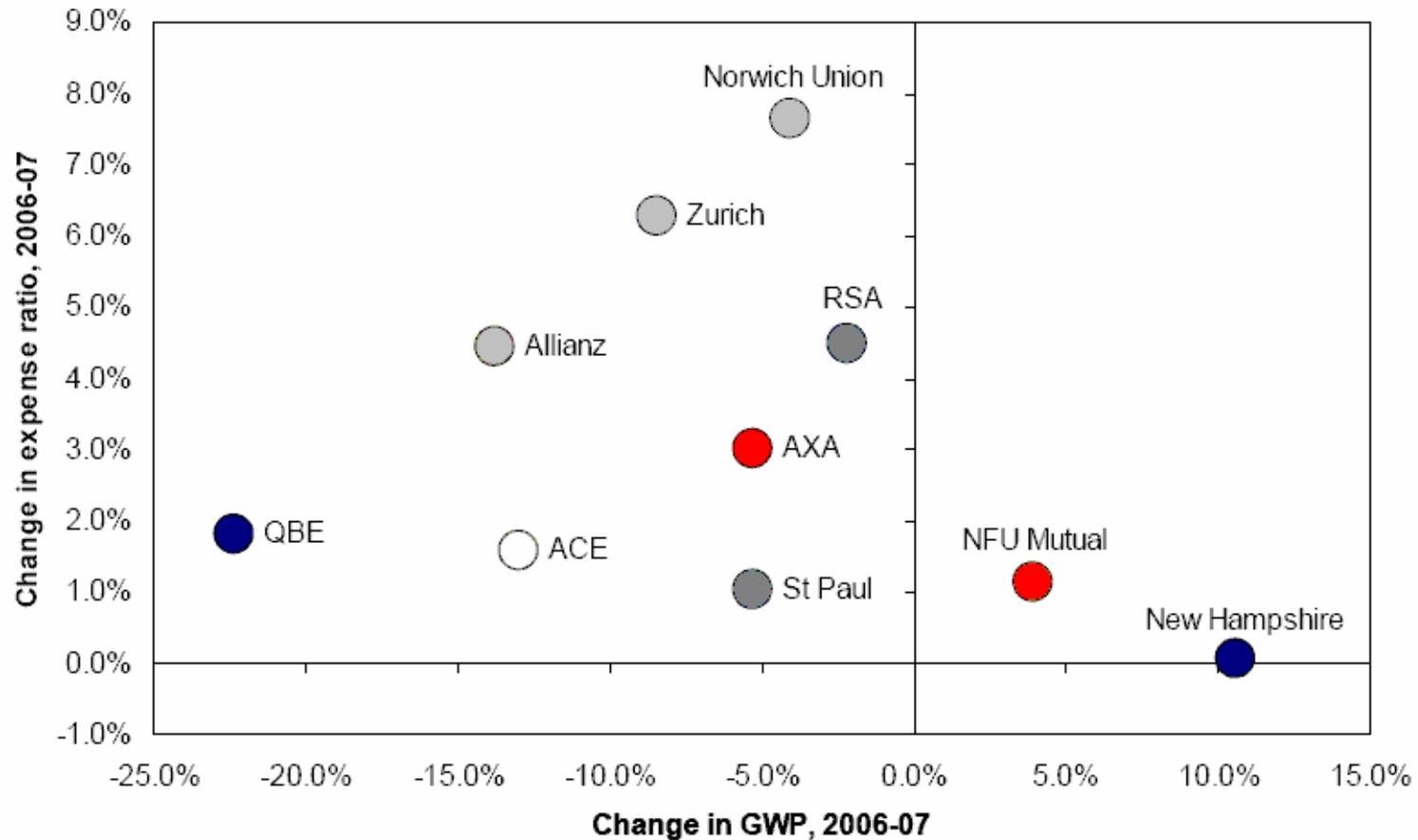


Source: Datamonitor

1. Overview of the General Liability Market

Changes in Expense Ratio and Written Premium in 2006-07

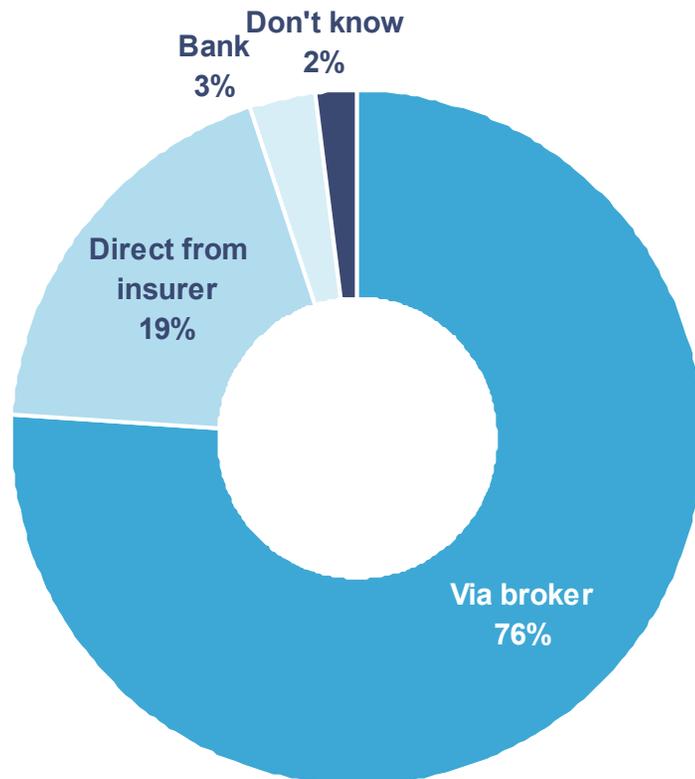
All of the top 10 liability insurers recorded an increase in their expense ratios in 2007



