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Xth Accident Compensation Seminar

2004



History Repeating?

Can insurers face a similar problem to asbestos again?

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Contents

- How important are latent claims?
- Can there be latent claims on business written today?
- Problems in pricing for latent claims
- How insurers currently deal with latent claims on business written today
- Alternatives / Suggestions



Definition: “Latent Claims”

Claims:

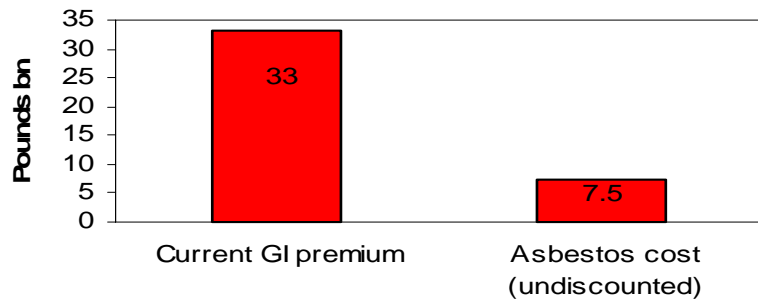
- that have a “very long lag” between incident and reporting
- known vs unknown



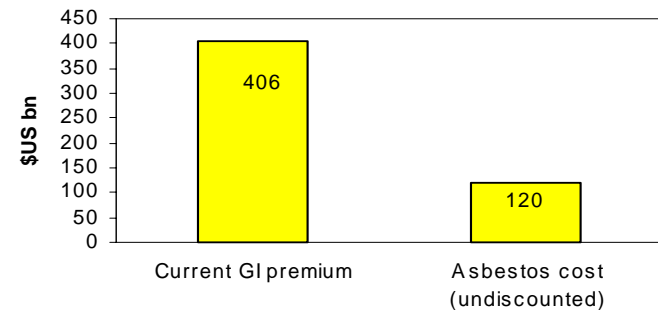
How important are latent claims?

- Cost: Asbestos - to insurers: UK, US, Aus?...

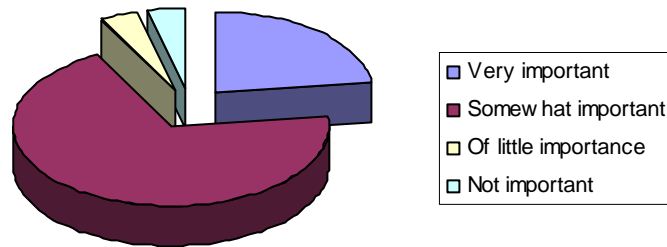
UK: Current yearly insurance premium (all classes) vs Undiscounted insurance cost of asbestos



US: Current yearly insurance premium (all classes) vs Undiscounted insurance cost of asbestos



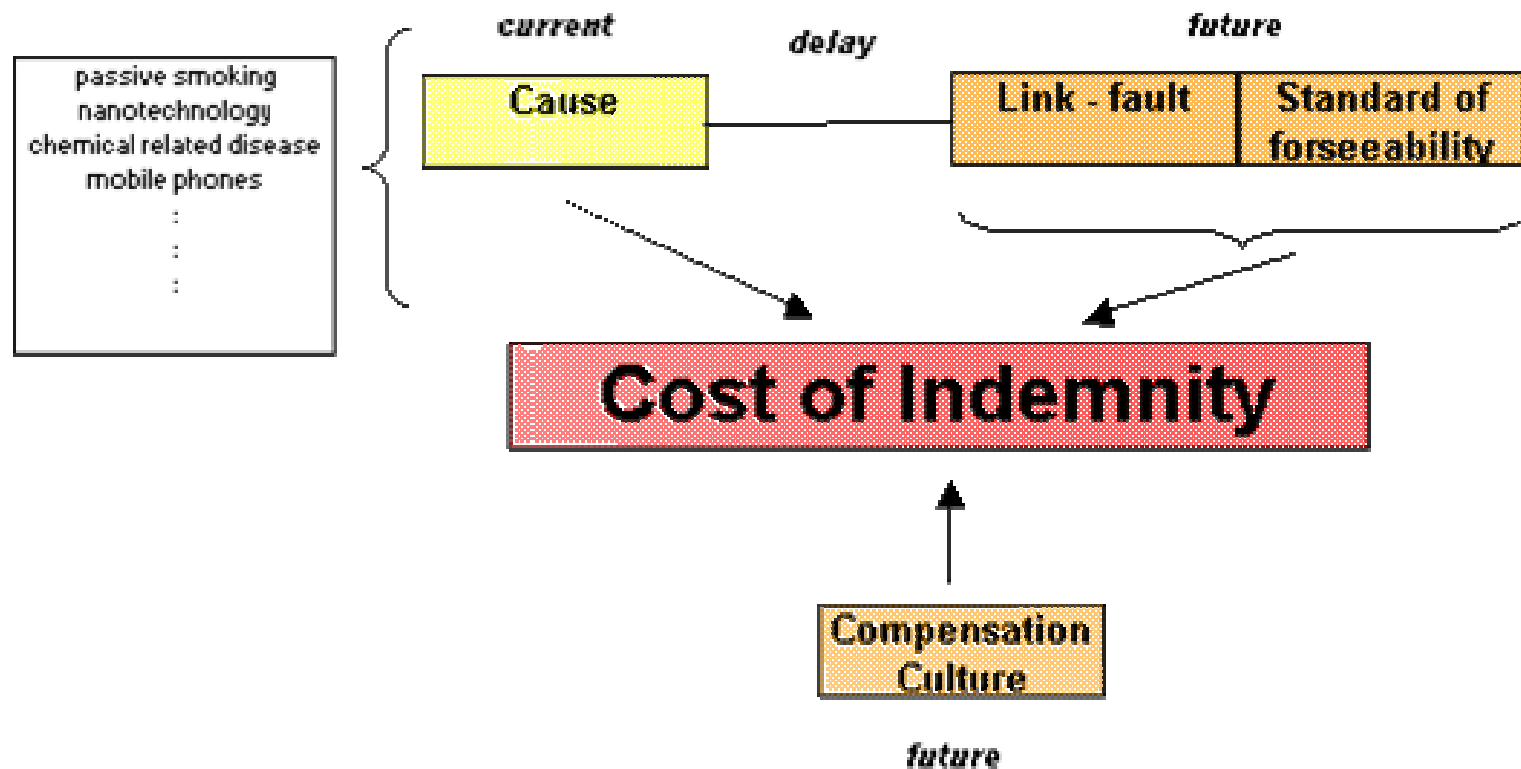
Survey responses - how important are latent claims?



