

ANNEXURE N

This is a copy of Exhibit 3, Volume 3, Tab 1

Asbestos Liabilities

VIII Accident Compensation Seminar

Bruce Watson and Mark Hurst

29th November 2000



Deloitte
Touche
Tohmatsu

TROWBRIDGE
CONSULTING

Setting the Scene - USA

- About 2,500 deaths occur in the US every year due to mesothelioma. The number is not yet falling
- Owens Corning filed for bankruptcy in October after revealing that their total asbestos claims cost may be as high as \$7 billion
- MetLife Insurance increased their asbestos reserves to \$1.3 billion in 1998. Estimate of future claim numbers increased to 3 times the numbers previously assumed
- Recent Californian mesothelioma award of \$5.1 million

Setting the Scene - Europe

- In the UK there are about 1,300 deaths caused by mesothelioma per annum
- Equitas in London “could be facing bankruptcy due to unforeseen asbestos liabilities”. One analyst estimates £2.2 billion in additional asbestos settlements since 1996
- In Western Europe mesothelioma deaths projected to double over the next 20 years

Setting the Scene - Australia

- More than 400 mesothelioma cases per annum
- NSW Dust Diseases Board new mesothelioma and lung cancer cases increased 25% in 2000
- 1.125 million mesothelioma settlement (Beruldsen) in June this year

Aims of Presentation

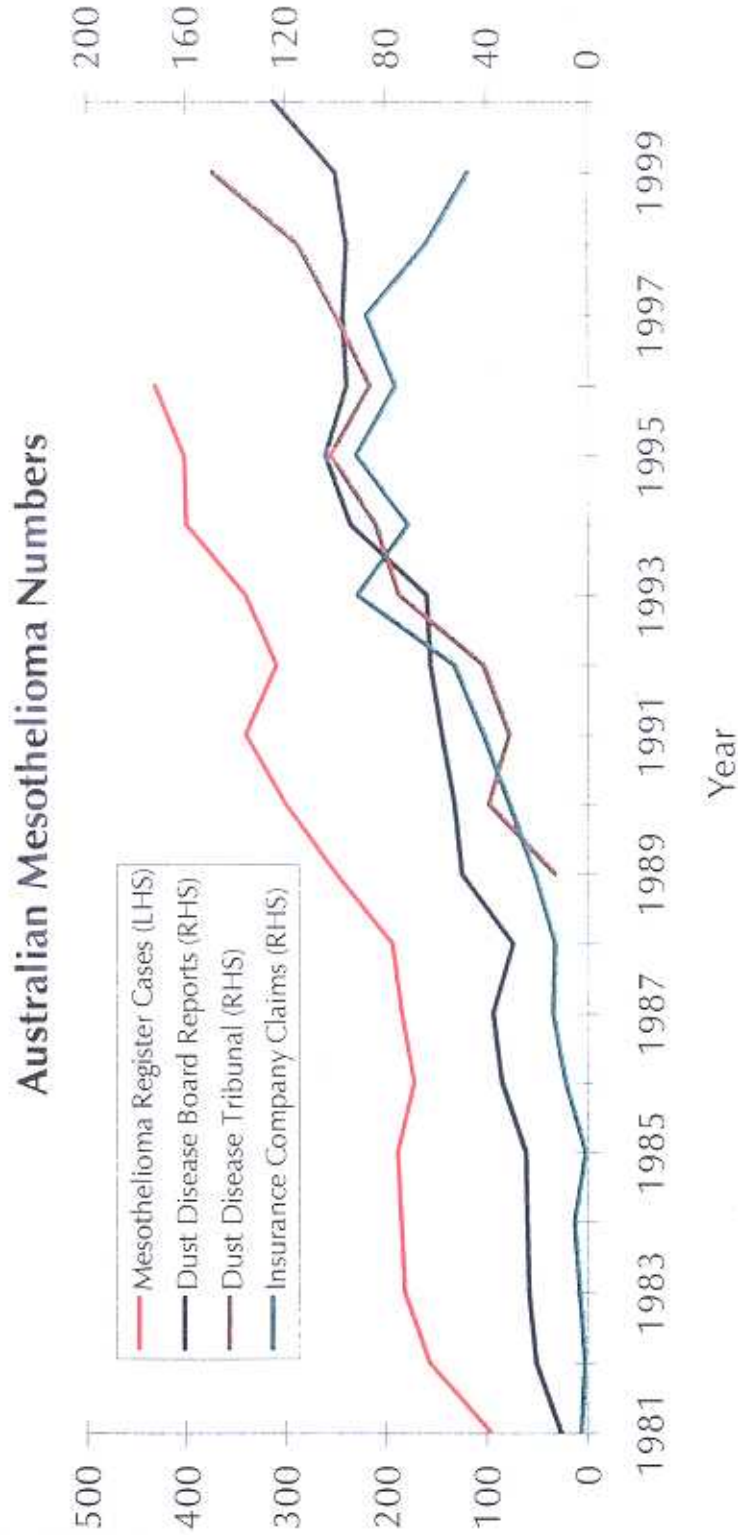
- Examine latest claims experience
- Understand implications of a number of significant legal and other developments
- Review recent projections of future claims experience and current methods for estimating asbestos-related disease liabilities
- Update method for the estimation of future asbestos reserves

Background

- Disease types
 - mesothelioma
 - lung cancer
 - non-malignant diseases (eg asbestosis)
- Exposure to asbestos in Australia
 - Before 1943 : Relatively little exposure
 - 1943 to 1966 : Wittenoom mine operated
 - 1940 to 1970 : Asbestos product manufacturing
 - Up to late 1970's : Building industry
 - Since then : disturbance/removal
- Latency period
 - can vary between 15 and 60 years depending on disease type and level of exposure