Source: Datamonitor

1. Overview of the General Liability Market

How SMEs purchased commercial insurance in 2007

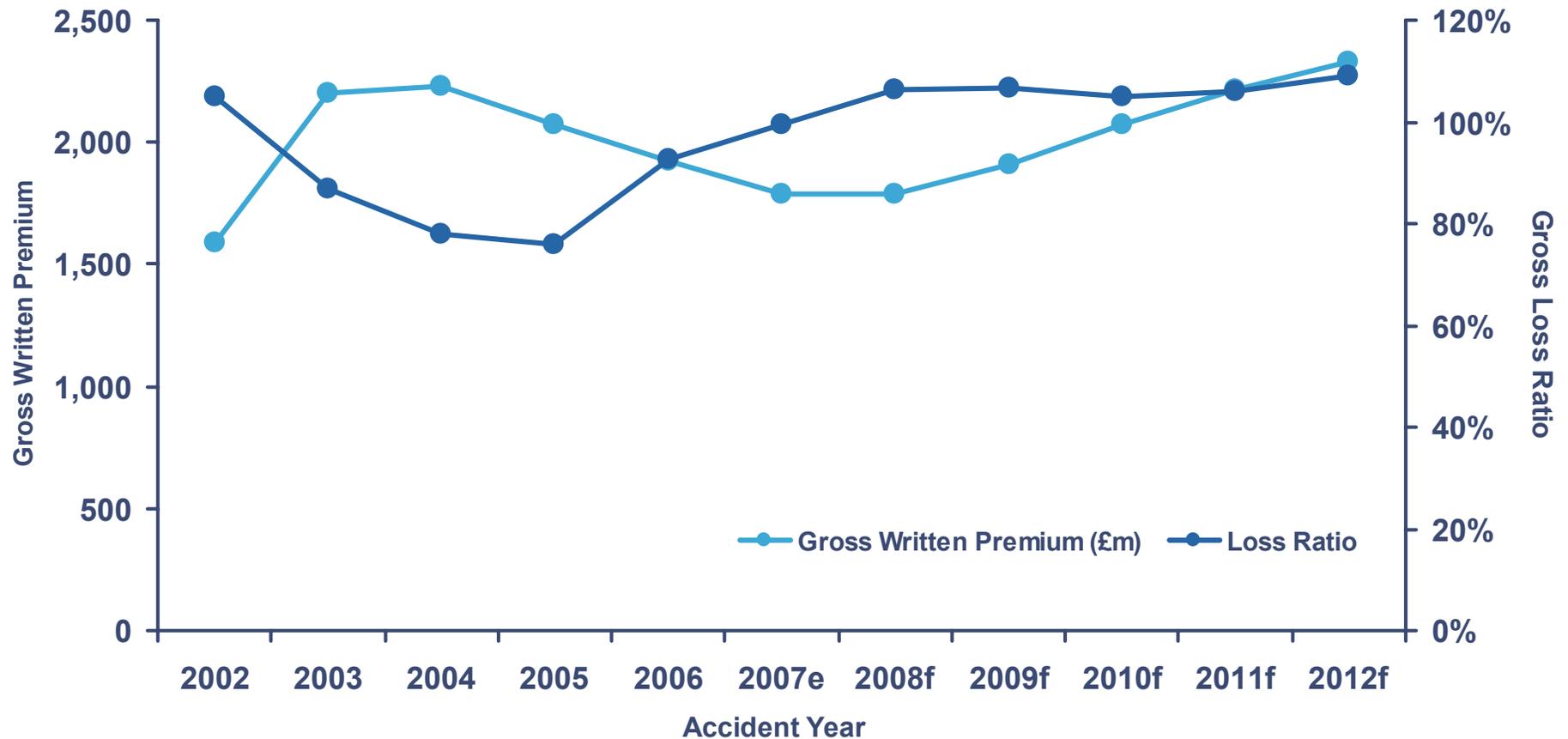


*In 2004, the split between broker and direct was approximately 94%:6%.

Source: Datamonitor's SME survey 1Q 2007

1. Overview of the General Liability Market

Trends in loss ratios and written premiums - Employers liability Employers Liability Market Share



