

# Think the unthinkable: how can the industry deal with casualty accumulation

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Keeping the Floodgates Shut? Mastering Accumulation and Bodily Injury Exposures in a Rapidly Changing Environment

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MANAGING EXTREMES


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# THE GENEVA ASSOCIATION LIABILITY REGIMES CONFERENCE

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industry deal with casualty accumulation

4<sup>th</sup> & 5<sup>th</sup> November 2015

Zurich



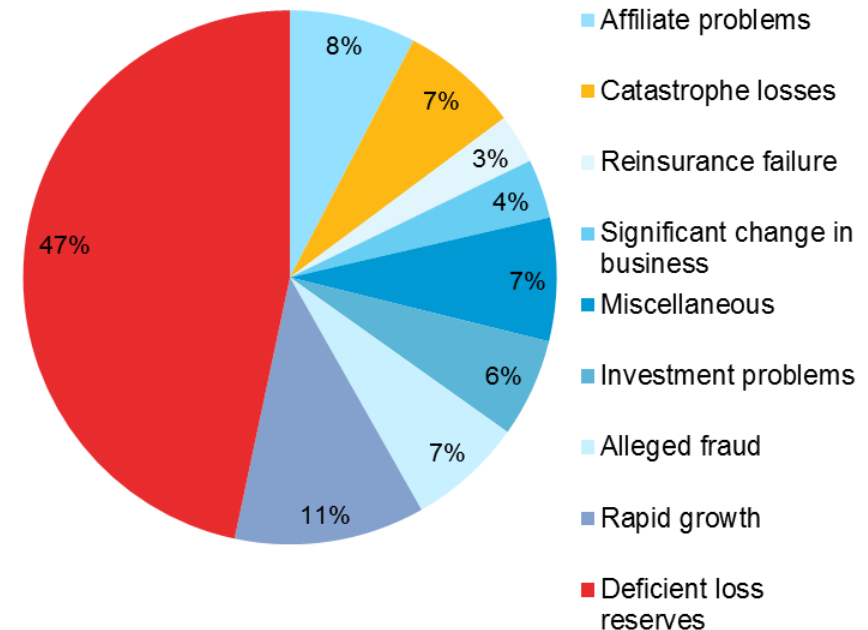
# The current landscape sleepwalking into the next crisis ?

- Industry lacks robust risk quantification
  - Overwhelming focus on loss ratio a performance metric
  - Lack of industry loss event data compounded by “if-only” adjustments
  - Default to factor- based-formula to calculate tail-risk
  - Resulting in lack of exposure-based risk management framework
- If one can't measure risk accurately, one can neither manage nor mitigate it - Improved risk quantification is a sine qua non
- It's not simple to fix ...
  - Casualty events are neither limited in time nor space
  - The past is not a proxy for the future given evolving risks and exogenous drivers in constant flux e.g. economic, social, legislative and judicial
- but it is critical that we do...

# Putting Casualty into context

- Cat drives profits but Casualty drives impairments
  - Widespread perception that “Cat” is the driver of financial results
  - Absence of Cat = profit
  - Cat impact on impairments are modest
  - Established methodologies to model, price and mitigate risk to capital
  - Long tail reserves present similar threat to liquidity and to solvency
  - Liability horrors can no longer be “smoothed” over time in face of regulatory and accounting requirements
- Urgent need to better understand, quantify and adapt to changing environment
- Is the picture radically different outside of the USA?- that’s a rhetorical question.

## Cause of Financial Impairment



US P&C Admitted Primary Cause of Financial Impairment (1977-2013)  
 Source: Best's Special Report, Segment Review, September 15, 2014

- **Deficient loss reserving** accounted for 50% of all P&C financial impairments over a 35 year period
- **Property catastrophe** losses caused fewer than 10% of financial impairments in the same period

# The new frontier – how to measure, manage and mitigate Casualty exposure

- No one knows where the next liability threat will come from, however the tide is beginning to turn...
- Increased stakeholder and regulatory scrutiny on Casualty

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- Desire to optimise portfolio in softening market, leading to..
- Changes in risk quantification transformed the Cat business – identical dynamics in casualty today
- Enlightened clients establishing frameworks to
  - Recognise threats
  - Model downside liability risk
  - Build **strategies to mitigate the risk**
- Enlightened reinsurers are supporting them.