Australian Mesothelioma Experience - Overview

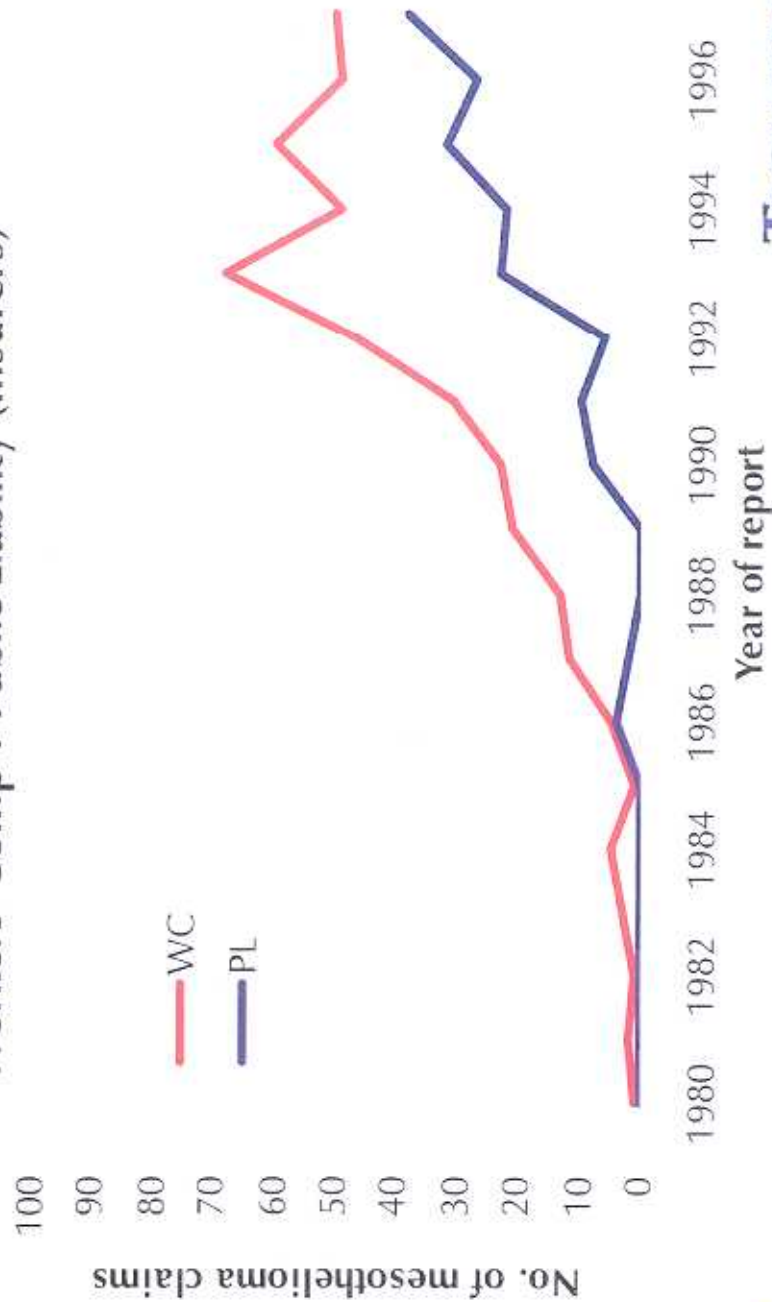
- Mesothelioma numbers continue to rise



Australian Mesothelioma Experience - WC v PL

- Many public/product liability claims are being lodged against the manufacturers and suppliers of asbestos products
- The increase in liability claims is most likely due to later exposure to asbestos - may lead to a later peak than previously expected

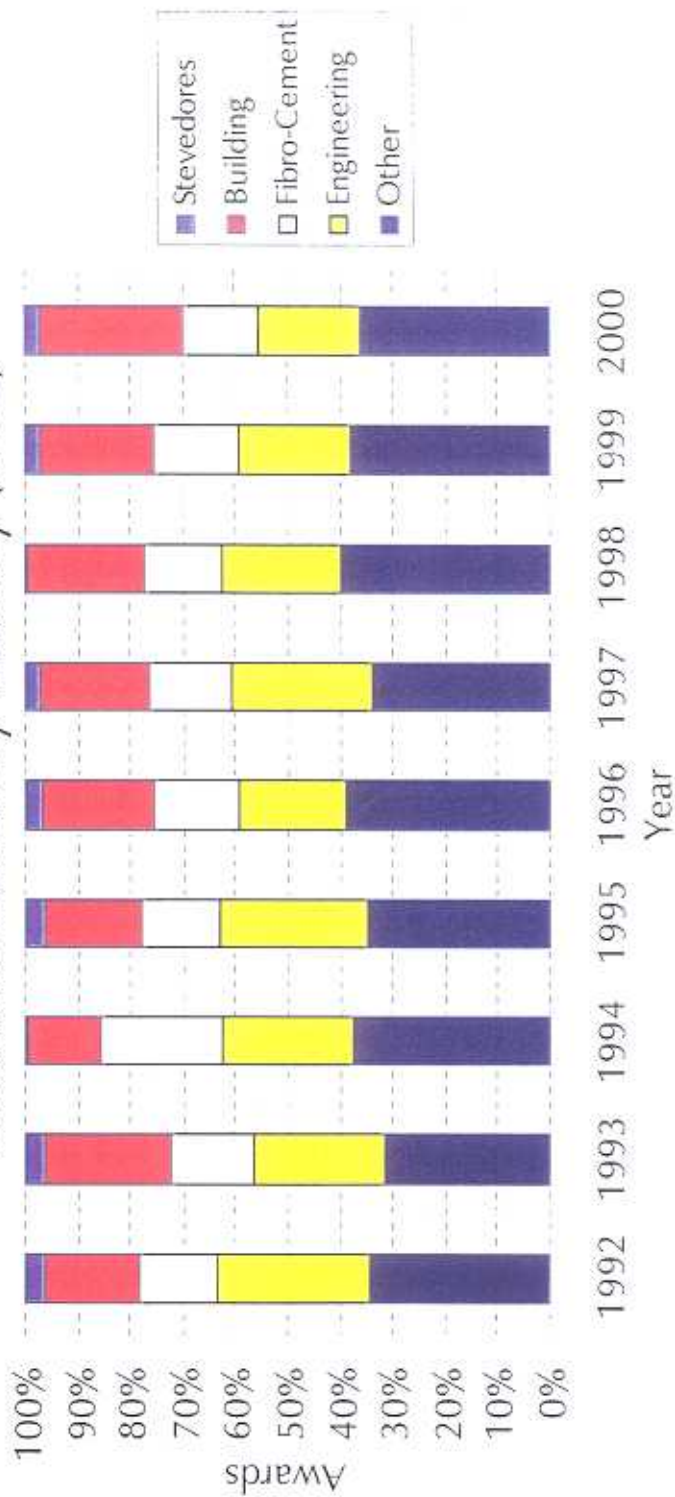
Workers' Comp v Public Liability (Insurers)



