

CHRISTOPHER GROSS CONSULTING

CREATIVE SOLUTIONS TO COMPLEX PROBLEMS

Chinese Drywall and Other Construction Defect Losses that Span Multiple Policies

Presented by:

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- **It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.**

Agenda

- Main causes and issues for defective construction
- Examples
- Coverage issues
- Basic Projection techniques



Main Causes

Improper Site Selection and/or Soil Preparation



Structural Design



climatechangeconnection.org

autocader.com
casadacascataequipe.blogspot.com



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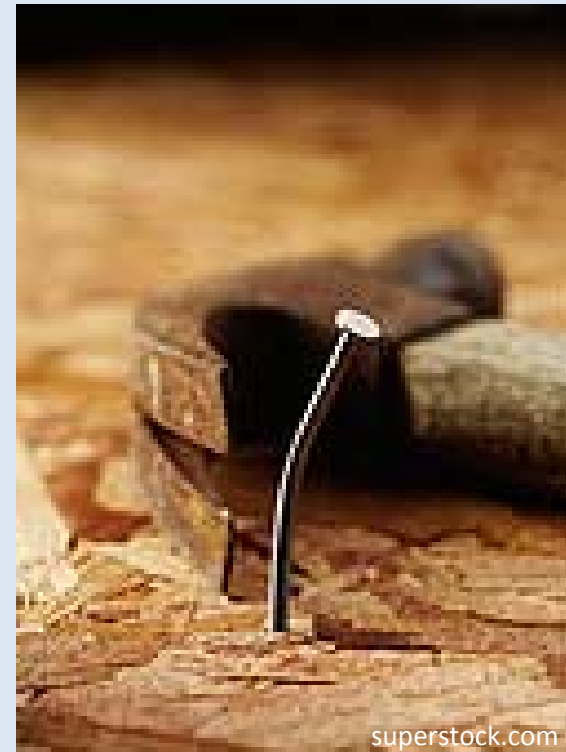
Defective Building Materials



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CREATIVE SOLUTIONS TO COMPLEX PROBLEMS

Negligent Construction



Main Issues

Water Damage



Structural Failure



Mechanical



Examples

EIFS

- Exterior Insulation and Finish Systems
- EIFS is an exterior wall covering system designed as an alternative to stucco.
- It uses three layers bonded together to form a barrier designed to completely seal out water.
- However, if water does seep in, it does not allow the water to drain and can lead to rotting.



Kitec

- Kitec brass pipe fittings were used to connect flexible composite pipe in homes throughout the western United States.
- When water runs through these fittings, a chemical reaction called dezincification occurs, causing corrosion which eventually blocks the pipe. This can lead to leaks and even bursting pipes.



New Kitec® Fitting



Corroded Kitec® Fitting

plumbingdefect.com

Chinese Drywall

- During the housing boom from 2004 to 2007, drywall was imported to the US from China due to a shortage of American made drywall.
- The drywall has been found to emit sulfurous gases which smell like rotten eggs and can cause copper pipes, wiring, and air conditioner coils to corrode.



buildingdiagnosticsgroup.com

Coverage Issues

Triggers

- **Manifestation**
 - The date of occurrence is when the property damage manifests is apparent.
- **Exposure**
 - All policy periods during which the property has been exposed. (often found in claims involving long-term bodily injury claims like asbestosis)
- **Continuous**
 - All policies in effect from the date of exposure through manifestation including all policies from construction through discovery and potentially further.
- **Injury-in-Fact**
 - All policies in effect when injury can be demonstrated without regard to when the damage is discovered.

Claims Made or Occurrence

- Completed Operations Coverage
 - Like Products Liability, provides insurance for claims resulting after a construction project is completed.
- Issues
 - Different insurers over time
 - Different insurers for Primary versus Umbrella
 - Different policy conditions from year to year
 - ALAE within/without
 - SIR/Deductibles
 - Captives
 - Coverage wording

Montrose

- 1995 the California Supreme Court ruled in *Montrose Chemical Corp. v Admiral Insurance Co.*
 - Continuous injury trigger governs coverage under the standard CGL policy.
 - Known losses can be insured as long as either the scope of damage occurring during the policy period or the insured's ultimate liability for that damage is undetermined.
- CG 00 57 adds a third condition to section b of the Coverage A insuring agreement.
 - (3) Prior to the policy period, no insured listed under Paragraph 1. of Section II-Who Is An Insured and no "employee" authorized by you to give or receive notice of an "occurrence" or claim, knew that the "bodily injury" or "property damage" had occurred, in whole or in part.
 - If such a listed insured or authorized "employee" knew, prior to the policy period, that the "bodily injury" or "property damage" occurred, then any continuation, change or resumption of such "bodily injury" or "property damage" during or after the policy period will be deemed to have been known prior to the policy period.
- Colorado HOUSE BILL 10-1394 (new)
 - Faulty workmanship constitutes an "occurrence" and that claims for faulty workmanship fall within a general liability policy's insuring agreement.