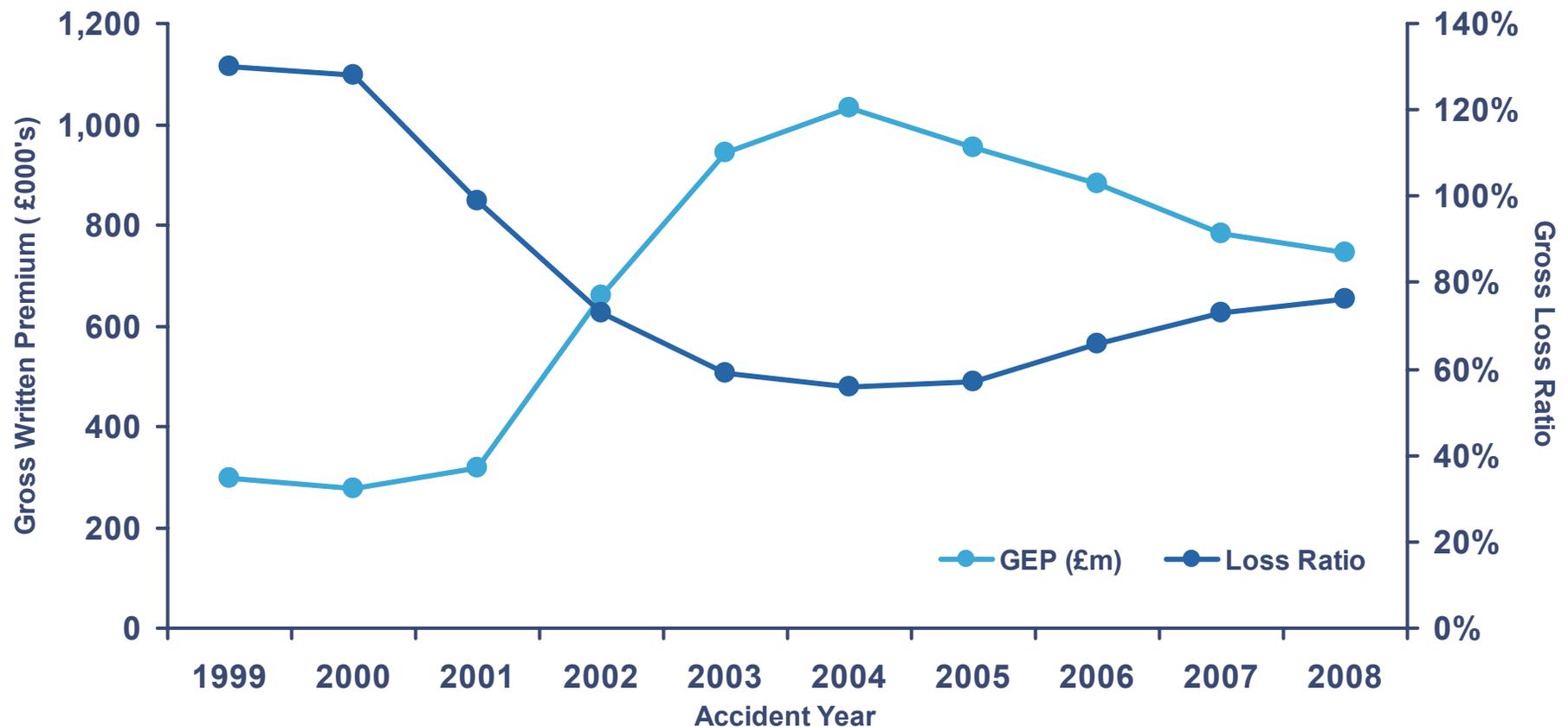
Source: Datamonitor Forecasts
Data presumed under neutral scenario

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Slide 9

1. Overview of the General Liability Market

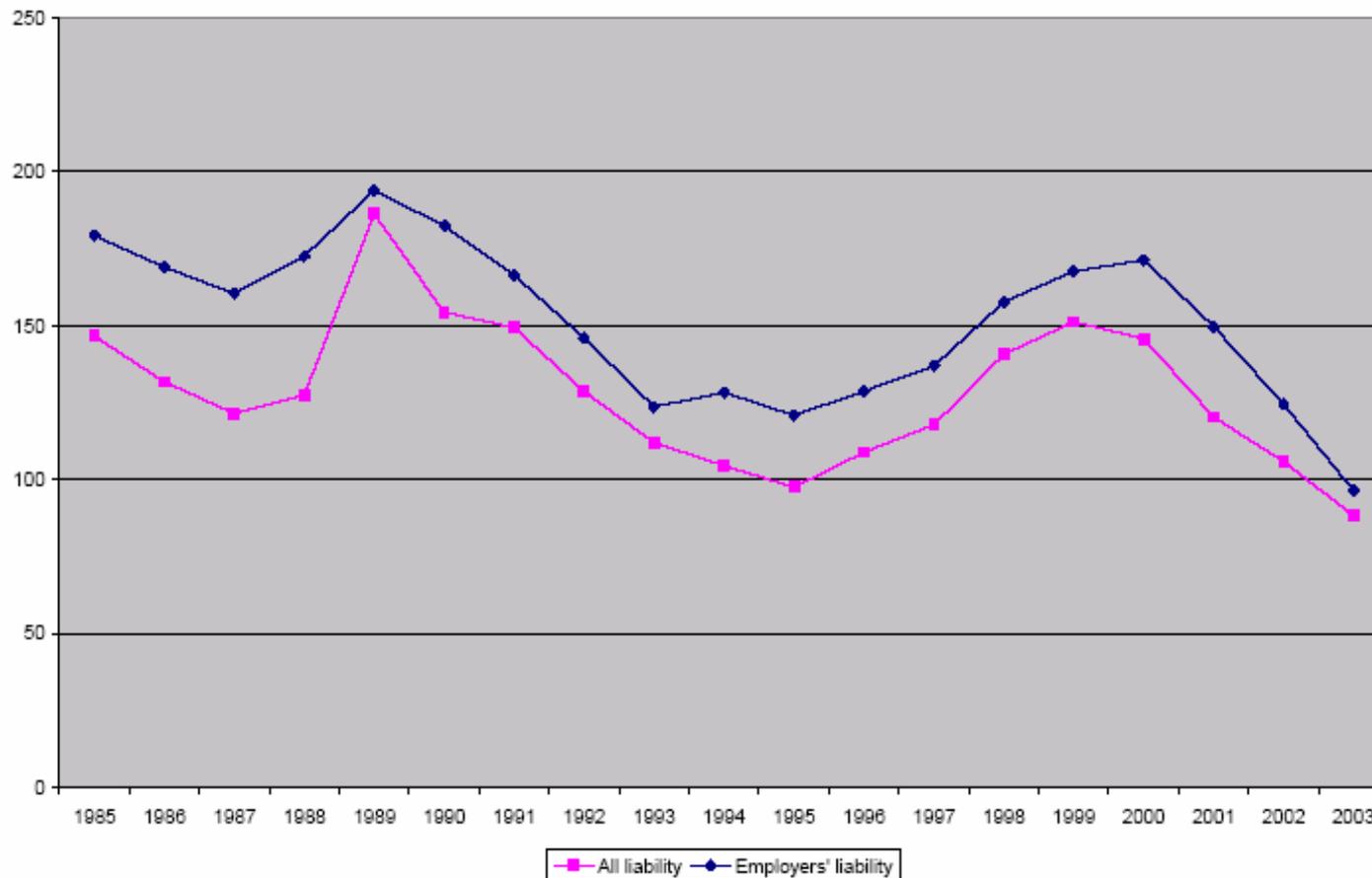
Trends in loss ratios and written premiums - Employers liability Employers Liability for a sample of companies