Australian Mesothelioma Experience - Industry

Some evidence of an increasing trend in the building industry (DDB data)

Asbestos Awards by Industry (DDB)



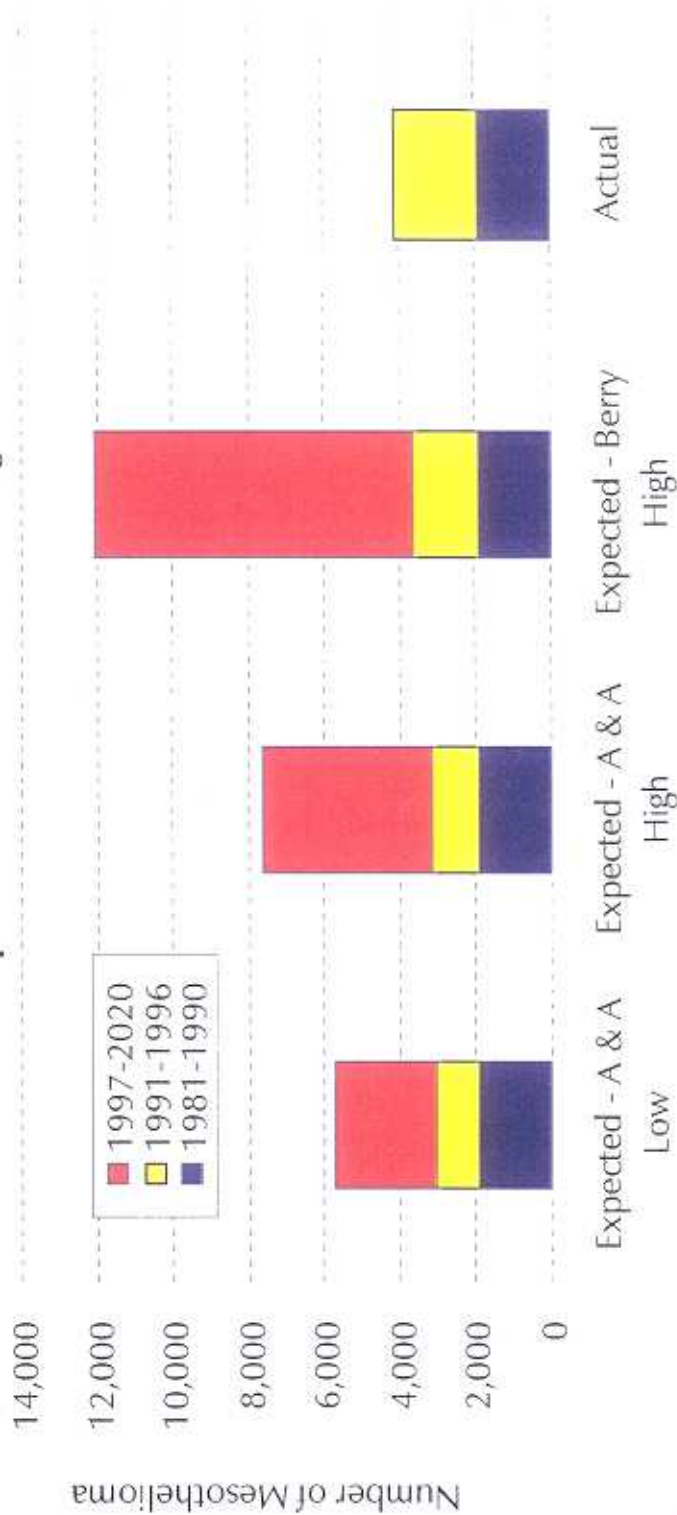
Australian Mesothelioma Experience - Drivers

- Workers' compensation v Public/product liability claims
- Change in mix by industry
- Stevedores
 - Crimmins case: landmark case established SIFC's duty of care to waterside workers
 - lawyers predicting 300+ cases from other former waterside workers
- Greater awareness of ability to make claim
 - increased plaintiff lawyer activity

Australian Experience - Actual v Expected

- Actual experience = Australian Mesothelioma Register since 1981
- “Expected” = projections based on 1981-90 experience

