

# LIMA Programme

## Casualty Landscape

13 September 2023  
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NOT IF, BUT HOW



01

Risk of Change

03

Inflation

02

Emerging Risks

04

Critical to Underwriting

“One of the significant challenges facing insurance underwriters is the emergence of new risks that may not be adequately addressed by existing underwriting guidelines and procedures.”

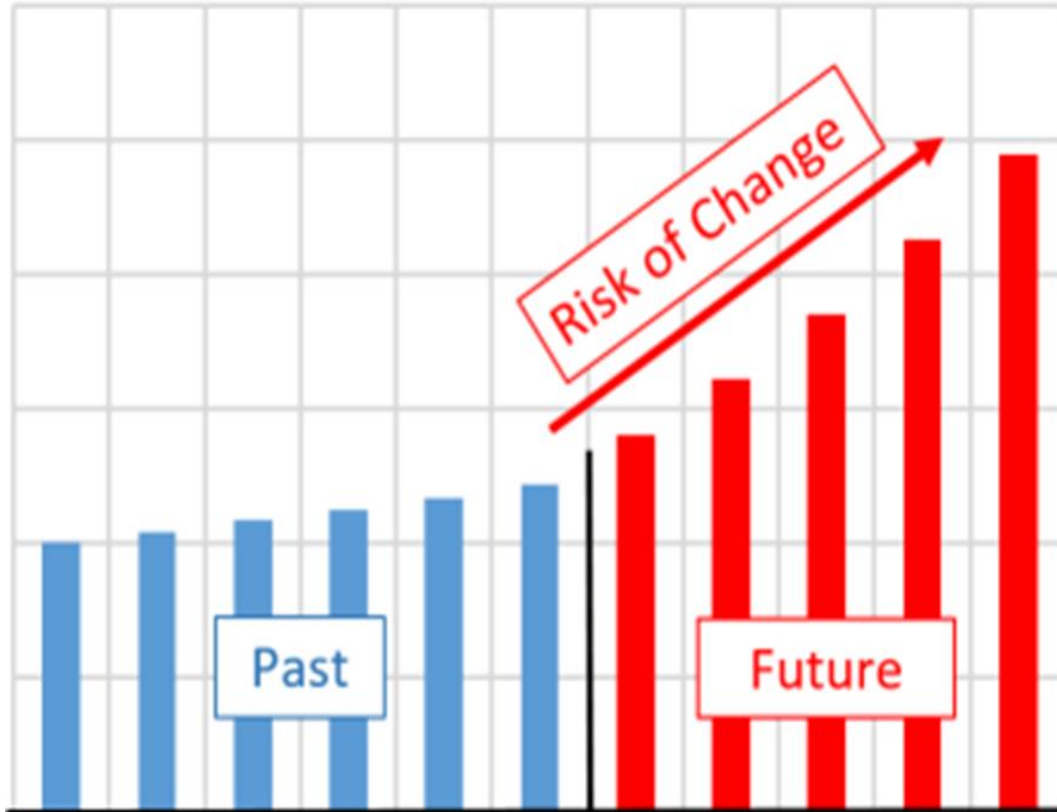
True Tamplin



Image: Munich Re

01

## Risk of Change



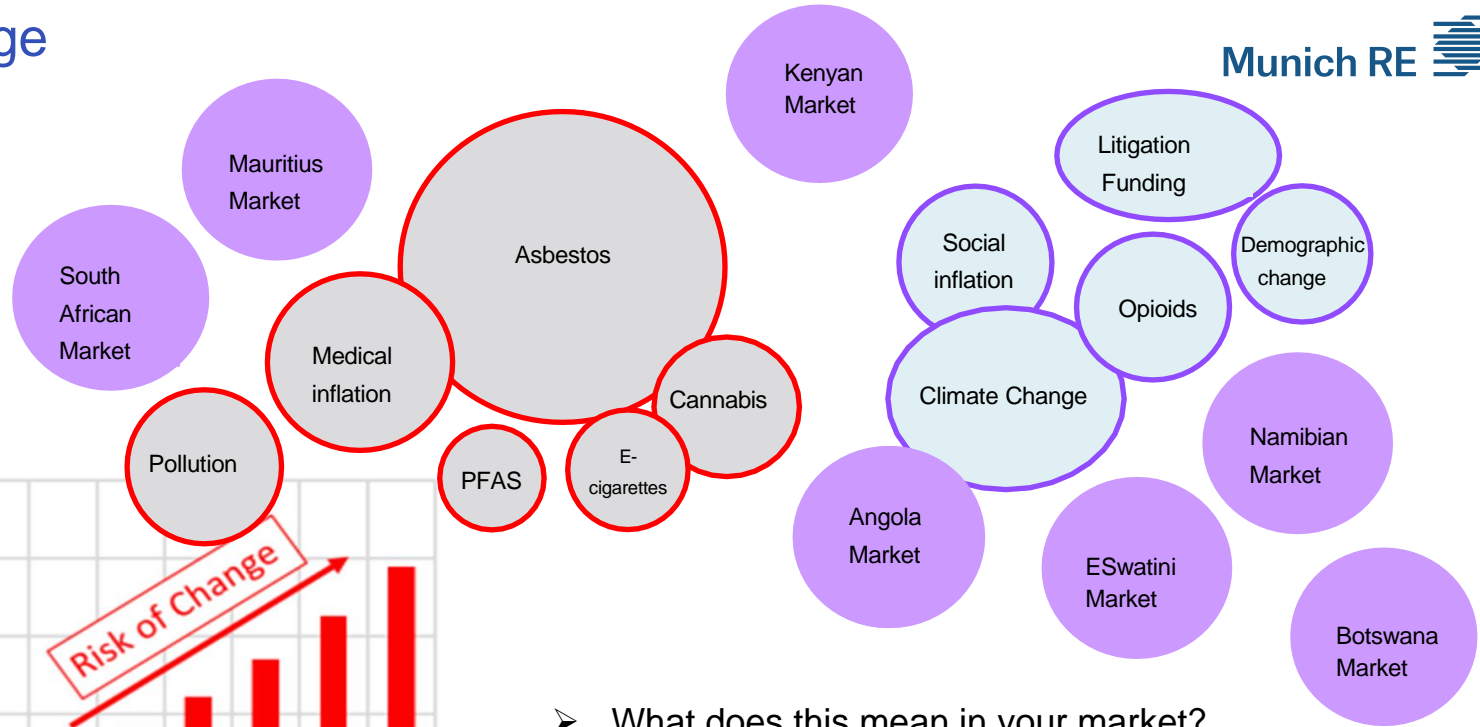
## Munich Re defines RoC as...

...the risk of unexpected changes in **loss drivers** (technological, medical, social, economic, legal, marketplace, client, political)...

... that take place **subsequent to** an underwriting/pricing decision...

... resulting in an **increase in severity and/or frequency** of losses leading to actual losses being systemically and significantly higher than expected

# Risk of Change



- What does this mean in your market?
- Where would you expect this to have impact?
- How do you prepare for the risk of change?
- What are immediate measures that can be taken in your portfolio?

# What changes do you see in your market for Liability?



[www.menti.com](https://www.menti.com)

Code: 5882 4574



Image: Munich Re

# 02

## Emerging Risks



# Risk of Change – various dimensions into Emerging Risks/Trends

- New Perils and risks
  - Silent Cyber vs Affirmative Cyber, IoT, AI
  - Internal Combustion Vehicles vs Plug in Electronic Vehicles
- Social Inflation
  - US: higher jury awards, “anti-attitude”, more legal advertising, NGO/media as driver, Litigation Funding)
  - Africa: Kenya, SA more prominent, “ambulance-chasers”, class-actions etc.
- Access to information due to internet, full and real time transparency (indemnities paid in other countries, possibility to claim)
  - Recent Pitbul Dog Bites in SA – potential.
  - Potential Moral Hazard Increase
- Broadening concept of negligence, e.g., duty to care (e.g., Hotel shooting Las Vegas)
- Climate Change affecting Liability insurance (e.g., Wildfires iro utilities and tree-cutters, “green-washing”)