Source: SynThesys 2009

1. Overview of the General Liability Market

Comparison of trends in underwriting loss ratios



Source: ABI data

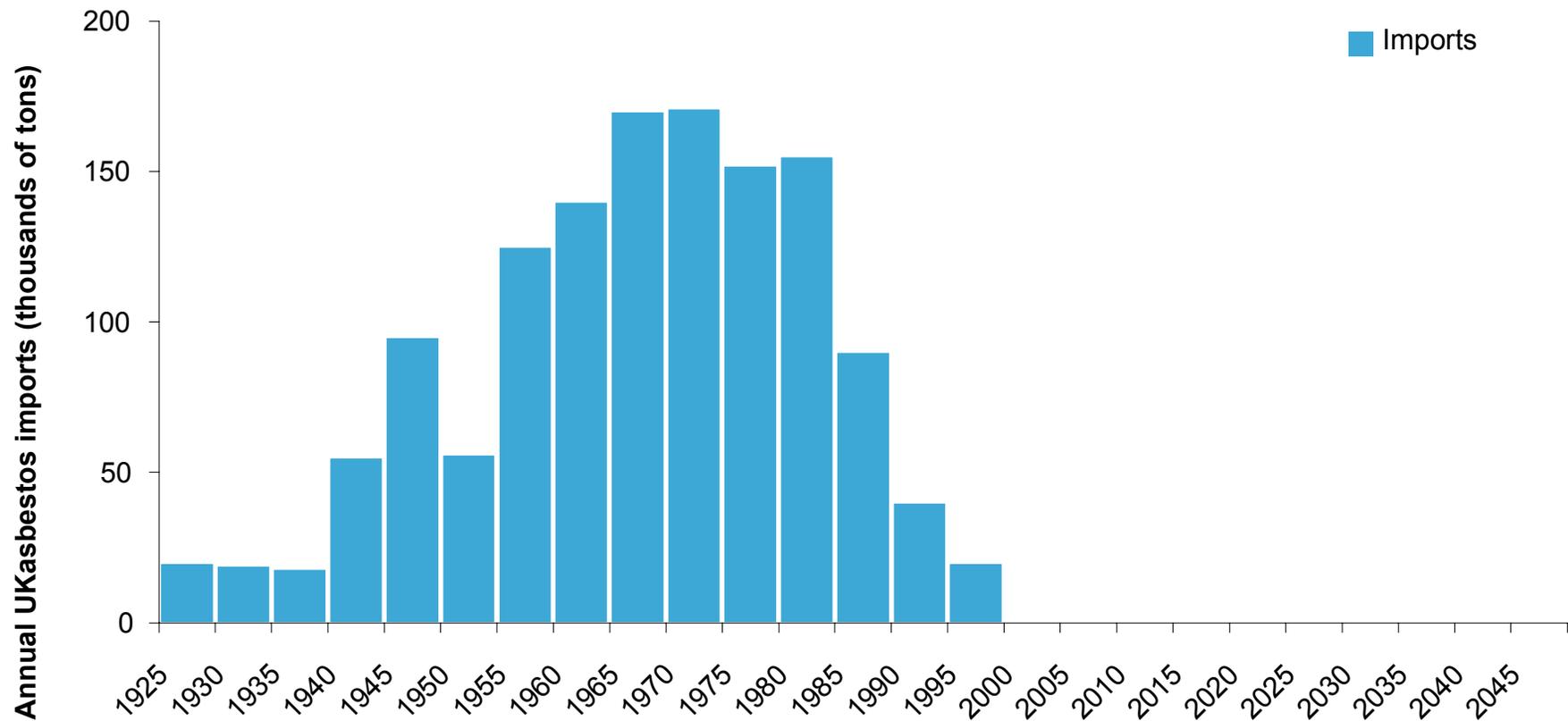
Section 2

Current Issues

- Asbestos – still here
- Financial Crisis
- Rates
- New types of claims

2. Current Issues: Asbestos – still here

How the exposure occurred UK asbestos imports

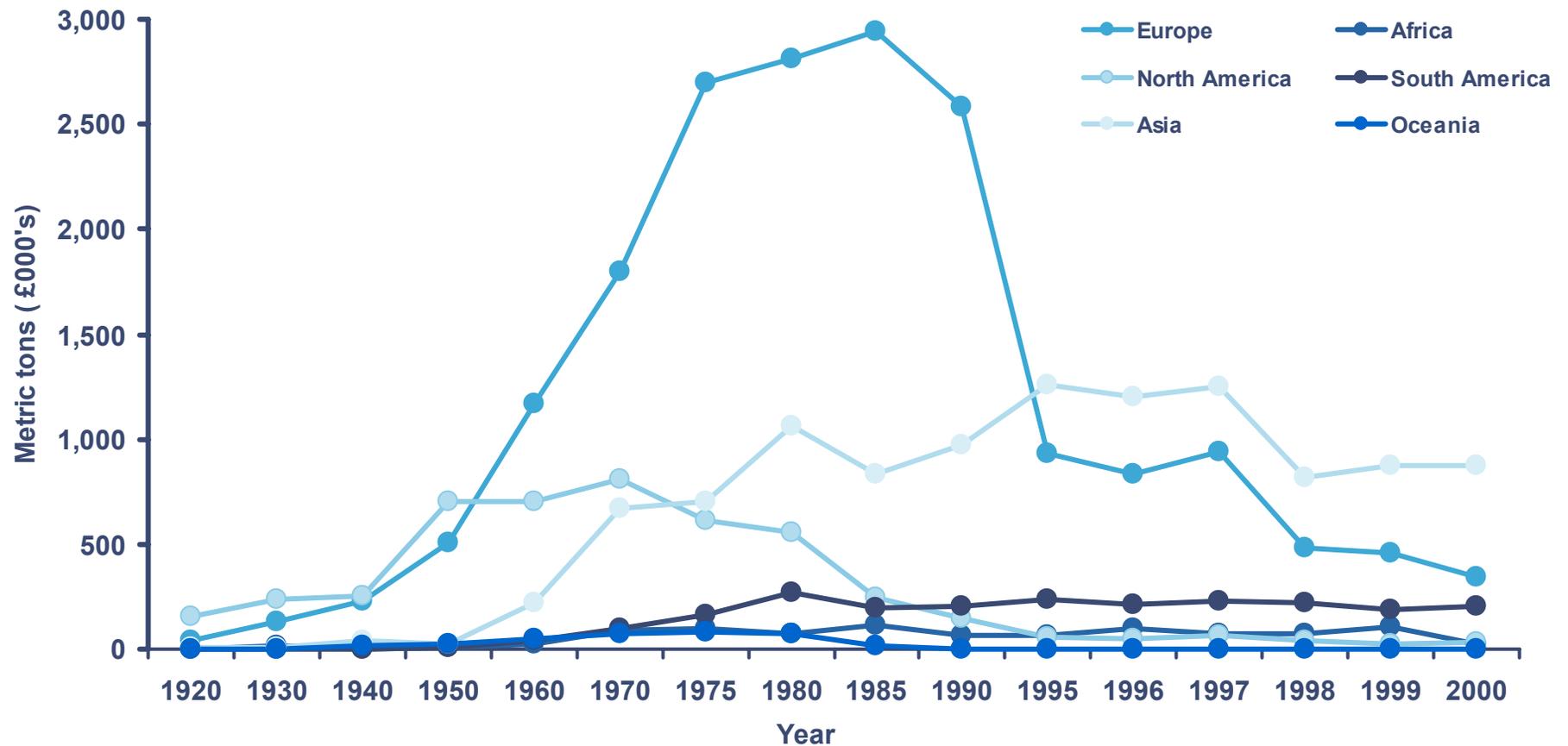


Source: Institute of Actuaries UK Asbestos Working Party Paper: "UK Asbestos – The Definitive Guide"