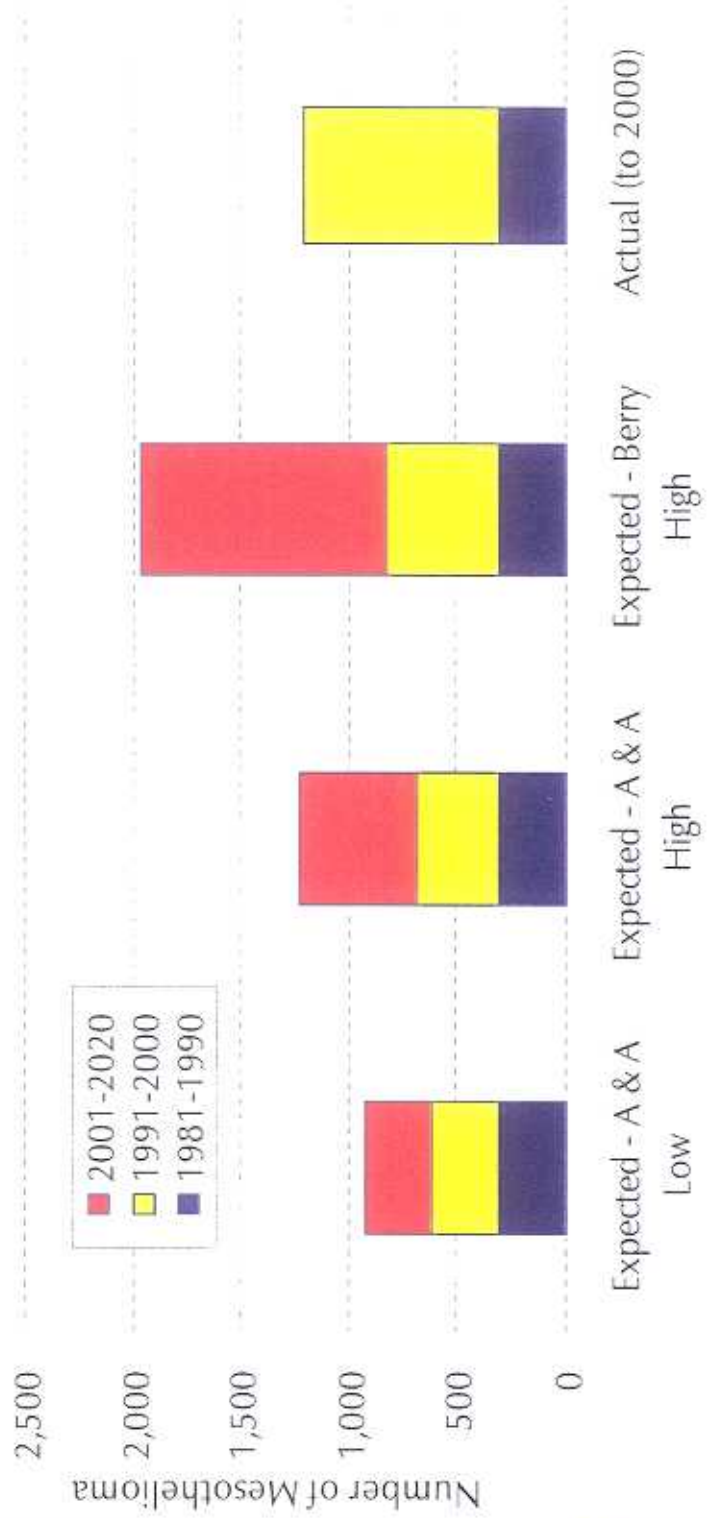
Actual v Expected - Mesothelioma Register



Australian Experience - Actual v Expected

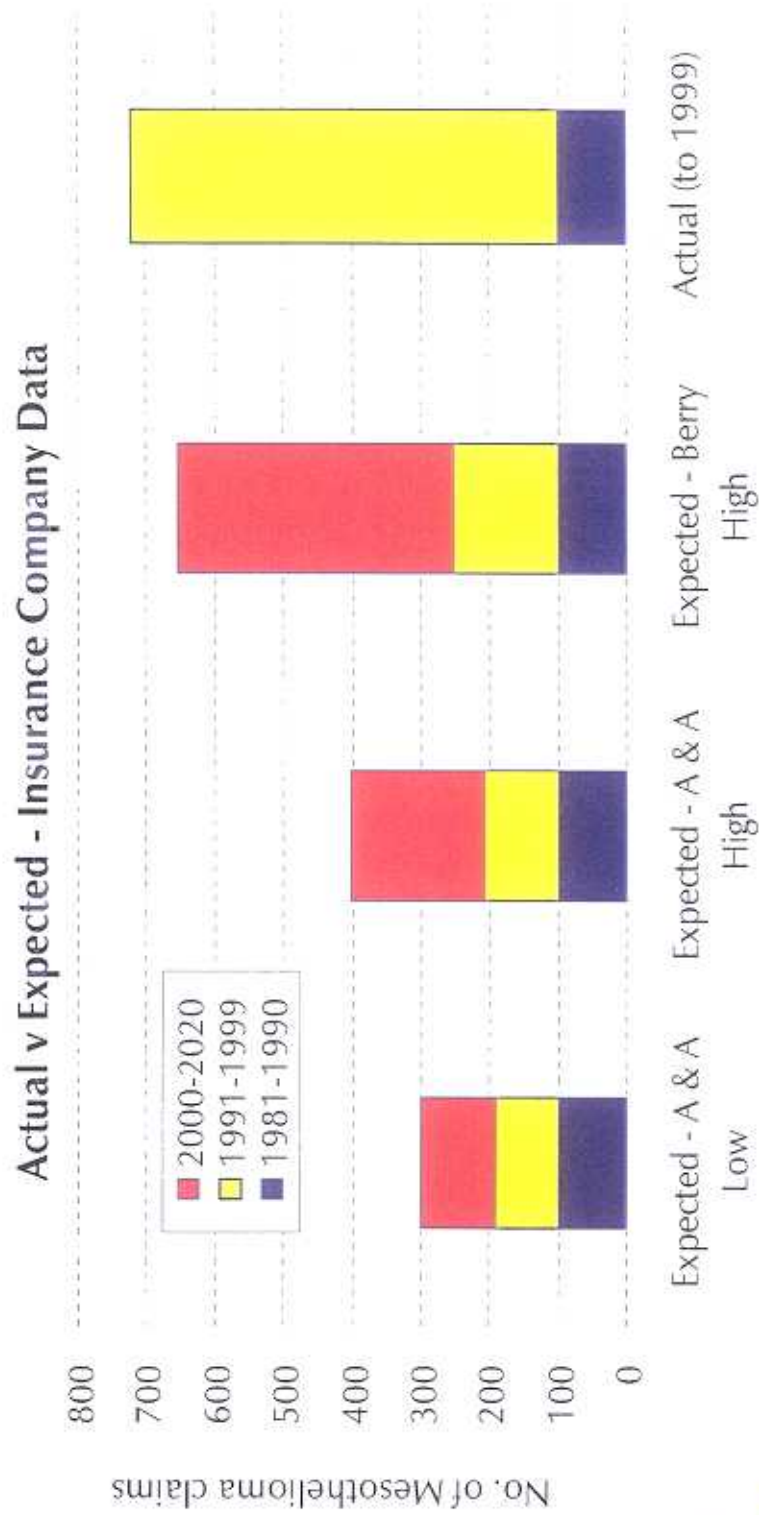
- Actual experience = NSW Dust Diseases Board since 1981
- Mesothelioma awards clearly higher than expected
- Actual almost up to TOTAL Andrews & Atkins (high) forecast