Statute of Limitations/Repose

- Statute of Limitation
 - A type of federal or state law that restricts the time within which legal proceedings may be brought. These vary by state.
- Statutes of Repose
 - Statutes of repose terminate a manufacturer's liability for defective products after a statutorily specified number of years. A person injured after the cut-off date has no recourse to hold the manufacturer of the defective product accountable. These also vary by state.
- A statute of limitation may apply to bar lawsuits a set number of years after the product causes an injury; but a statute of repose may also apply, barring an action after a certain number of years from the date when the product was initially delivered.



Basic Projection Techniques

Accident Year Paid

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 | Period 11 | Period 12 |
|-------------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|
| 1996 | 25,369 | 86,065 | 51,945 | 100,907 | 134,002 | 243,134 | 1,161,570 | 1,789,010 | 3,779,962 | 9,202 | (82,972) | (342,892) |
| 1997 | 147,356 | 898,482 | 148,592 | 330,168 | 340,088 | 2,859,339 | 3,120,631 | 5,313,186 | 352,032 | (553,026) | (923,688) | (123,415) |
| 1998 | 59,035 | 70,993 | 299,221 | 1,127,660 | 3,884,804 | 1,233,673 | 2,313,874 | 306,318 | 830,652 | 1,602,887 | 293,047 | (523,574) |
| 1999 | 8,566 | 260,958 | 1,270,305 | 2,646,801 | 846,213 | 1,213,193 | 286,116 | 200,755 | 47,706 | 301,556 | (310,222) | (313,318) |
| 2000 | 309,699 | 798,535 | 1,593,150 | 1,511,533 | 814,792 | 126,107 | 106,613 | 28,215 | 263,993 | 180,106 | (290,300) | (257,959) |
| 2001 | 75,865 | 1,298,199 | 1,314,345 | 1,634,612 | 705,006 | 1,087,642 | 1,979,124 | 541,396 | 538,201 | 328,520 | (432,655) | (405,198) |
| 2002 | 66,774 | 541,523 | 760,461 | 981,527 | 1,123,766 | 2,472,774 | 1,043,015 | 322,381 | 418,455 | 262,735 | (366,482) | (337,861) |
| 2003 | 22,318 | 483,443 | 5,801,543 | 2,166,111 | 6,962,141 | 1,557,403 | 1,789,436 | 67,020 | 1,147,103 | 780,791 | (1,253,975) | (1,115,244) |
| 2004 | 54,932 | 231,109 | 363,626 | 3,441,249 | 2,030,100 | 609,621 | 707,006 | 25,009 | 454,519 | 309,489 | (497,337) | (442,254) |
| 2005 | 24,238 | 339,090 | 736,578 | 899,694 | 992,293 | 909,032 | 544,913 | 132,438 | 250,393 | 161,698 | (237,755) | (216,166) |
| 2006 | 64,213 | 160,879 | 1,344,904 | 1,284,217 | 1,416,391 | 179,634 | 413,125 | (30,887) | 305,765 | 211,738 | (349,137) | (308,560) |
| 2007 | 3,458 | 20,827 | 145,102 | 138,554 | 152,814 | 2,413,408 | 825,539 | 467,647 | 143,586 | 63,679 | (16,751) | (33,278) |