# Examples of new triggers – Tech, AI



Picture @Chest

NanoTech

lithium-ion batteries

Recalls

Clean Up Costs / Rehab

Environmental Liabs

Autonomous Machines

New types of Losses

Unintended use of products

Hacker Risks

Social & Ethical Consideration

### Impact:

- Product liability, recall of defective products (counterfeit products)
- Business interruption, machinery breakdown, and loss of profits due to machinery breakdown (replacement delays)
- Legal protection (infringements of patent law)
- Motor, buildings insurance (unrest, social tensions)
- Social insurance (unemployment insurance, health insurance)

# Emerging Risks - PFAS

## PFAS: What is it?

- Per- and polyfluoroalkyl substances (PFAS) are a large group of > 9,000 man-made chemicals that have been manufactured globally since the late 1940s
- Due to the very positive and desirable characteristics of some PFAS, these were/are used for the production of a **broad variety of goods** (e.g., fire-fighting foams, water-resistant clothing, non-stick kitchenware)

## Where and why can it cause harm?

- Many of these substances are **persistent** and **bio-accumulative** in the soil, in groundwater, in organisms, and in the human body. Therefore, they are called “**forever chemicals**”
- These substances are likely to cause cancer and other diseases such as thyroid disease, high cholesterol and pregnancy-induced hypertension
- Globally, the manufacturing industry and regulators have started phasing out problematic substances (in particular **PFOS** and **PFOA** which are the main litigated substances) and partially banned these

Why is such an “old” topic becoming now a serious issue?



# Emerging Risk – Social Inflation



Fires - \$13.5b

**Johnson & Johnson**  
Risperdal – Product  
Liability - \$8b



**MGM RESORTS  
INTERNATIONAL™**

**Mallinckrodt**

Las Vegas shooting -  
\$800m

**Johnson & Johnson**  
Talcum Powder -  
\$750m



Product Liability -  
\$759m



Wildfires &  
Mudslides - \$360m



Roundup – \$2.055b

**So. Africa: R5-billion silicosis settlement approved by the Johannesburg high court is not a finite amount**

[Read more](#)

\*Money from the silicosis settlement is not fixed\* 29 July 2019

**Listeria Class Action Notice**

On 3 December 2018, the Gauteng Local Division of the High Court of South Africa granted an order permitting a class action lawsuit to be brought against Tiger Brands Limited by Richard Spoor Inc Attorneys and LHL Attorneys Inc., as joint legal representatives of the class, with Marler Clark LLP as a consultant to the Attorneys. The class action is brought on behalf of those sickened by Listeria-tainted polony and the families of those who lost loved ones. To view the Order granted by the High Court, [please click here](#).

**American-style class litigation comes to Kenya; let us all be rich!**

By | May 12th 2013 at 12:00:00 GMT +0300

Business

**Steinhoff Proposes \$1 Billion Settlement to End Legal Claims**

By Janice Kew  
27 July 2020 10:42 SAST Updated on 27 July 2020 13:25 SAST

South African asbestos victims win compensation, but claim halved

By Neil Hodge  
9 January 2002

A four-year legal battle to call a UK company to account for its asbestos mining practices in South Africa three decades ago ended shortly before Christmas, with a £21 million out-of-court settlement.

**Kenya: A progress report on class action lawsuit against Metal Refinery EPZ for alleged pollution leading to deaths**

**Junia Agrees To USD 5 Mn Settlement To Make Class Action Lawsuits Go Away**

NZEKWE HENRY  
August 12, 2020

Casualty Landscape

# Tips Critical to UW Casualty

## Risk of Change

- Prospective UW is important: e.g., detect market trends early and react stringently when underwriting
- Timing is important: Rather react proactively on your own than wait until being pushed to react
- Larger accumulation events can quickly turn whole portfolios into deep red figures → analyse casualty accumulation scenarios and consider them in underwriting (risk appetite, risk assessment, pricing – charge for accumulation?)

