Latent Claims in an Uncertain World
An Insurer’s Perspective
Steve Mathews, EMB LLP
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• Characteristics of latent claims
• Underwriting for future latent claims
• Dealing with latent claims
• Changes in the claims environment

What is a latent claim?

• A latent claim is a claim that arises from a risk not anticipated by the underwriter and not priced for in the original policy. The first claim of this type will typically exhibit a significant delay in its reporting.

• Latency: Time from date of first exposure to date of manifestation

• Latent claim categories
  - Emerged or Closed
  - Emerging
  - Potential
  - Unknown
Latent Claims Timeline

Emerged or Closed

- 1964 Tobacco 1st Wave
- 1964 Asbestos
- 1971 Industrial Disease, DES
- 1980 Pollution, Sexual Abuse
- 1981 Repetitive Strain Injury
- 1981 Radiation
- 1983 Tobacco 2nd Wave
- 1984 Silicone Breast Implants
- 1984 White Finger, Asbestos
- 1985 Radiation
- 1987 Lead Paint (BI)
- 1988 Genetix

- 1983 Tobacco 3rd Wave
- 1984 Stress
- 1986 Acoustic Shock Syndrome
- 1987 Polyvinyl Chloride
- 1988 Toxic Waste, Lead Paint (Public Nuisance)
- 1989 Benzene
- 1990 Talc
- 1991 Pesticides, Radiation
- 1992 Talcum
- 1994 Radiation
- 1995 Skin Cancer
- 1996 Radiation
- 1997 Polychlorinated Biphenyls
- 1998 Toxic Mold, Lead Paint (Public Nuisance)
- 1999 Tobacco 3rd Wave
- 2000 Tobacco 4th Wave
- 2001 Radiation
- 2002 Silica
- 2003 Thimerosal
- 2004 Chemical Sensitivity
- 2005 Vioxx/Arthritis
- 2006 Hormone Replacement Therapy

Emerging / Potential Latent Claims

- Chemical Sensitivity
- Radiation
- Pesticides
- Solvents
- Electromagnetic Fields
- Antidepressant Drugs
- Ephedra and PPA
- Blood Products (HIV/Hepatitis)
- Diethylstilbestrofum
- Toxic Playgrounds
- Musculoskeletal (lower back pain)
- Allergies
- Skin Cancer
- Obesity
- Gun Liability
- GM Foods

Latent claim notification across time

Source: Institute of Actuaries of Australia: Latent Claims - What we know about things we don’t know about - 2007
Underwriting for future latent claims

- "Losses Occurring During"
  - Project latent history to ultimate
  - Statistical analysis of history
  - Reflect changes in working practices
  - Emerging claim types affecting new industries - e.g. stress
  - Benchmark
  - Risk loads
  - Tight policy wordings where possible / exclusions

- "Claims made"
  - Look for upcoming claim types

Dealing with latent claims

Quantification of Liability
- Epidemiological model or claim emergence model
Top Down
- Estimate total economic loss
- Estimate insurance industry loss
- Estimate insurer’s market share
Bottom Up
- Identify exposure for each assured
- Modify & overlay disease model
- Apply insurance coverage
- Reinsurance recoveries?
Risk transfer
- Policy buy back / Commutation
- Sell or Reinsure liability

Changing Claims Environment

- Compensation Culture
  - Increased awareness of legal rights
  - Increasing propensity to sue for personal injuries
  - Personal injury inflation
- Social justice / political intervention
  - Fairchild / Compensation Act 2006
  - Thomspone 2006 - NAE vs RPI
  - Stronger Health & Safety requirements
  - Triple trigger?
- Increased longevity
  - Many diseases incidences increase with age
  - Male life expectancy at 65:
    - 1974 approx 13 years
    - 1998 approx 16 years
- Nanotechnology
- Global warming
Global Warming - more extremes
Annual Rainfall Comparison 1961-1990 vs. 2071-2100

Source: Benfield Hazards Research Centre

Thank You
Questions?