Accident Year Incurred

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 | Period 11 | Period 12 |
|-------------|-----------|-----------|-----------|------------|-----------|-----------|-------------|-----------|-----------|-------------|-------------|-------------|
| 1996 | 69,510 | 389,151 | (14,435) | (29,762) | 237,838 | 1,699,696 | 4,605,390 | (495,133) | 4,792,693 | (2,089,187) | (919,002) | (532,648) |
| 1997 | 290,917 | 916,101 | 114,804 | 542,401 | 2,483,263 | 5,063,282 | 1,104,405 | 6,079,857 | (297,089) | (1,609,919) | (1,628,638) | (1,149,639) |
| 1998 | 70,335 | 141,489 | 968,787 | 2,708,216 | 3,695,667 | 135,343 | 3,504,960 | 184,992 | 918,804 | 1,873,442 | (1,852,226) | (851,218) |
| 1999 | 52,018 | 489,799 | 2,247,098 | 2,835,012 | 522,971 | 1,281,336 | 32,963 | (88,675) | 32,364 | 203,045 | (740,281) | (409,019) |
| 2000 | 1,028,942 | 1,227,147 | 1,704,647 | 1,625,927 | 62,765 | (125,904) | 46,489 | 39,267 | 415,338 | 77,883 | (592,047) | (325,971) |
| 2001 | 641,247 | 2,858,694 | 535,646 | 2,279,219 | 1,417,451 | 3,299,632 | 2,414,901 | 80,231 | (3,806) | (2,558,365) | (1,507,300) | (792,494) |
| 2002 | 416,381 | 968,593 | 2,393,347 | 1,513,411 | 3,238,874 | 5,017,273 | (1,329,579) | 89,273 | 98,300 | (2,566,609) | (1,669,047) | (881,148) |
| 2003 | 1,022,277 | 4,240,643 | 7,038,443 | 12,401,110 | 5,005,774 | 5,851,008 | (3,127,431) | 268,934 | 512,418 | (7,141,123) | (5,010,883) | (2,653,080) |
| 2004 | 1,024,211 | (114,240) | 2,374,412 | 8,377,378 | 3,209,492 | 2,411,899 | (2,292,505) | 134,622 | 77,399 | (4,063,888) | (2,522,502) | (1,329,210) |
| 2005 | 317,392 | 731,361 | 1,241,078 | 2,149,730 | 1,244,550 | 1,416,218 | (212,642) | 52,203 | 196,638 | (1,120,742) | (964,971) | (514,369) |
| 2006 | 1,469,057 | 199,556 | 1,083,318 | 3,259,784 | 1,912,650 | 1,782,671 | (880,568) | 80,226 | 165,765 | (2,095,030) | (1,493,782) | (791,362) |
| 2007 | 21,465 | 1,190,459 | 382,304 | 179,018 | 59,493 | 750,723 | 950,320 | 2,495 | 246,031 | 592,762 | (27,405) | (23,082) |

Selected Ultimate

Data set for example purposes only – not to be considered typical

| Year | LR |
|-------------|-----------|
| 1996 | 58% |
| 1997 | 90% |
| 1998 | 69% |
| 1999 | 33% |
| 2000 | 24% |
| 2001 | 37% |
| 2002 | 25% |
| 2003 | 57% |
| 2004 | 20% |
| 2005 | 12% |
| 2006 | 14% |
| 2007 | 20% |

Report Year Paid

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 |
|-------------|-----------|-----------|------------|-----------|-----------|-------------|----------|-----------|-------------|
| 1996 | 25,369 | 14,133 | 1,265 | | | | | | |
| 1997 | 219,288 | 370,352 | 68,102 | 35,701 | 16,915 | 179,113 | 8,746 | | |
| 1998 | 637,845 | 179,265 | 24,191 | 161,042 | (82,978) | | | | |
| 1999 | 81,692 | 636,614 | 714,468 | 1,622,300 | 1,841,635 | 1,162,997 | 198,955 | (642,069) | (671,894) |
| 2000 | 637,541 | 2,661,303 | 7,036,960 | 816,479 | 64,749 | 16,826 | 20,198 | 11,925 | (1,160,396) |
| 2001 | 301,860 | 3,656,083 | 3,382,040 | 9,749,487 | 87,987 | (1,162,376) | 43,578 | (537,079) | (1,598,723) |
| 2002 | 1,099,160 | 2,935,835 | 2,186,686 | 280,690 | 185,059 | (112,582) | 53,084 | (221,670) | (659,845) |
| 2003 | 1,394,511 | 2,169,530 | 5,683,455 | 470,577 | (337,233) | (332,730) | 73,053 | (305,056) | (908,059) |
| 2004 | 1,035,007 | 1,749,332 | 2,489,332 | 3,820,810 | | (322,573) | 70,823 | (295,743) | (880,340) |
| 2005 | 805,953 | 3,702,087 | 8,946,494 | 5,522,264 | | (673,090) | 147,781 | (617,107) | (1,836,941) |
| 2006 | 583,661 | 2,880,912 | 5,463,477 | 3,664,419 | | (446,644) | 98,063 | (409,495) | (1,218,943) |
| 2007 | 1,586,422 | 4,873,691 | 10,187,310 | 6,832,750 | | (832,821) | 182,851 | (763,552) | (2,272,865) |