Actual v Expected - NSW Dust Diseases Board



Australian Experience - Actual v Expected

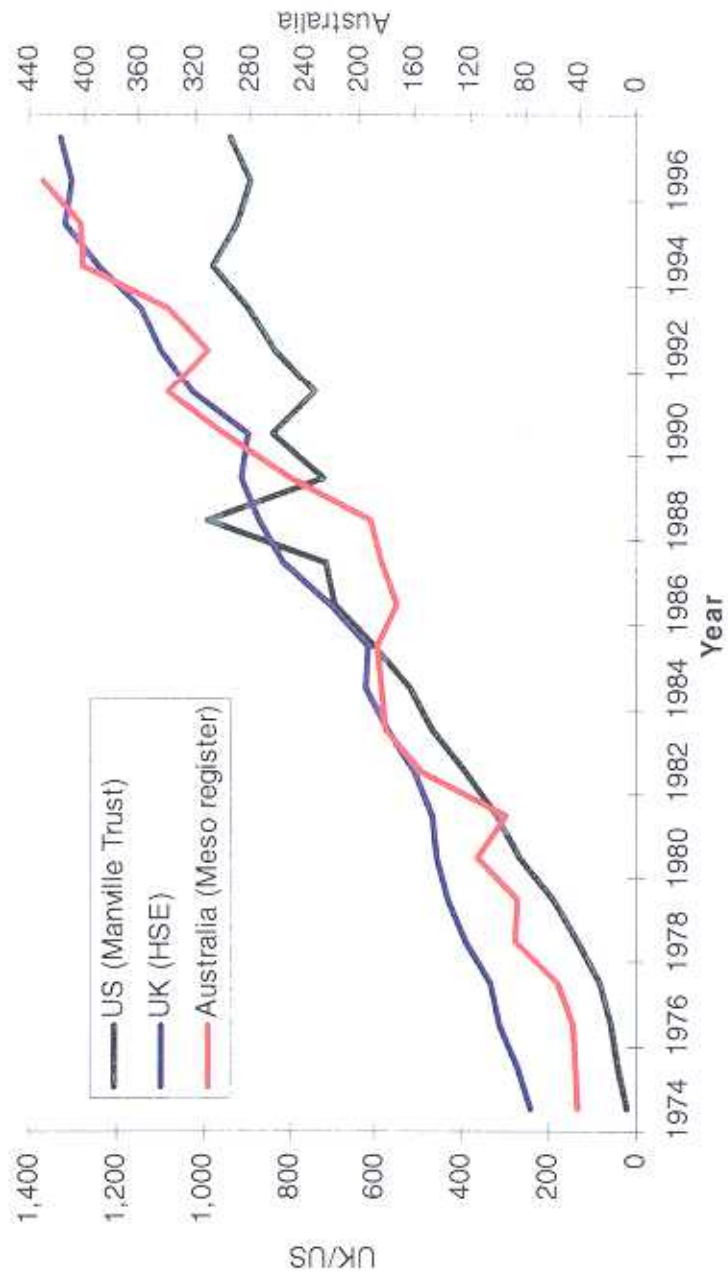
- Actual experience = Insurance company data
- 12 insurers provided asbestos claims data
- Evidence of change in reporting practice



Overseas Mesothelioma Experience

- The growth in mesothelioma deaths in the UK is very similar to the number of cases of mesothelioma registered in Australia
- US experience has shown an earlier levelling off (though data is not comprehensive)

