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Association of Bermuda Insurers and Reinsurers

*Bermuda's Class 4s:
Meeting Florida's Catastrophe
Market Needs*

FHCF Users Conference, June 2007



Association of Bermuda Insurers and Reinsurers

- **23 Class 4 Companies**
- **Highly capitalized, distinct regulation**
- **Headquarters in Bermuda with operations in Bermuda, the US and Europe**
- **Worldwide business enterprises**
- **1,500 employees Bermuda; 17,000 worldwide**

ABIR Members

- **ACE**
- **Allied World**
- **Ariel Re**
- **Arch**
- **Aspen**
- **Axis**
- **Catlin**
- **Endurance**
- **Flagstone Re**
- **Harbor Point**
- **Hiscox**
- **IPC Re**
- **Lancashire**
- **Max Capital Group**
- **Montpelier Re**
- **New Castle Re**
- **Olympus Re**
- **Partner Re**
- **Platinum Re**
- **PXRe/Argonaut**
- **Renaissance Re**
- **Validus Re**
- **XL Capital**

Major International Market

- ***Class of 1986:***
 - Excess lines
 - Ace and XL
- ***Class of 1993:***
 - Property cat specialists
 - 8 carriers
 - 3 remain as independent
- ***Class of 2001+:***
 - Multi line
 - 9 carriers
- ***Class of 2005:***
 - Property cat specialists
 - Multi line
 - Side cars
 - 11 licensed

Foundation for success . . .

- **Un-harnessed entrepreneurial spirit**
 - **Support of capital markets**
- **Diverse, talented underwriting pool**
 - **Center of excellence, sparking from diversity**
- **Open minded government**
 - **British foundation, responsiveness**
- **Reputation for integrity**
 - **Smallness helps**

World Wide Rankings

- **Standard and Poor's reinsurer rankings:**
 - **Bermuda 13 of the top 40**
 - **More than either Europe or the US**

- **Benfield top 20 P/C Reinsurers**
 - **Bermuda 7 of the top 20**
 - **Tied with Europe for 7 of the top 20**

*
2005 Data, 2006 S & P Report

The Top 5 Domiciles

- **United States:** \$36.5 billion
- **Germany:** \$34.6 billion
- **Bermuda:** \$16.2 billion
- **Switzerland:** \$15.6 billion
- **United Kingdom** \$10.6 billion

AM Best aggregate reinsurer premium \$160 B

Note: 28 of 44 US reinsurers, owned by non-US parents; Standard and Poor's 2006 Global Reinsurance Highlights report; AM Best August 06 Report P/C and Life

Public Companies

- **82% of ABIR members publicly traded, New York or London**
- **94% of ABIR member surplus subject to SOX/SEC rules**

*2005 surplus data, 2005 membership data

Bermuda Market Impact

- **Largest property cat reinsurance market**
 - **Supplies 40% of the US market**
 - **Supplies 50% of FL capacity**
 - **18 of the top 30 Florida cat reinsurers are Bermudian**
 - **11 of the 18 increased Florida capacity in 2006**
- **25% of Lloyds capacity**
- **Important in large commercial risk market**
- **Diversifying reinsurance market**
- **Global players**

*Market Diversification**

- **AM Best, top 10 groups 72% of market**
- **Bermuda carriers are now 15 of the top 35, with two in the top 10**
- **Growth of Bermuda leads to market diversification**
- **Good for the cedents**
- **Bermuda carriers lead to market choice, less concentration**

*AM Best Reinsurance Report, August 06

US Catastrophe Payments Bermuda Carriers

- **2005 Hurricanes:**
 - Estimated \$17 B payments
- **2004 Hurricanes:**
 - Estimated \$5 B payments
- **2001 Terrorist attacks:**
 - Estimated \$2 B payments

* Dowling and Partners; Note, AM Best reinsurance data - \$11 billion for Bermuda

Non-US Capital Raising

- **Post Katrina:***
 - **\$32 billion in capital raised**
 - **\$21 billion of that to Bermuda**
 - **\$10 billion to Bermuda start ups**
 - **\$5-6 billion in “side cars”**
 - **\$5 billion in cat bonds**

* Dowling and Partners; Lehman Brothers; Renaissance Re, Benfield, RAA, 2006/2007 Reports

Cat Bond issuance and Side Car creation continues

What a difference a year makes . . .

Benfield Bermuda reinsurance reporting group:

- **2006 CY gross premium: \$58.4 B**
- **2006 CY shareholders' equity: \$64 B**

Sidecars: Net Positive

- **Good:**
- **New capital**
- **Dedicated to specific risk**
- **Managed by cat underwriters**
- **Quickly deployed**
- **Fully collateralized**
- **Bad:**
- **Short term commitment based on price**
- **Limitations on cover**

Cat Bonds and more . . .

- **\$10 billion in Cat Bonds over last decade, many of them still providing protection**
- **\$5 billion issued 2006**
- **That's double the number issued last year**
- **Additional ILW market**
- **Derivatives trading begins . . . again**

Enough About Supply . . .

- **2006 demand increase enormous:**
 - Rating agency, new scenario tests, more capital to support same amount of business
 - Two years of adverse loss experience
 - Cycles -- different frequency assumptions
 - Cat modeling changes, RMS reports 1/250 year event test increased \$55 billion
 - Capital to support that amount \$82 billion

So what is Capacity?

- **World Insurance Forum survey (2005)**
- **Reinsurance broker commentary 2007**
- **Reinsurance + securitizations + ILW's by non insurers like hedge funds + other**
- **Industry retentions: personal lines and commercial lines**
- **\$50-\$60 billion private sector reinsurance capacity attaching to large US event (on top of retentions)**

2007 Broker/Carrier Reports

- **Reaching market equilibrium**
- **Post KRW adjustment complete**
- **Cat reinsurance prices fall 10 to 15%**
- **Capacity increased by up to 25%**
- **Slight excess of capacity for Florida**
- **Capacity “healthy”**
- **Shortfalls not expected**

Florida Changes

- **More buying higher limits excess of Cat Fund than before**
- **Buyers looking for subsequent event covers**
- **More interest in commercial coverage**
- **Some interest in credit protection coverage for Cat Fund default**
- **Exploring multiple year covers**

Florida policy makers

- **What can you do?**
 - **Provide insurers with rating freedom – prices must be based on hurricane risk!**
 - **Stop creating political risk**
 - **Continue to promote and fund loss reduction measures**
 - **Control land use**
 - **Assist targeted consumers with financial aid to pay risk based premiums**

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