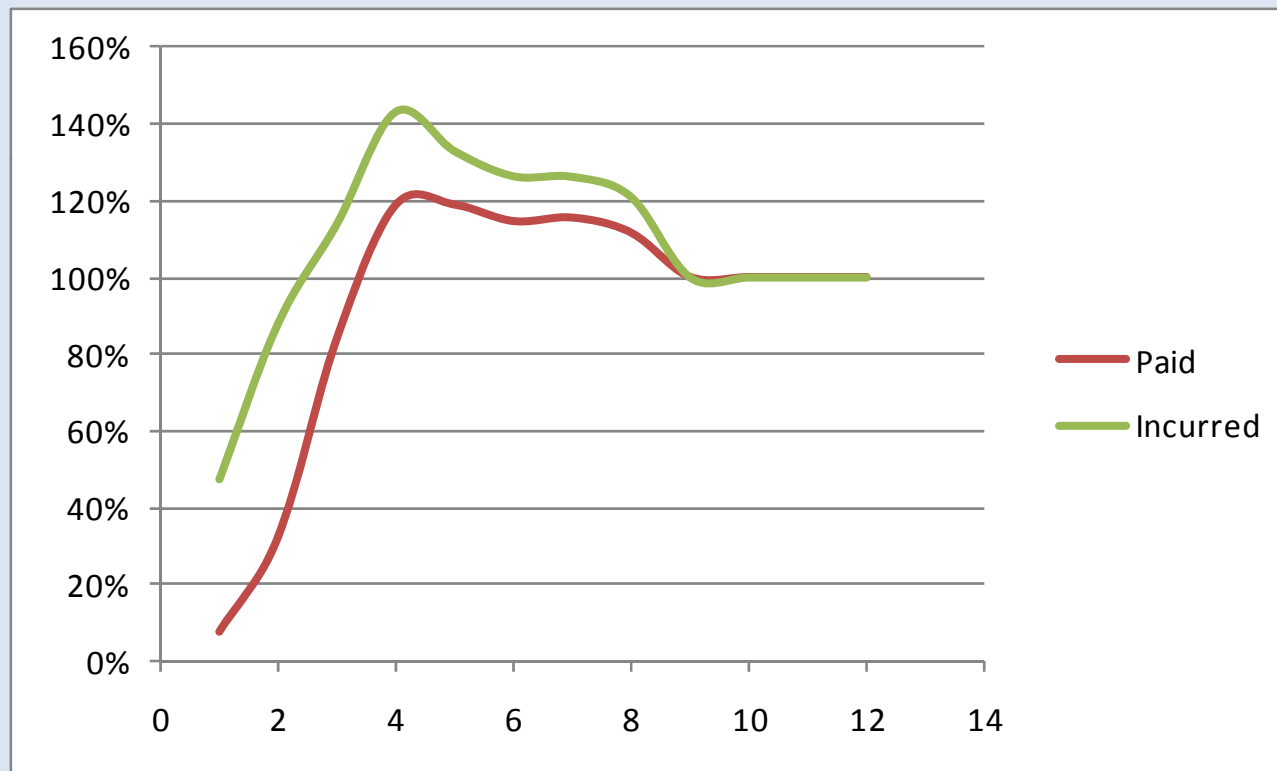
Report Year Incurred

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 |
|-------------|------------|------------|-------------|-----------|-------------|-------------|-----------|-------------|-------------|
| 1996 | 69,510 | (30,008) | 1,265 | | | | | | |
| 1997 | 710,076 | 183,861 | (103,646) | 103,873 | 56,407 | 111,508 | (163,864) | | |
| 1998 | 786,874 | 65,418 | 193,499 | (43,447) | (82,976) | (2) | | | |
| 1999 | 316,777 | 1,064,823 | 1,177,244 | 3,799,047 | (212,497) | 875,359 | (20,057) | (826,526) | (1,229,470) |
| 2000 | 1,905,572 | 4,306,233 | 6,009,776 | 215,924 | (1,189,270) | (14,376) | 20,198 | 11,925 | (1,160,397) |
| 2001 | 5,510,231 | 7,344,647 | (1,968,511) | 9,708,239 | (28,563) | (1,623,790) | (23,718) | (1,244,762) | (3,750,915) |
| 2002 | 3,997,071 | 3,220,976 | 1,246,620 | (739,463) | (591,151) | (273,760) | (8,662) | (156,015) | (949,200) |
| 2003 | 4,328,003 | 5,880,104 | 1,281,063 | 967,041 | (864,370) | (691,572) | (13,915) | (754,294) | (2,224,013) |
| 2004 | 9,137,979 | 678,626 | 2,731,193 | 1,365,795 | (999,114) | (940,183) | (15,502) | (1,248,193) | (3,043,953) |
| 2005 | 6,721,004 | 12,264,300 | 7,468,232 | 2,144,900 | (2,386,733) | (1,901,420) | (37,032) | (2,153,745) | (6,122,065) |
| 2006 | 8,920,877 | 1,331,600 | 3,016,122 | 2,744,992 | (1,197,141) | (816,870) | (18,575) | (751,404) | (2,614,151) |
| 2007 | 14,274,979 | 6,681,320 | 7,795,864 | 5,741,997 | (3,094,286) | (2,222,322) | (48,011) | (2,208,773) | (7,126,982) |