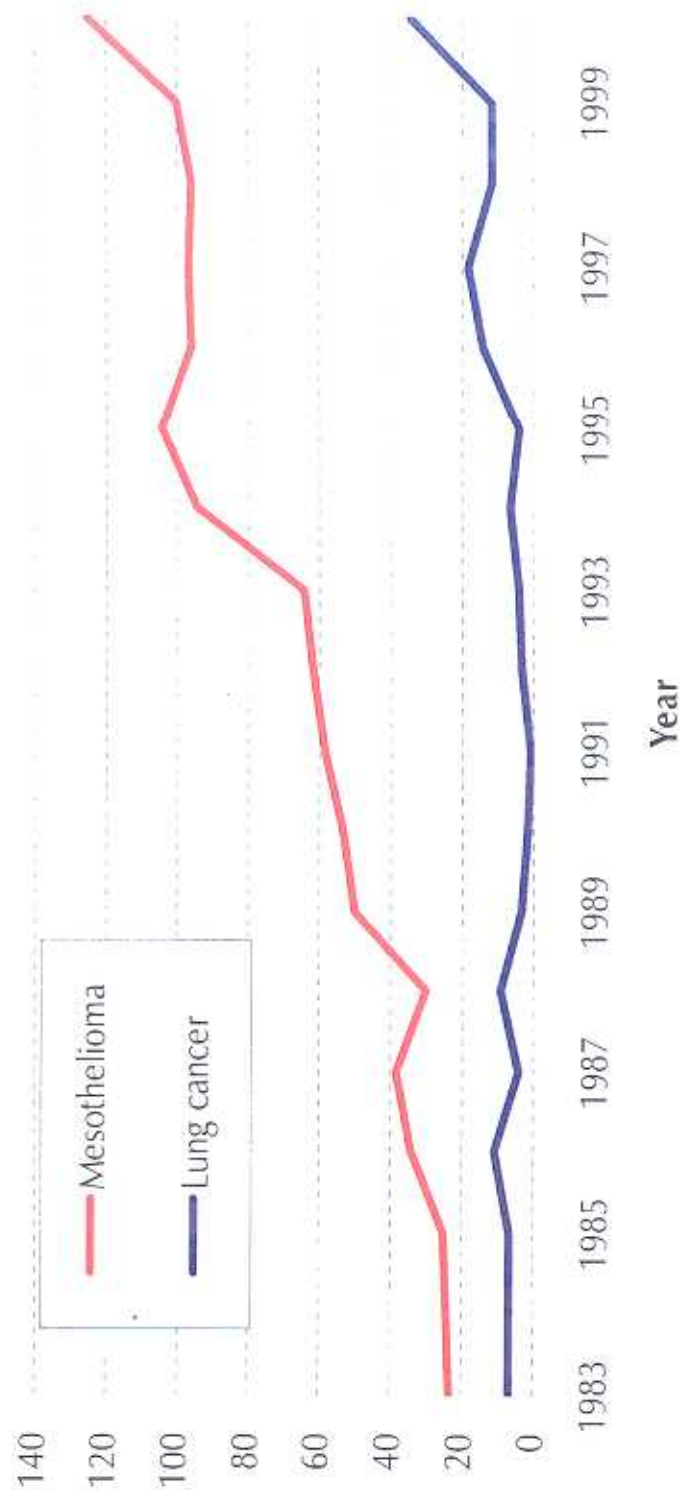
Overseas Mesothelioma Experience



Experience - Lung Cancer (Compensated)

- DDB : Lung cancer awards about 15% of number of mesothelioma awards in 4 years to 30 June 1999. In year to 30 June 2000 proportion jumped to 27%. Recent NSW Compensation court decision (Scates) challenged DDB criteria
- By comparison : insurers' data 13% (4 years to 1997); 10-15% for other portfolios we've analysed; UK 5-10%; US 150%

Lung Cancer v Mesothelioma Awards (DDB)



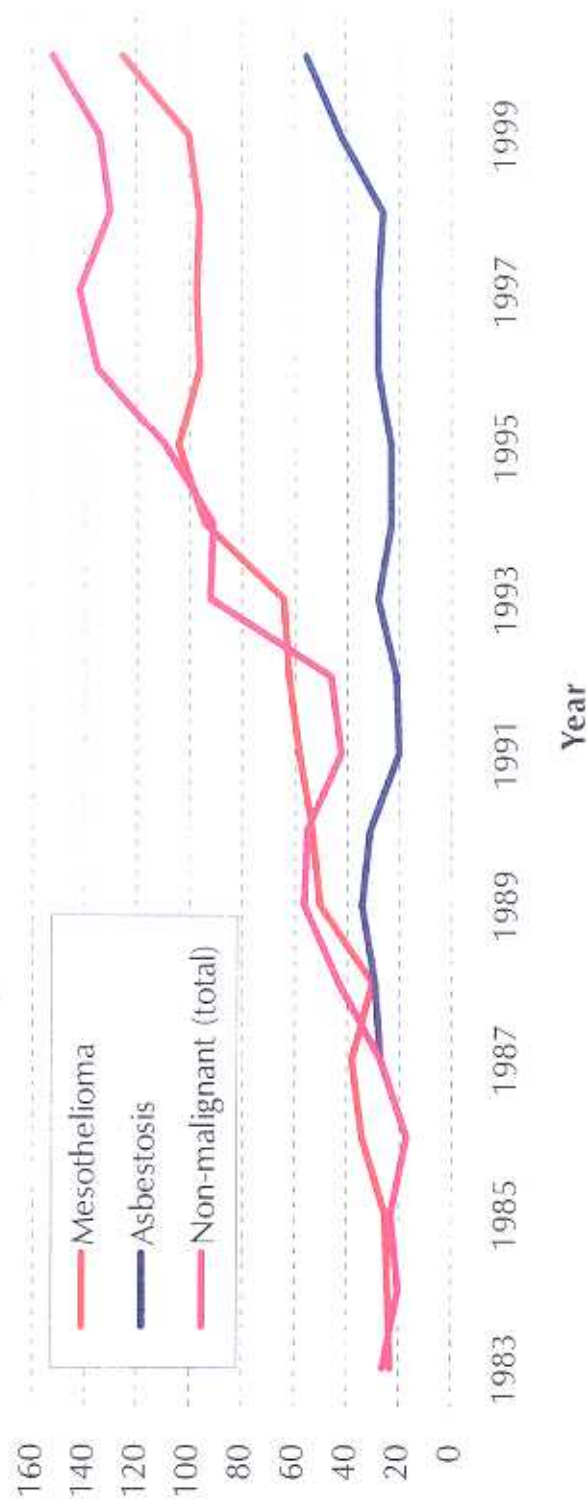
Lung Cancer Outlook

- For compensation in Australia, usually lung cancer must be accompanied by asbestosis (Weill theory)
 - Lower standard of causation has been accepted in a number of cases, based on exposure and/or fibre burden (Helsinki criteria)
 - If lower standard becomes prevalent for compensation, the number of compensated asbestos-related lung cancer cases could skyrocket:
 - current level: around 15% of number of mesothelioma cases
 - gloom and doom estimates: up to 300% (ie increase of 20 times)
 - UK/US projections: indicate around 100%
 - Wittenoom (Berry projections): indicate 40% to 60%
- Expect some offset in average claim size if numbers increase substantially