2. Current Issues: Asbestos – still here

Worldwide consumption

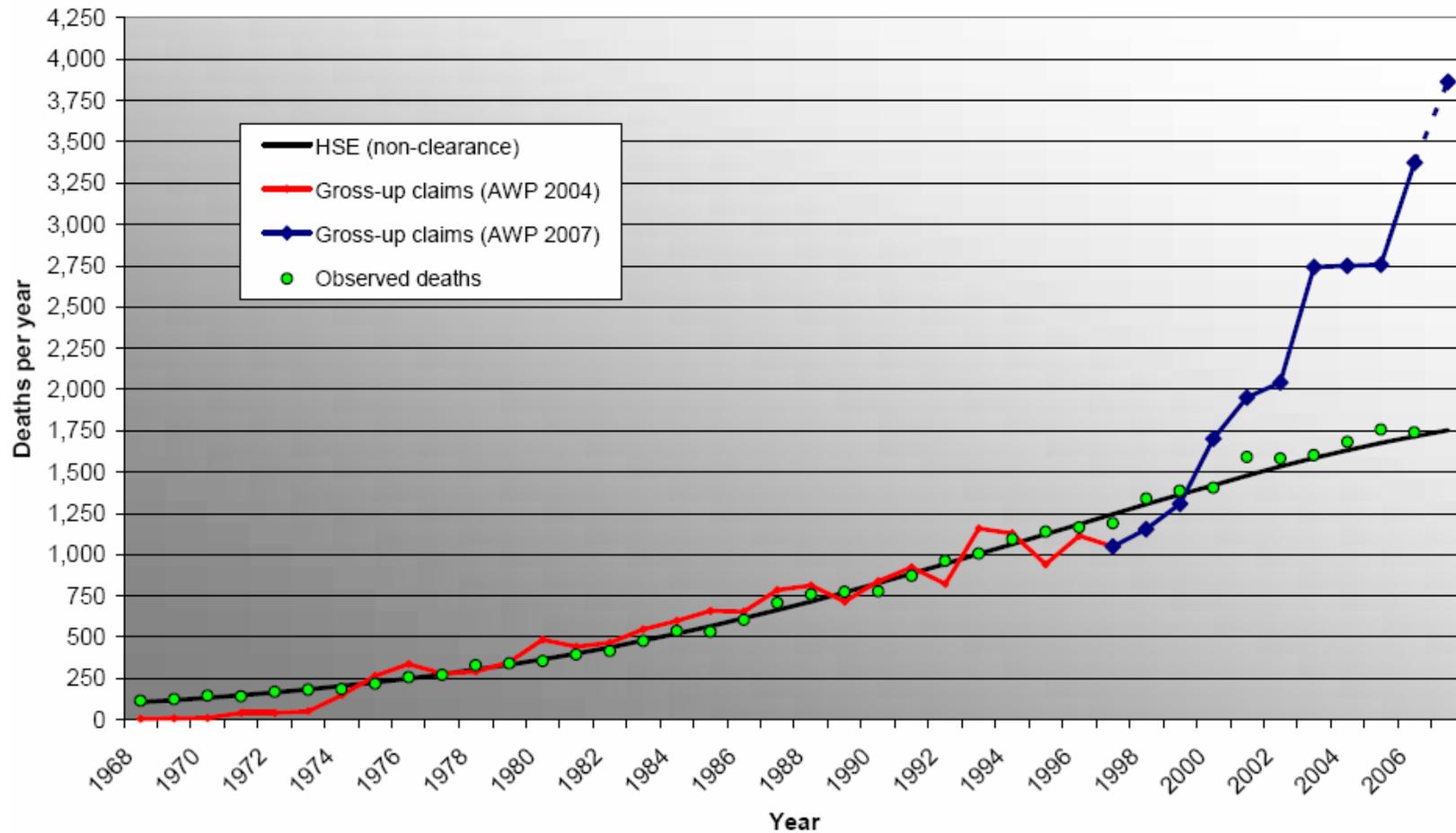
World asbestos consumption by continent



Source: U.S. GEOLOGICAL SURVEY - Worldwide Asbestos Supply and Consumption Trends from 1900 to 2000

2. Current Issues: Asbestos – still here

Modelled male mesothelioma death and claims



Source: PwC Issues Paper – UK Asbestos, December 2008

2. Current Issues: Asbestos – still here

Rise in mesothelioma claims

