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

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11th Annual Liability Regimes Conference

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

4–5 November 2015, Rüschlikon
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4th & 5th November 2015
Zurich
The current landscape sleepwalking into the next crisis?

- Industry lacks robust risk quantification
  - Overwhelming focus on loss ratio as 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.

- 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

Cause of Financial Impairment

Source: Best's Special Report, Segment Review, September 15, 2014
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.