Australian Experience - Non-malignant diseases

- Includes asbestosis, pleural plaques, ARPD
- For DDB, non-malignant about 30% above mesothelioma. This is similar to other portfolios we've examined.
- For insurers about 3 times as many non-malignant claims as mesothelioma claims - question the data

Non-malignant v Mesothelioma Awards (DDB)



Other Recent Developments

- Legislation changes in NSW and Victoria to allow general damages to survive the death of the plaintiff
- Legislation in NSW to allow the Dust Diseases Board to recover “offsets” of statutory benefits from common law defendants
- A tendency to more multiple defendants
- Painful plaques/fear of contracting mesothelioma
- SV40 research

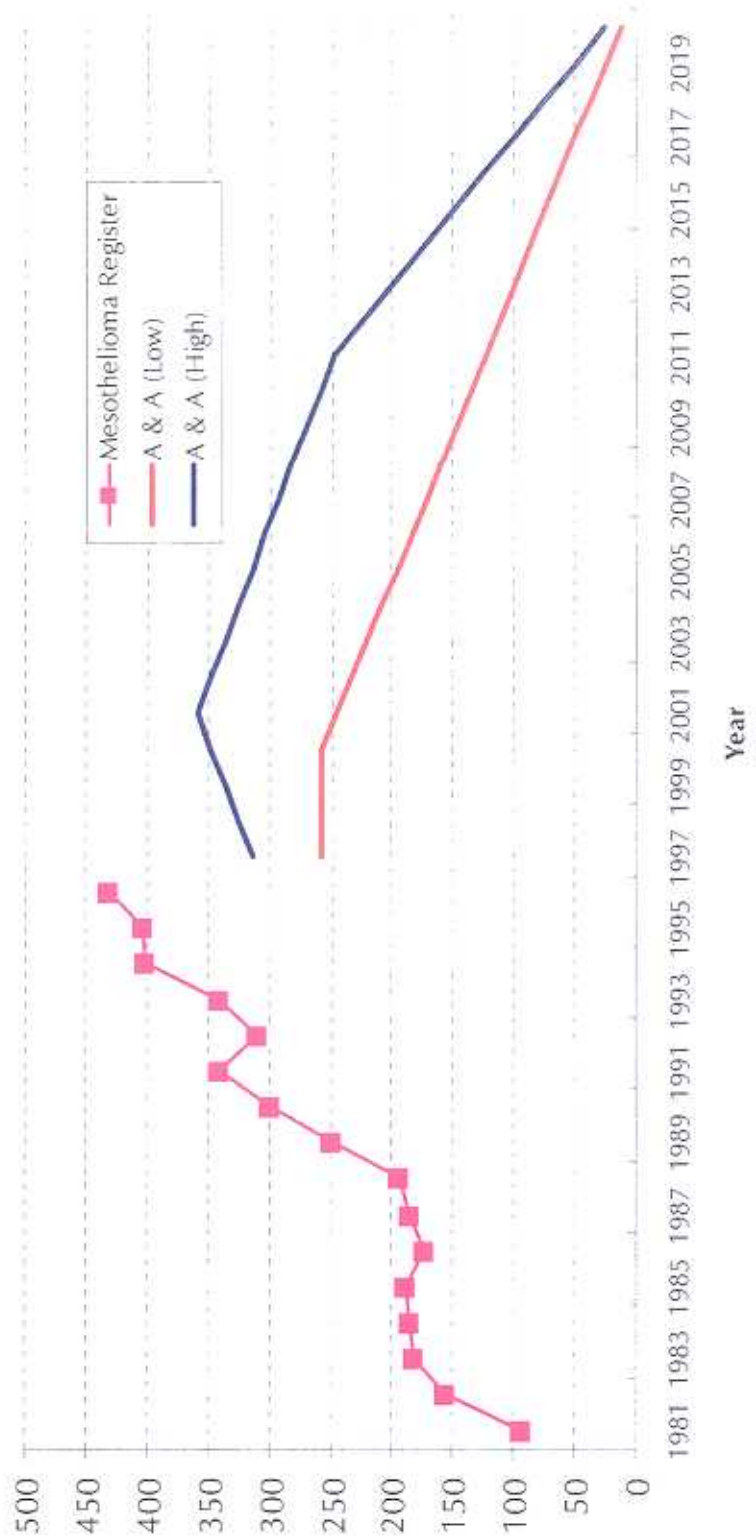
Reserving

- A simple reserving approach was proposed by Andrews and Atkins (A & A) in their 1993 paper
- Asbestos reserves for a particular company equals incurred cost at valuation date x ("IBNR") factor
- Reserves each year are updated by rolling forward reserve (ie using updated incurred and A & A IBNR factor)
- Two A & A bases -
 - low basis : assumes stable experience from 1991 to 2000 and then gradual reduction until 2020
 - high basis : assumes increased numbers to 2001 reducing to 2020

Current Reserving Approach - Problems

- Graph shows projection of Mesothelioma Register using A & A models on data to 1996
- A & A models have not allowed sufficiently for sharp upward trend in actual mesothelioma reports in 1990's even using Mesothelioma Register data