- Survey

Can we have costs for latent claims on business written today?

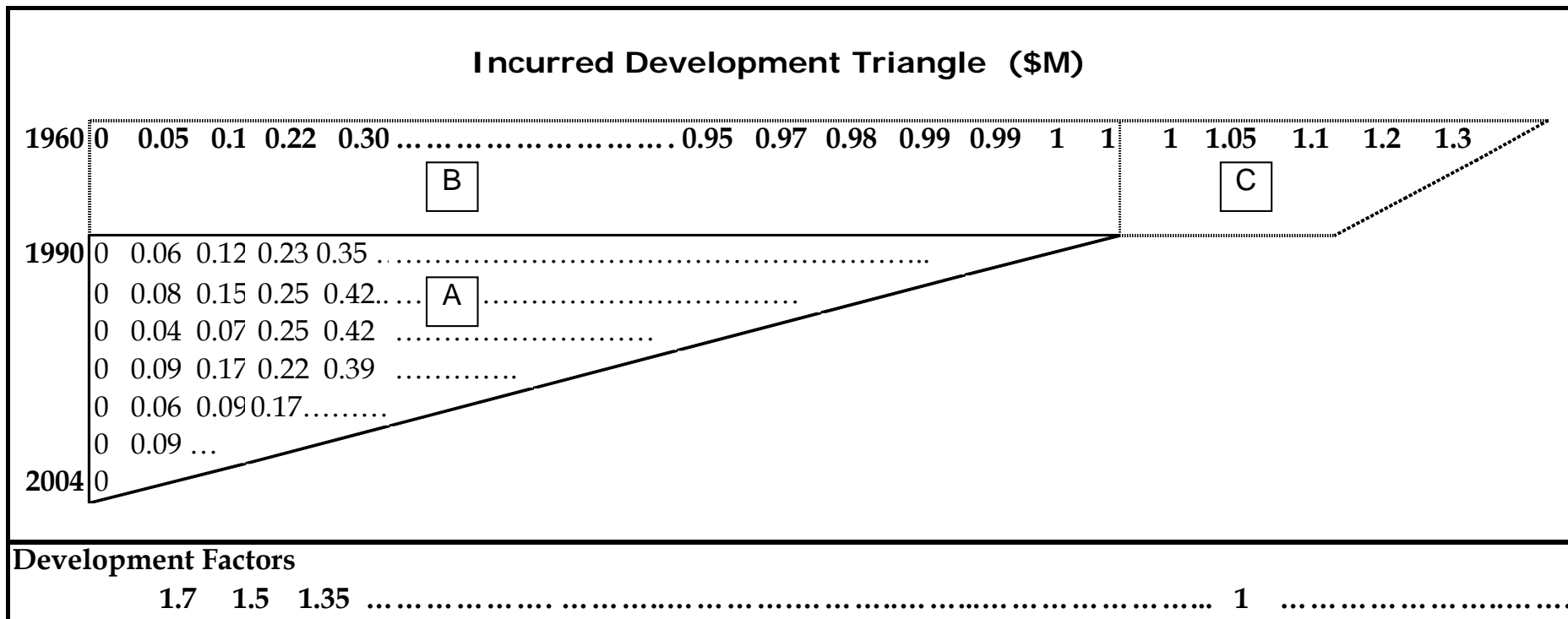
- Factors affecting latent claims occurrence and cost:
 - Fault based: “law of negligence”





