

# Client Alert

A report  
for clients  
and friends  
of the firm **June 2003**

## Asbestos Claims Impact Equitas Financial Stability

Equitas was set up to reinsure and run off the 1992 and prior years' non-life liabilities of Lloyd's of London syndicates. Its recently announced financial results for the year ended March 31, 2002, continues to call into question its ability to pay future claims.

- Asbestos claims continue to be the greatest single threat to the stability of Equitas. In the last two years, Equitas has increased undiscounted reserves by a total of £ 3.2 billion.
- As of March 31, 2002, gross undiscounted asbestos reserves amounted to £6.4 billion, equivalent to more than 50% of the Group's total gross undiscounted claims reserves.
- A large number of the new asbestos claims have been filed by individuals who were exposed to asbestos but who currently show no physical impairment. Because of the cost of litigation, some U.S. policyholders have entered into inventory settlements with plaintiffs' lawyers, which include all filed claims (sick and non-sick plaintiffs). Equitas has frequently refused to reimburse policyholders for inventory settlements.
- Accumulated surplus after tax decreased by £ 21 million to £ 679 million.
- Solvency margin (accumulated surplus stated as a percentage of net claims outstanding) increased from 9.5 percent to 10.3 percent.
- After taking into account new claims, the number of open pollution claims decreased.

- Equitas' accounts have again been qualified by the auditors because of the uncertainty inherent in long tail asbestos, pollution and health hazard claims, which now account for 70 percent of the Group's discounted liabilities.
- With regard to tobacco related exposures, the Group continues to believe that tobacco claims will not create a significant liability for Equitas, and they have not seen any blockbuster new types of other claims.

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### Client Alert

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