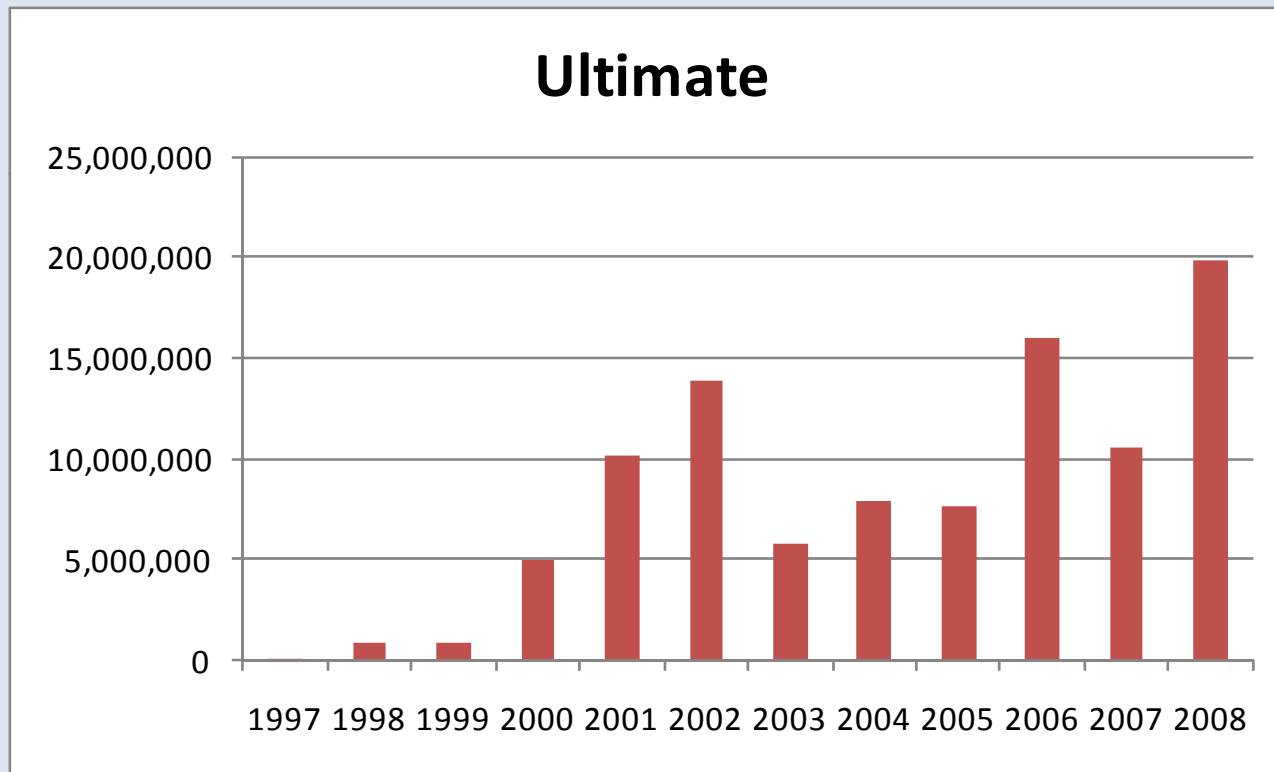
Paid and Incurred to Ultimate

Data set for example purposes only – not to be considered typical



Ultimate by Report Year

Data set for example purposes only – not to be considered typical



Report Year Closed Counts

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| 1996 | | 5 | 1 | | | | | | | |
| 1997 | 8 | 6 | 10 | 1 | | 2 | 2 | | | |
| 1998 | 11 | 12 | 1 | 4 | -1 | | | | | |
| 1999 | 6 | 6 | 8 | 9 | 2 | -1 | 2 | | 6 | |
| 2000 | 12 | 7 | 7 | 4 | 6 | 10 | | | 2 | |
| 2001 | 6 | 26 | 24 | 8 | 4 | 1 | 3 | | 9 | |
| 2002 | 19 | 34 | 17 | 7 | 4 | 7 | 5 | | 8 | |
| 2003 | 20 | 18 | 30 | 13 | 8 | 6 | 4 | | 7 | |
| 2004 | 18 | 43 | 20 | 20 | 9 | 8 | 11 | | 16 | |
| 2005 | 25 | 41 | 37 | 18 | 8 | 10 | 2 | | 7 | |
| 2006 | 20 | 67 | 46 | 22 | 10 | 12 | 3 | | 9 | |
| 2007 | 51 | 49 | 38 | 15 | 7 | 10 | -2 | | 2 | |