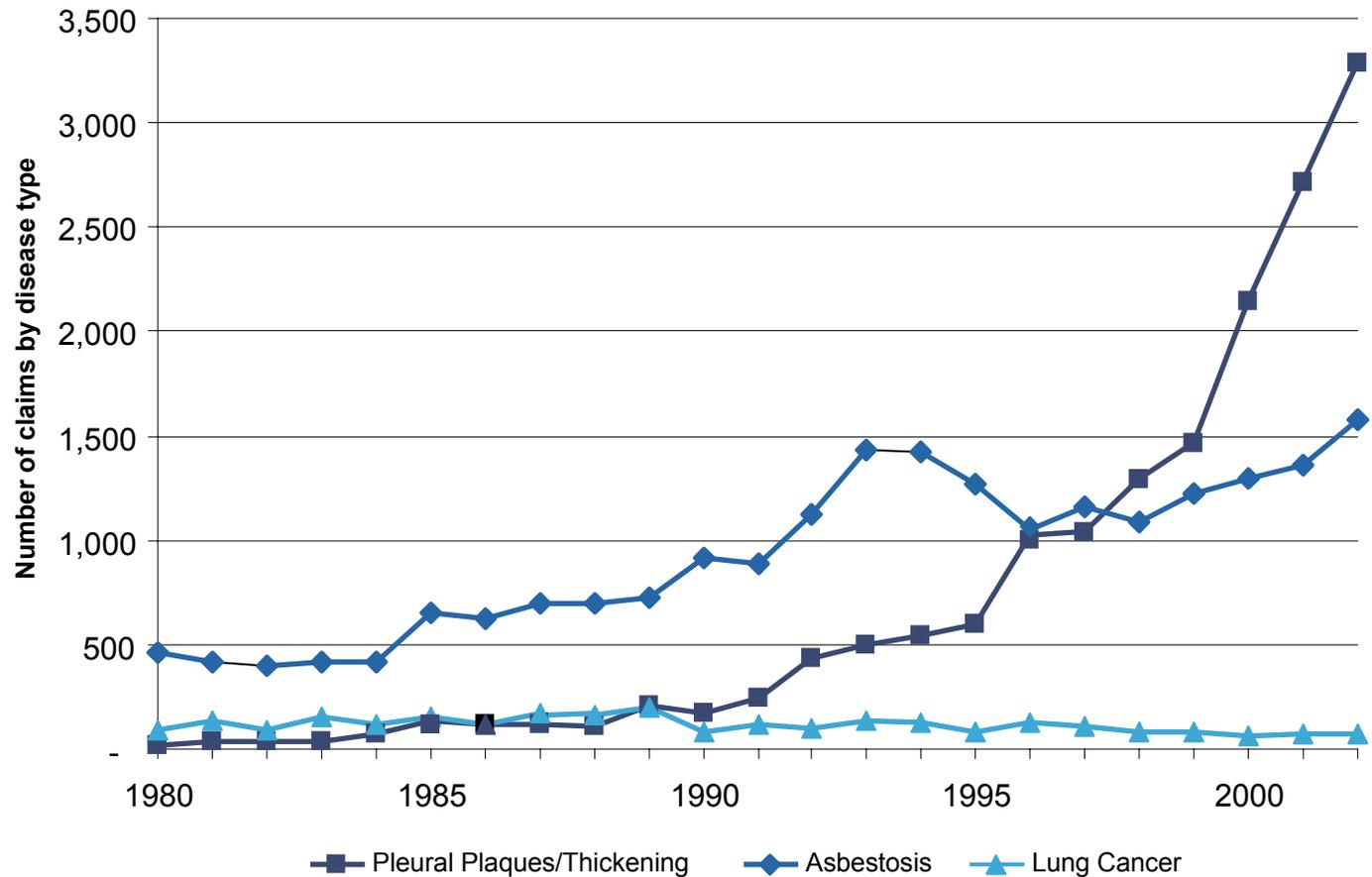
1. Increase in propensity to sue
2. More claims per death
 - Claims being shared more between insurers
3. Insurers exposure different from UK exposure
 - Take up of EL cover by companies (compulsory since 1972)
 - Moving from nationalised industries to private firms
4. Speed-up and backlog of claims
 - Claims being identified faster
 - Catch-up from claims on hold due to legal cases
5. HSE model is under-estimating deaths