Andrews and Atkins Projections



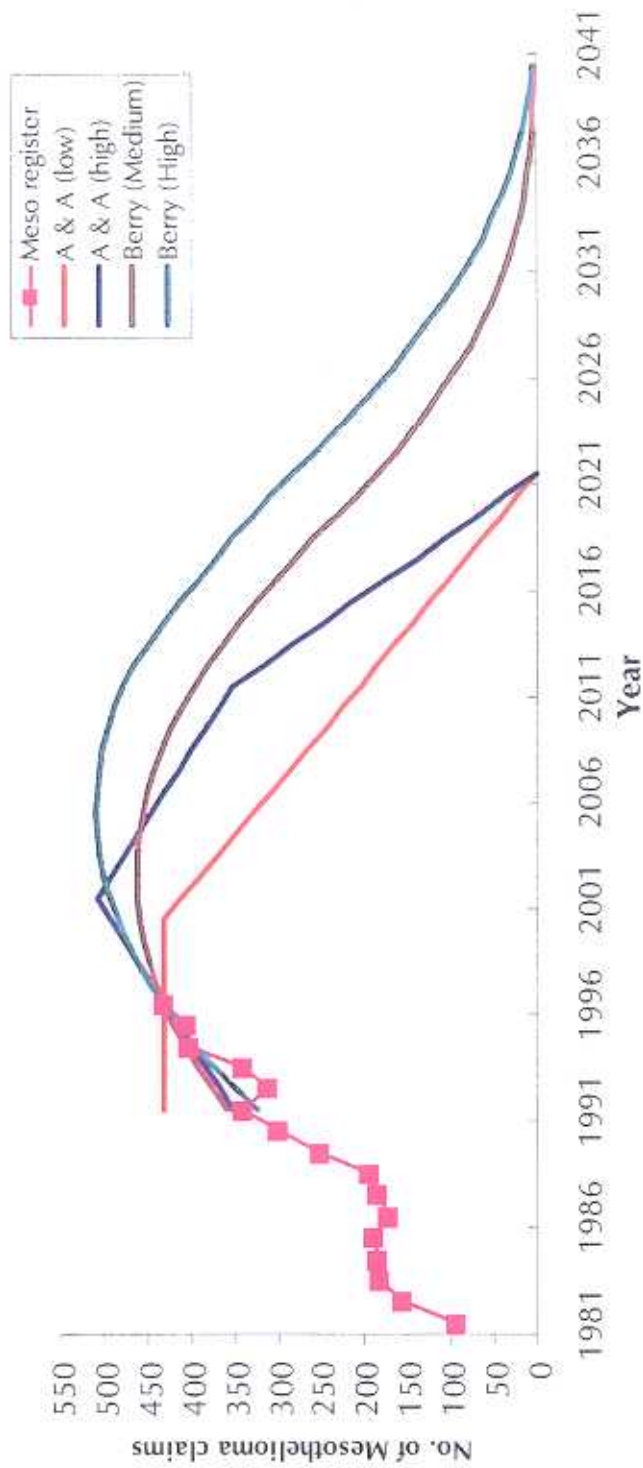
Current Reserving Approach - Problems

- A & A method based on data to 1990 => out of date
- Experience during the 1990's worse than expected. Automatic response to claim trends not sufficient
- Method relies on 1980's experience which tended to be understated, particularly for insurers
- Many companies may now have sufficient claims data to apply a more direct method
- Simple method does not provide detailed information on future cashflows or expected numbers which makes review of claims experience problematic

Updated Reserving Approach - Mesothelioma Models

- Basis = "survival ratio" of number of future years of claims (ie IBNR/current number per annum)
- Applied here to Mesothelioma Register
- All models are based on 430 claims in 1996

Revised Mesothelioma Models



Updated Reserving Approach - Numbers

- What would be the required increase in a company's asbestos provision if they have been using the A & A (High) basis?
- Mesothelioma numbers: Under current approach -
 - if had 5,500 claims to end of 2000 say
 - multiply by IBNR factor (from A&A high) of 0.80
 - projected future numbers = 4,500
- Under revised approach -

Increase in projected number of Mesothelioma claims

	A & A High	Berry Medium	Berry High
Survival ratio (=future no./claims in 2000)	12.8	19.0	23.0
Future claims	6,300	9,400	11,400
Increase required	40%	109%	153%

Updated Reserving Approach - Extension

- Estimate future mesothelioma numbers using model. Need to select pattern of reports (eg Berry High) and expected level of claims in year following valuation
- Calculate mesothelioma cashflows. Need to make assumptions re -
 - average mesothelioma size
 - inflation and discount rates
- Estimate lung cancer and non-malignant cashflows:
 - For lung cancer could assume numbers proportional to mesothelioma numbers (a simplification)
 - May want to allow for increasing proportion if pessimistic about litigation
 - For non-malignant modelling is largely guesswork

Updated Reserving Approach - Provisions

- Projected mesothelioma numbers significantly higher if use updated models
- Average settlement costs haven't changed significantly => many companies are likely to be under reserving

Summary

- Many insurers and other parties exposed to asbestos-related disease liabilities may be significantly under reserved for one or more of the following reasons -
 - Claim number experience in 1990's generally worse than expected
 - Recent developments (changes to legislation, weakening of lung cancer criteria, increased Stevedore claims, plaintiff lawyer activity etc) may have adverse affect on claim numbers and settlement amounts
 - Use of out of date approach to reserving
- We recommend review experience and approach used to estimate reserves

Other stuff

- This presentation will be on our website -
www.trowbridge.com.au
- Acknowledgments
 - insurers and others for providing data
 - Karl Marshall and Myooran Mahalingam from
Trowbridge for all their help

