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# The Role of Bermuda Insurers in Meeting U.S. Business and Consumer Needs

The Senate Finance Committee may be presented with proposals from certain U.S. insurance carriers to raise revenues through some sort of tax on international reinsurance operations. If such action is taken on behalf of domestic insurance companies, it will have a negative effect on the cost and availability of insurance in the United States.

When insurance companies provide insurance coverage to U.S. businesses and households, they incur substantial risk. The typical practice is to transfer a portion of that risk to other insurance companies in the form of reinsurance. The originator of the insurance policy pays premiums to a reinsurance company that assumes a portion of the insurance risk. Just as U.S. companies and the federal government depend on foreign providers of capital to help fund domestic debt needs, the U.S. insurance market depends on foreign sources of insurance capital to help fund domestic insurance needs. The U.S. has always been a large net importer of insurance; that is, we soak up insurance capacity from around the world.

The U.S. insurance market has been buffeted in recent years by huge catastrophes that have strained the ability of the global insurance industry to provide sufficient capital to fund insurance risk for U.S. consumers. Foreign reinsurance companies – including to a great degree those that are domiciled in Bermuda -- have played a critical role covering claims and making capital available to help underwrite risk in the U.S. The U.S. insurance market could not provide adequate coverage to Americans without the availability of foreign reinsurance capital.

Over the years, Bermuda reinsurance companies have specialized in providing low-frequency, high-severity risk reinsurance in the U.S. market to cover natural disasters. Bermuda reinsurers have made $25 plus billion economic contributions to the U.S. in the last 6 years with catastrophe claim payments for terrorism and natural disaster events.

Bermuda reinsurers were created to meet U.S. and worldwide capacity demands - to fill market voids. These carriers have performed as a “shock absorber” meeting U.S. economic needs. They were established via the streamlined Bermuda licensing process in order to meet U.S. customer needs quickly. This could never have been accomplished in a timely fashion under the U.S. state regulatory system which comprises multiple jurisdictions with expensive and slow moving regulatory structures.

The attached paper summarizes the recent history of the U.S. market illustrating the critical importance of Bermuda reinsurance capital.

## Recent History of U.S. Insurance Market

1. **<u>1985-1986 U.S. Business Owners Need Excess Liability Coverage</u> . . . Bermuda Insurers Are Created to Meet the Shortfall.**

   In the mid-1980's American consumers were reeling from a shortage in liability insurance coverage as insurers dramatically increased premiums or withdrew from specialty liability classes. Day care centers, schools, small business and large businesses all find insurance coverage increasingly non-renewed and prices increased. The insurance market turmoil led to countrywide expansion of state commercial lines, joint underwriting associations, and a vigorous debate on tort reform. Nearly 100 leading businesses joined together to form two specialty liability writers based in Bermuda. Creation of a similar U.S. company failed. By 2006, three Bermuda insurers were among the top 10 writers of U.S. professional liability for directors and officers, and Bermuda carriers provided 25 percent of the primary and reinsurance market for medical malpractice.

2. **<u>1992 Hurricane Andrew Strikes South Florida, Nine Insurance Companies Go Bankrupt and Insurers Search for Catastrophe Reinsurance as Traditional Providers Retrench</u> . . . Eight Bermuda Catastrophe Reinsurers Are Created to Meet U.S. Coastal Market Needs.**

   Prior to Andrew the most catastrophe reinsurance any U.S. insurer sought for any single event was $100 million; following Andrew's record setting hurricane claims, insurers then sought $500 million and more in per event reinsurance coverage. Florida's insurance market was in turmoil as the largest home insurers were recapitalized, exited the state, or decided to reduce writings. Fifteen years later, Bermuda reinsurers now provide more than 40 percent of the U.S. property catastrophe reinsurance coverage.

3. **<u>2001 World Trade Center Attack and Resulting Insurance Capacity Crises</u> . . . Nine Bermuda Commercial Lines Insurers are Created to Meet U.S. Market Need.**

   The terrorist attacks in the U.S. produced the largest insured loss known at the time -- $35 billion -- and it fell across all lines of commercial business: property, workers compensation, business interruption, commercial auto, general liability, aviation. Nationwide commercial insurance prices rose and coverage became scarce in key urban areas. Insurers struggled to put in place new underwriting technology to measure aggregation of losses across lines of business from a single event. Congress responded with creation of the Terrorism Risk Insurance Act (TRIA). KMPG estimated that global reinsurance capital was reduced by 35 percent as a result of the terrorist attacks, the coincidental liability loss reserve adjustments, and the post attack stock market decline.

4. **<u>2004-2005 Eight U.S. Hurricanes in Two Years Devastate Florida, Louisiana and Mississippi; Hurricane Katrina Alone Generates $45 Billion in Insured Losses</u> . . . Nine New Bermuda Based Insurers are Created to Meet Increased Demand for U.S. Property Catastrophe Reinsurance.**

   Florida was crisscrossed by four strong hurricanes in a single year. Katrina becomes the worst ever U.S. natural disaster event with insured losses of $45 billion. A major catastrophe modeling firm projected future losses from the increased storm frequency would cause average annual insurance losses to increase by 45 percent in the Gulf Coast, Florida and Southeastern U.S. Coastal insurance markets from Massachusetts to Texas experience price increases; insurance coverage was widely cancelled as insurers responded to: 1) the 2004 and 2005 losses, 2) changes in the expectation of future risk and 3) the new capital requirements imposed by rating agencies. Ten billion dollars in capital was raised for new Bermuda companies; and $11 billion was raised to bolster the capital for existing companies - both serving to meet U.S. coastal insurance market needs.

5. **<u>Major U.S. and European Reinsurers Have Exited the Market (or merged) Since 1999</u> … Without the New Bermuda Reinsurers (and their U.S. Subsidiaries) the U.S. Reinsurance Market Capacity Would Have Been Substantially Diminished; the Market More Concentrated.**

   In the wake of the 9/11 terrorist attacks, leading U.S. commercial insurers which operated substantial U.S. reinsurance operations left the market citing concerns about aggregations of risk from their commercial and reinsurance businesses. Several leading European reinsurers having faltered from the combined effects of 9/11 and bad underwriting decisions left the market entirely, or closed their U.S. operations. Bermuda carriers provided 25 percent of Lloyds of London capacity.

6. **<u>Bermuda Insurers and Reinsurers Have Paid $25 Billion in U.S. Property Catastrophe Claims in the Last Six Years</u> . . . The largest share of any non-U.S. market.**

   Bermuda's reinsurers are the largest providers of U.S. property catastrophe reinsurance protection. Eighteen of the top 30 reinsurers protecting Florida risk are Bermuda companies. Bermuda carriers provide 50 percent of the reinsurance to Florida based insurers. Bermuda carriers provide 61 percent of the reinsurance purchased by the Texas Windstorm Insurance Association and 27 percent of the reinsurance purchased by the California Earthquake Authority.

7. **<u>Top Ten Global Reinsurers Have 72% of the Market</u> . . . Reinsurance Buyers Note Concern About Market Concentration.**

   The growth of the Bermuda reinsurers will lead to further market diversification, providing the benefits of increased competition to reinsurance buyers. Businesses that buy insurance and reinsurance oppose tax legislation that would restrict capacity from non U.S. carriers.

8. **<u>U.S. Crop Insurance . . . Bermuda Companies Make the Reinsurance Market Work</u>**

   Bermuda's carriers provide 56 percent of the insurance and reinsurance for U.S. crops; covering all types of U.S. agricultural commodities for farmers across the country.