2. Current Issues: Asbestos – still here

Number of non-mesothelioma claims

Other Asbestos Diseases:

- Lung cancer relatively static
- No particular trend in asbestosis claims
- Recent huge increase in pleural plaque claims



Source: Institute of Actuaries UK Asbestos Working Party Paper: "UK Asbestos – The Definitive Guide"

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Slide 17

2. Current Issues: Asbestos – still here

Recent litigation

EL trigger litigation

- Test cases run over the summer considered whether policies written on an ‘injuries sustained’ wording should not pick up a mesothelioma liability until a disease starts to appear. The judge in these cases has recently announced that this should not be the case and all EL policies, regardless of wording, should be exposed at the point of inhalation of asbestos. This ruling has been appealed and the hearing with the House of Lords is expected in November 2009

Pleural plaques

- The House of Lords ruled they are not compensable; however the Scottish parliament is looking at overturning the verdict and the Ministry of Justice has issued a consultation paper on a possible no fault scheme.

2. Current Issues: Financial crisis

The new world in financial services

Themes	Imperatives
Monetary vacuum Capital, credit and liquidity vacuum	1.1 Grasp consequences (including unintended ones) of deleveraging 1.2 Refresh perspective on sources/uses of all types of financing 1.3 Only allocate scarce funds (capital/credit/liquidity) to truly distinctive institutional capabilities
Classic banking renaissance “Nouveau Classic” banking models replace unsustainable, over-leveraged structures	2.1 Undertake business model-led portfolio and cost reshaping 2.2 Create divestment execution capability 2.3 Develop a holistic view of risk and return on risk 2.4 Closely align rewards with better-designed corporate objectives
Never again Pursuit of “zero-risk” regulation by the G20 and beyond	3.1 Establish new frameworks of engagement with government and regulators and possibly gain competitive advantage
Rising powers Global realignment towards the East	4.1 Challenge and adapt strategy given new basis of competition
Unprecedented fiscal pressure Tax burdens and national debt rises, particularly in the US and UK	5.1 Work out intelligent responses to government pressure
Government inside the tent State control in the financial markets will grow, changing competition dynamics	6.1 Understand market dynamics with the emergence of state-supported banks (SSBs) 6.2 Adapt to and anticipate SSB approaches to governance, tax, dividend policy, compensation etc
Strategic foresight From survival mode to sustainable competitive advantage	7.1 Re-build trust and confidence among all stakeholders (and keep it) 7.2 Build robust approach to cope with a sustained level of uncertainty 7.3 While the global marketplace environment has changed, remember that many of the underlying forces shaping the future of financial services have not changed

2. Current Issues: Financial crisis

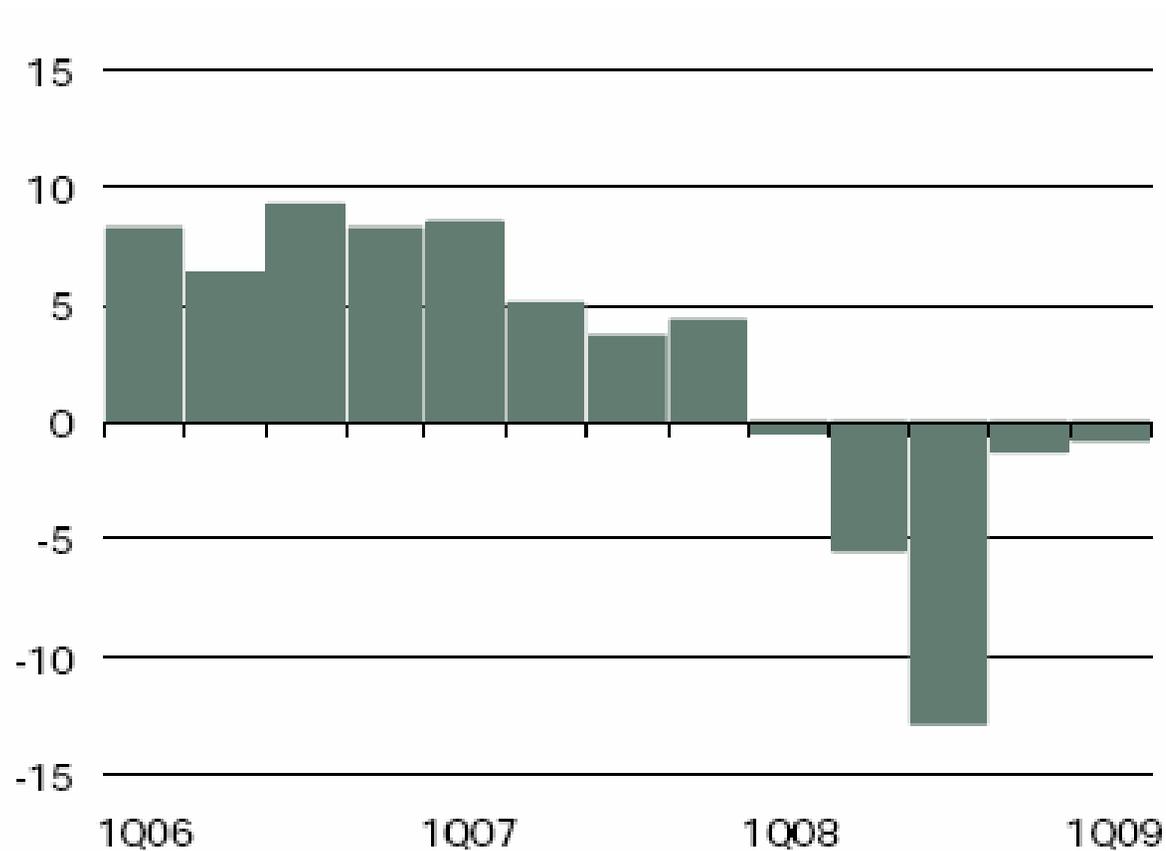
The financial crisis and General Liability insurance

