

A.M. Best: A&E reserves underfunded by nearly 40%

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OLDWICK, N.J. — The U.S. property/casualty insurance industry—principally commercial insurers, and to a lesser extent, professional reinsurers—remains significantly underfunded by nearly 40% in reserves for ultimate, undiscounted asbestos and environmental liabilities, according to A.M. Best Co.

With incurred-to-date losses of \$45 billion (asbestos) and \$31 billion (environmental), A.M. Best's estimates of unfunded asbestos and environmental liabilities as of year-end 2002 are \$20 billion and \$25 billion, respectively, for a total of \$45 billion, down from \$53 billion at year-end 2001.

While a number of insurer groups have significantly raised their asbestos reserve levels in recent years, many more have yet to fully fund their obligations, A.M. Best reported.

U.S. asbestos losses have surged dramatically in recent years, with incurred losses more than doubling to more than \$4 billion in 2001 from the previous three-year annual average of \$1.7 billion. Further underlining the industry's move to bolster its reserves for such losses, an additional \$8 billion in asbestos losses were incurred during 2002, while Hartford Insurance Group alone posted a \$2.6 billion addition to asbestos reserves during the first quarter of 2003. A.M. Best fully expects additional, sizable asbestos charges to be taken during the remainder of 2003.

During 2002, insurers and U.S. asbestos producers entered a number of high-profile settlements. In May, PPG Industries Inc. reached a tentative settlement of \$2.7 billion related to its 50% owned, bankrupt Pittsburgh Corning subsidiary. □