Report Year Reported Counts

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| 1996 | 9 | -3 | | | | | | | | |
| 1997 | 30 | -5 | 3 | | 1 | | | | | |
| 1998 | 28 | -1 | 2 | -1 | | -1 | | | | |
| 1999 | 35 | 8 | -1 | | -5 | -1 | | | 3 | |
| 2000 | 50 | 3 | -5 | -2 | -1 | 1 | | | 2 | |
| 2001 | 87 | -3 | -11 | 4 | | | 1 | | 3 | |
| 2002 | 106 | -2 | -4 | -6 | 1 | 1 | 1 | | 3 | |
| 2003 | 135 | -17 | -10 | -8 | 1 | 1 | 1 | | 3 | |
| 2004 | 191 | -53 | 3 | -3 | 1 | 1 | 1 | | 5 | |
| 2005 | 225 | -65 | -13 | -7 | 1 | 1 | 1 | | 5 | |
| 2006 | 273 | -75 | -9 | -9 | 1 | 2 | 1 | | 6 | |
| 2007 | 247 | -69 | -9 | -8 | 1 | 1 | 1 | | 5 | |

Report Year Statistics

Data set for example purposes only – not to be considered typical

Ultimate by Report Year

| Year | Count | Dollars | Severity |
|------|-------|------------|----------|
| 1996 | 6 | 40,767 | 6,795 |
| 1997 | 29 | 898,216 | 30,973 |
| 1998 | 27 | 919,365 | 34,051 |
| 1999 | 39 | 4,944,698 | 126,787 |
| 2000 | 48 | 10,105,585 | 210,533 |
| 2001 | 81 | 13,922,857 | 171,887 |
| 2002 | 100 | 5,746,417 | 57,464 |
| 2003 | 106 | 7,908,048 | 74,604 |
| 2004 | 146 | 7,666,647 | 52,511 |
| 2005 | 147 | 15,997,441 | 108,826 |
| 2006 | 189 | 10,615,451 | 56,166 |
| 2007 | 170 | 19,793,786 | 116,434 |



CHRISTOPHER GROSS CONSULTING

CREATIVE SOLUTIONS TO COMPLEX PROBLEMS

Accident Year Closed

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 | Period 11 | Period 12 | tail |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|------|
| 1996 | | 6 | 3 | 10 | 3 | 4 | 9 | 11 | 7 | 12 | 7 | 2 | 4 |
| 1997 | 7 | 12 | 9 | 4 | 5 | 4 | 13 | 1 | 10 | 7 | 8 | 1 | 3 |
| 1998 | 3 | 4 | 2 | 5 | 7 | 4 | 3 | 14 | 11 | 19 | 26 | 5 | 10 |
| 1999 | 5 | 5 | 4 | 7 | 3 | 9 | 6 | 3 | 6 | 12 | -6 | | 2 |
| 2000 | 6 | 6 | 16 | 5 | 10 | 7 | 2 | 3 | -16 | 16 | 2 | 2 | 5 |
| 2001 | 1 | 17 | 31 | 23 | 20 | 14 | 27 | 11 | 16 | 22 | 13 | 4 | 9 |
| 2002 | 2 | 17 | 4 | 20 | 15 | 20 | 7 | 13 | 12 | 25 | 14 | 4 | 9 |
| 2003 | 2 | 5 | 14 | 11 | 37 | 13 | 10 | 15 | 16 | 28 | 16 | 5 | 11 |
| 2004 | 4 | 15 | 18 | 40 | 23 | 19 | 50 | 16 | 50 | 34 | 27 | 7 | 14 |
| 2005 | 3 | 9 | 23 | 10 | 23 | 14 | 3 | 16 | 11 | 31 | 16 | 5 | 11 |
| 2006 | 2 | 12 | 14 | 10 | 19 | 12 | 5 | 13 | 11 | 26 | 14 | 4 | 10 |
| 2007 | 2 | 5 | 9 | 7 | 12 | 8 | 4 | 9 | 8 | 17 | 9 | 3 | 7 |