## Critical Assessments

- ❖ Claims made vs Losses Occurring
- ❖ Unlimited Capacity
- ❖ Extended Reporting Periods
- ❖ Extensions of Territorial Scopes
- ❖ Back-dating of Retrospective Dates
- ❖ Broadening of definitions of Damage / Negligence
- ❖ Notification of losses
- ❖ Pricing
- ❖ Increases of Limits / Capacity

# Tools to manage RoC

Strategies

Portfolio management

Underwriting and claims reviews

Pricing

Contract clauses or features

Monitoring





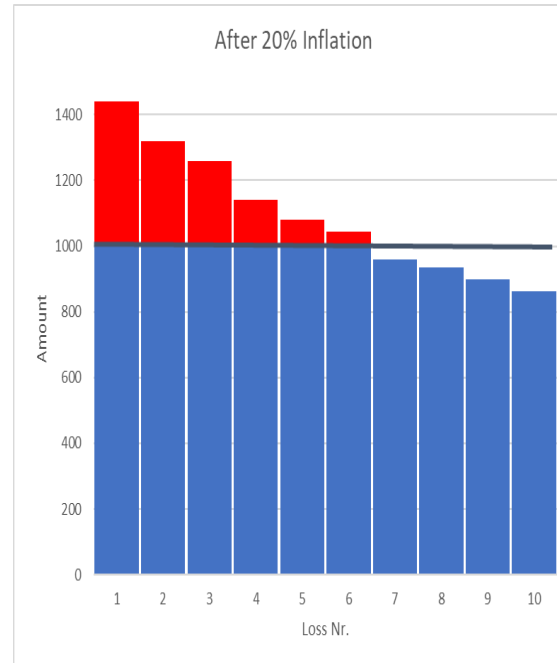
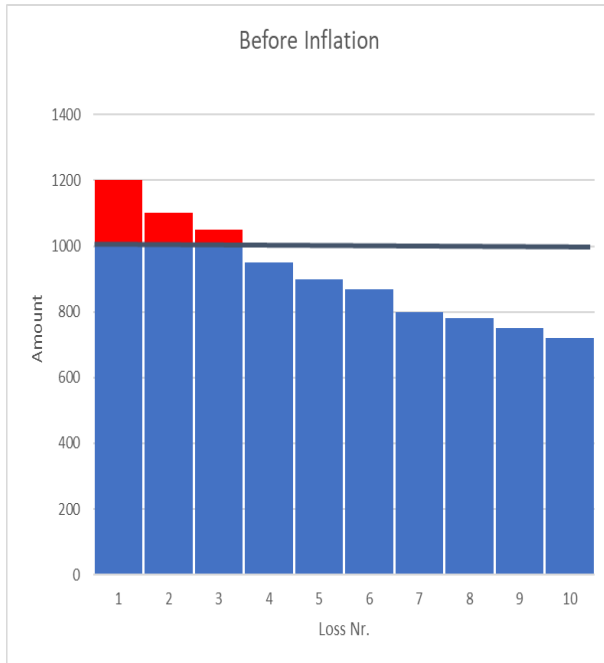
Image: Munich Re

# 02

## Inflation

# Inflationary Effects

- Proportional treaties allow for Premium and Loss Sharing therefore less severely impacted depending on pricing and inflation considerations (Follow the Fortunes)
- Non-proportional treaties are much more affected by inflationary effects than primary business/quota shares:



- **Loss Development Patterns**
- Thin Casualty rates
- Inflationary increases:
  - Motor Spare Parts
  - Supply Chain Disruptions
  - Repair Costs
  - Labour Costs
  - Medical Expenses
  - BI claims – with a lagno immediate increases in premiums
- Importance of Stability Clauses for RI:
  - Sharing of inflation risk
  - Importance for corrective pricing
    - XL Loss sharing



## Development Patterns

- Inflationary impact on new/open claims increases severity and frequency → therefore making adverse loss development for old contract years very likely
- The longer the development, the higher the prediction uncertainty

### **What to look for?**

- ❖ Index applying to the loss; CPI, Wage, Construction etc.
- ❖ How is the Premium Developing in relation to cost?
- ❖ What are the Legal Fees / Litigation Costs
- ❖ Legislation changes
- ❖ How long does it take for a claim to fully develop? Motor -> 3yrs? BI Liabs -> 15 years?
- ❖ Reserving philosophy

- ✓ New/changing exposures bring along new risks with higher margins than in “bread and butter business”
- ✓ Higher accumulation exposure and RoC bring along rising reinsurance protection demand
- ✓ UW know-how will be the key differentiating criterion going forward, even more than in the past
- ✓ Strong UW know-how of every Casualty Underwriter and close co-operation within Munich Re is indispensable

# Thank you for your attention!

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Nkejane Mofokeng



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