Pricing for latent claims

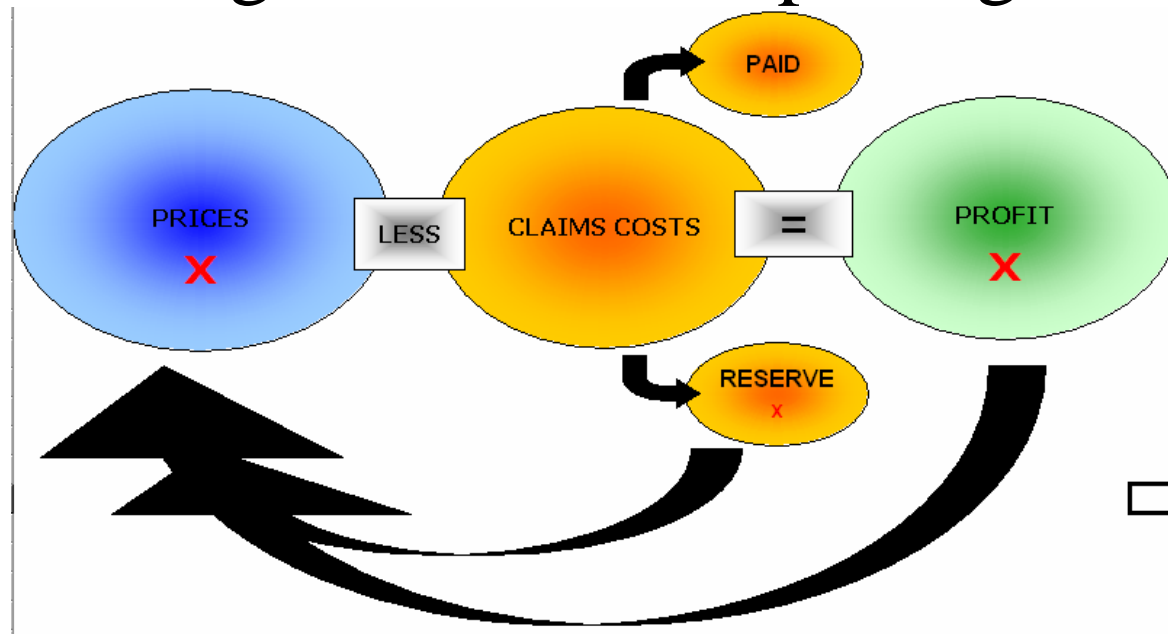
- Problems:
 - Is Past a guide to the future?
 - Uncertainty in cost of latent claims





Pricing for latent diseases cont'd

- Reserving feedback into pricing



– Prudential Margins?



Pricing for latent diseases cont'd

- Market pressures
 - Short termism
 - Equity issues – who to charge?
 - Accounting standards don't allow pay as you go
- Is it insurable?



Current situation: How insurers can / are dealing with the issue of latent claims

- Survey

Survey Responses: Do you consider latent claims in:			
	Yes	No	
PRICING	39%	61%	
- across the board loadings	26%	74%	
- loadings on high risk groups	9%	91%	
RESERVING	52%	48%	
- explicit assumptions	26%	74%	
- conservative assumptions	22%	78%	
- prudential margins	22%	78%	
TERMS	50%	50%	
BUSINESS SELECTION	100%	0%	

- Comments

- Post-event funding
- ROE target / Capital Allocation



Current situation: cont'd – opinion of practitioners

- Survey

Is the industry approach adequate for:

	Yes	No	Not Sure
PRICING ?	4%	58%	38%
RESERVING ?*	29%	33%	38%

Has the industry learnt lessons from asbestos in:

	Yes	No
PRICING .	36%	64%
RESERVING* .	55%	45%
TERMS .	82%	18%
BUSINESS SELECTION .	57%	43%



Are there alternatives? - Government

- Government coverage of latent claims
 - Survey
 - Reasons for against
 - Advantages:
 - Disadvantages:
 - No faults scheme or fault based scheme
 - Funding
 - Mutual fund approach
 - Levy on insurance and / or other sources
 - Taxes
 - Pay as you go or upfront
 - Examples



Are there alternatives? - Insurance

- Insurers:
 - Modification of Coverage
 - Statutes of limitation
 - Claims-made
 - Named peril coverage
 - Industry / APRA mandated approach in allowing for latent claims
 - Pricing
 - Lobby regulators for workers' compensation
 - Discussion amongst actuaries on approach
 - Reserving / Provisioning



Are there alternatives? cont'd

- Funding principles:
 - Sustainable
 - Clear Rules
 - Polluter pays principle: with incentives to limit latent diseases
 - Simple



Other suggestions

- Survey:
 - “Are there any improvements that you think insurers should make in their treatment of latent claims?”
 - Research by the industry on funding methods
 - Better data on latent claims – pooling.
 - APRA forcing disclosure of latent claims reserves.
 - Codification of claims management



Thanks

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- Alan Bulbeck, QBE
- John Boden, QBE
- Yusuf Cakan, Suncorp
- Bill Konstantinidis, QBE



References

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The fine print...

- *Suggestions expressed for changes are my own views, not necessarily those of any advisers to the paper, or necessarily those of my employer or the views of the Institute of Actuaries of Australia.*
- *For any of the suggestions to be workable, lots more consultation with stakeholders would be necessary.*