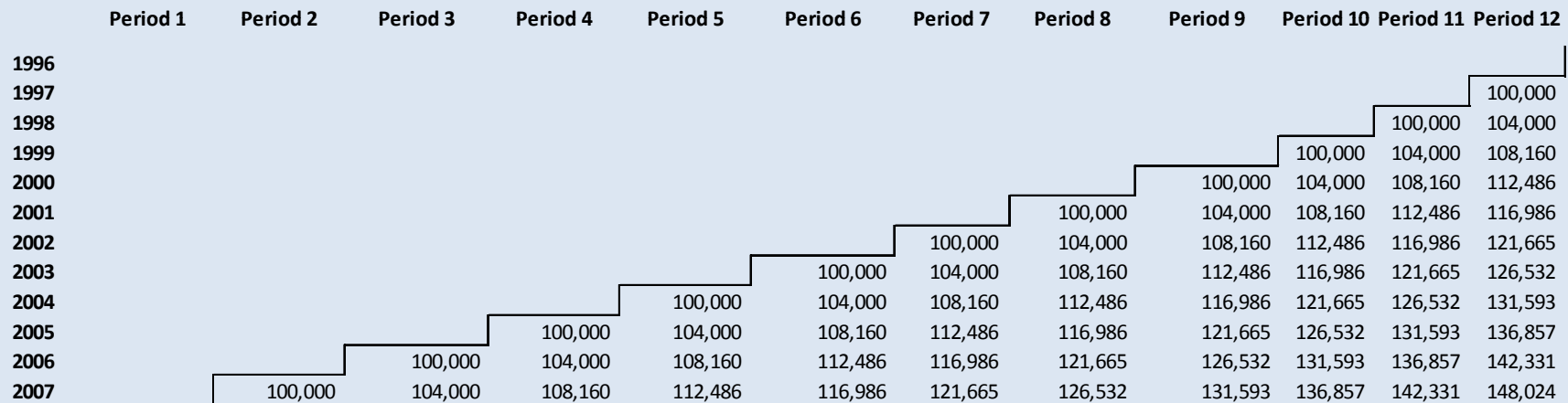
Accident Year Reported

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 | Period 11 | Period 12 | tail |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|------|
| 1996 | 9 | 9 | 2 | 7 | 10 | 10 | 16 | 15 | 9 | -2 | -5 | -2 | 0 |
| 1997 | 18 | 14 | 10 | 4 | 17 | 8 | 7 | 5 | 4 | -1 | -2 | | 0 |
| 1998 | 7 | 7 | 7 | 10 | 7 | 4 | 28 | 14 | 26 | 3 | | | 0 |
| 1999 | 13 | 10 | 8 | 5 | 6 | 8 | 3 | 2 | | 1 | | | 0 |
| 2000 | 29 | 15 | 9 | 1 | 4 | 3 | 1 | | 1 | 1 | | | 0 |
| 2001 | 29 | 34 | 30 | 28 | 26 | 43 | 4 | 10 | 2 | 2 | | | 0 |
| 2002 | 19 | 30 | 29 | 9 | 25 | 25 | 14 | 8 | 2 | 2 | | | 0 |
| 2003 | 21 | 33 | 41 | 16 | 18 | 26 | 15 | 9 | 2 | 2 | | | 0 |
| 2004 | 28 | 30 | 60 | 69 | 37 | 45 | 27 | 15 | 3 | 3 | | | 0 |
| 2005 | 29 | 19 | 21 | 21 | 18 | 21 | 14 | 7 | 21 | 2 | 1 | | 0 |
| 2006 | 18 | 22 | 30 | 19 | 18 | 22 | 13 | 7 | 1 | 1 | | | 0 |
| 2007 | 4 | 5 | 7 | 10 | 6 | 5 | 6 | 2 | 54 | 1 | 1 | 1 | 0 |