Insurers face additional risks due to the financial crisis

- Bad faith litigation
- Regulatory Risk
- Inflation Risk
- Tax Policy
- Currency Risk

2. Current Issues: Financial crisis

The financial crisis and General Liability insurance US P&C industry – P&C industry underwriting result (USD billions)



Source: AM Best

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Slide 21

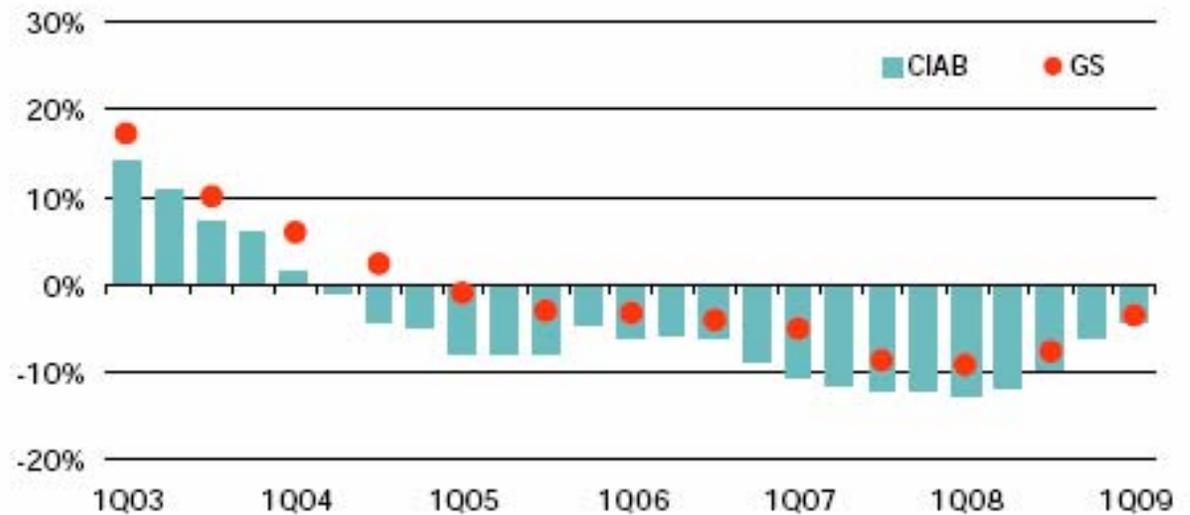
2. Current Issues: Rates

Rate changes US P&C insurance packaging

General Liability



- Prices continued to decrease for liability coverage in 1Q09, though the rate of decline slowed



Source: Goldman Sachs, Council of Insurance Agents & Brokers

2. Current Issues: Emerging torts

Current claims issues

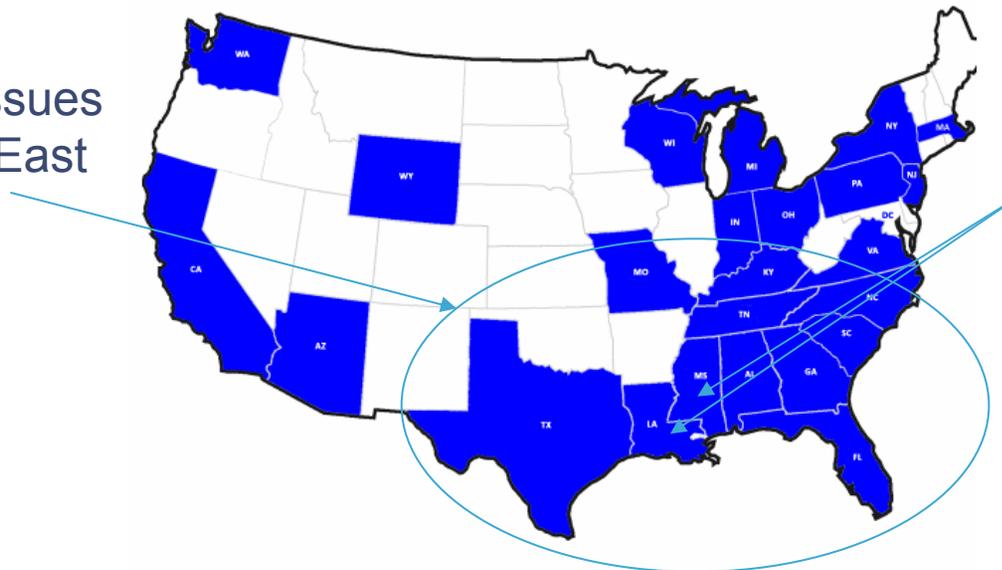
- New types of claims
- Emergence of liability claims resulting from the financial crisis
- Loss of data/terrorism

2. Current Issues: Emerging torts

An example: Chinese Drywall

- To date, CPSC has received **1,024 reports** in 24 States + DC
- It is reported **550 million tonnes** came through US Ports, enough to build **60,000 homes**
- Currently no consensus as to how Courts will interpret policies
- But it is widely predicted US Insurers will use “**pollution exclusion**”

The majority of issues are in the South-East



Particularly in states of LA & MS, due to post-Katrina construction boom

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Section 3

Any Questions?

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