Severity by Report Year/Accident Year

Data set for example purposes only – not to be considered typical



Incremental Ultimates

Data set for example purposes only – not to be considered typical

| | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 | Period 9 | Period 10 | Period 11 | Period 12 |
|------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1996 | | | | | | | | | | | | |
| 1997 | | | | | | | | | | | | |
| 1998 | | | | | | | | | | | | |
| 1999 | | | | | | | | | | | | |
| 2000 | | | | | | | | | 100,000 | 104,000 | | |
| 2001 | | | | | | | | 1,000,000 | 208,000 | 216,320 | | |
| 2002 | | | | | | | 1,400,000 | 832,000 | 216,320 | 224,973 | | |
| 2003 | | | | | | 2,600,000 | 1,560,000 | 973,440 | 224,973 | 233,972 | | |
| 2004 | | | | | 3,700,000 | 4,680,000 | 2,920,320 | 1,687,296 | 350,958 | 364,996 | | |
| 2005 | | | | 2,100,000 | 1,872,000 | 2,271,360 | 1,574,810 | 818,901 | 2,554,971 | 253,064 | 131,593 | |
| 2006 | | | 3,000,000 | 1,976,000 | 1,946,880 | 2,474,701 | 1,520,816 | 851,657 | 126,532 | 131,593 | | |
| 2007 | | 500,000 | 728,000 | 1,081,600 | 674,918 | 584,929 | 729,992 | 253,064 | 7,106,032 | 136,857 | 142,331 | 148,024 |

Accident Year Ultimate

- Current Case Incurred
- Case Development from the Report Year analysis – allocate to Accident Year
- True IBNR from Frequency-Severity process

New Issues

- No known claims
- Severity may be determinable/homogeneous
- Potential for lack of coverage
- Hits the entire diagonal at once
- Do you include in overall data in the future

Exposures – Home Counts

| Adjustment: | 20% | 40% | 60% | | Adjusted |
|----------------|--------------|--------------|--------------|--------------|--------------|
| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>Total</u> | <u>Total</u> |
| State 1 | 1,096 | 2,103 | 1,734 | 4,933 | 2,101 |
| State 2 | 4 | 9 | 6 | 19 | 8 |
| State 3 | 1,448 | 1,466 | 582 | 3,496 | 1,225 |
| State 4 | 3,572 | 5,180 | 3,115 | 11,867 | 4,655 |
| State 5 | 3,613 | 4,408 | 2,566 | 10,587 | 4,025 |
| <u>State 6</u> | <u>2,389</u> | <u>4,275</u> | <u>2,425</u> | <u>9,089</u> | <u>3,643</u> |
| Total | 12,122 | 17,441 | 10,428 | 39,991 | 15,658 |

Industry Data

- Method 1: CPSC.gov Drywall Information Center
- Method 2: Import data (100,000 total homes)
- Method 3: Import data (36,000 total homes)

| | Method One | | | Method 2 | | Method 3 | |
|----------------|-----------------------------|--------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Industry Reported Incidents | Allocate Impacted Home # | Company Market Share | # Homes Imported by State | Company Market Share | # Homes Imported by State | Company Market Share |
| State 1 | 669 | 19,060 | 381 | | - | 3,431 | 69 |
| State 2 | 227 | 6,467 | 129 | | - | 1,164 | 23 |
| State 3 | 194 | 5,527 | 111 | | - | 995 | 20 |
| State 4 | 249 | 7,094 | 142 | 14,500 | 290 | 3,887 | 78 |
| State 5 | 2,031 | 57,863 | 1,157 | 85,000 | 1,700 | 25,715 | 514 |
| <u>State 6</u> | <u>140</u> | <u>3,989</u> | <u>80</u> | <u>500</u> | <u>10</u> | <u>808</u> | <u>16</u> |
| Total | 3,510 | 100,000 | 2,000 | 100,000 | 2,000 | 36,000 | 720 |

Frequency / Severity

| | Average of Three <u>Methods</u> | Total <u>Adjustment</u> | Adjusted Market <u>Share</u> | Per Claim <u>Cost</u> | Estimated Gross of <u>Ded Claims</u> |
|----------------|---------------------------------------|----------------------------|------------------------------------|-----------------------------|--|
| State 1 | 150 | 43% | 64 | 100,000 | 6,400,000 |
| State 2 | 51 | 42% | 21 | 100,000 | 2,100,000 |
| State 3 | 43 | 35% | 15 | 100,000 | 1,500,000 |
| State 4 | 170 | 39% | 67 | 100,000 | 6,700,000 |
| State 5 | 1,124 | 38% | 427 | 100,000 | 42,700,000 |
| <u>State 6</u> | <u>35</u> | <u>40%</u> | <u>14</u> | 100,000 | <u>1,400,000</u> |
| Total | 1,573 | 39% | 608 | | 60,800,000 |



Added Adjustments

- Coverage triggers
 - Manifestation states with expiring/new policies
- How does the Pollution Exclusion apply
 - There may only be LAE in some states
- How does ALAE apply
- How do policy deductibles apply
- How do claims/claimants work in these states and for this policy
- How do policy aggregates apply
- Potential for BI Exposure

Statute of Limitations?



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