

Bermuda's Support of US Cat Exposed Markets

Bradley Kading, December 2011

Mark Twain

“You can go to Heaven if you want to, I’d druther stay here (Bermuda).”

Mark Twain, 1909

Bermuda's American Partnership

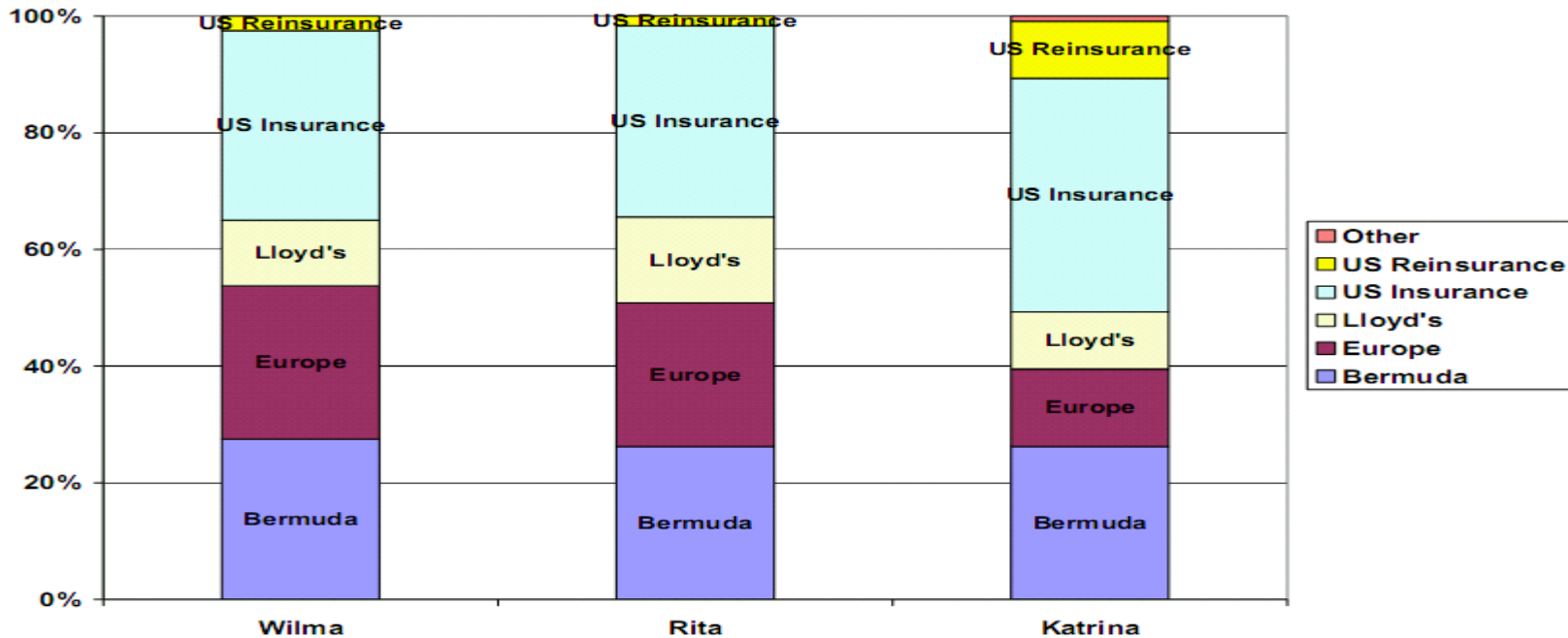
- **400 years and counting**
- **Rescue of the Jamestown Colony**
- **Gunpowder to save George Washington's army**
- **Aiding the North and the South in the Civil War**
- **Anti-Nazi submarine warfare**
- **Cold War mid-Atlantic spying**
- **Insurance market support**

Review

- **Reinsurers commitment to US**
- **Benefits of reinsurance**
- **Reinsurance underwriting, capacity**
- **Cost drivers**
- **FL Cat Fund**

More than 60% of Katrina/Rita/Wilma Losses Paid by International (Re)Insurers

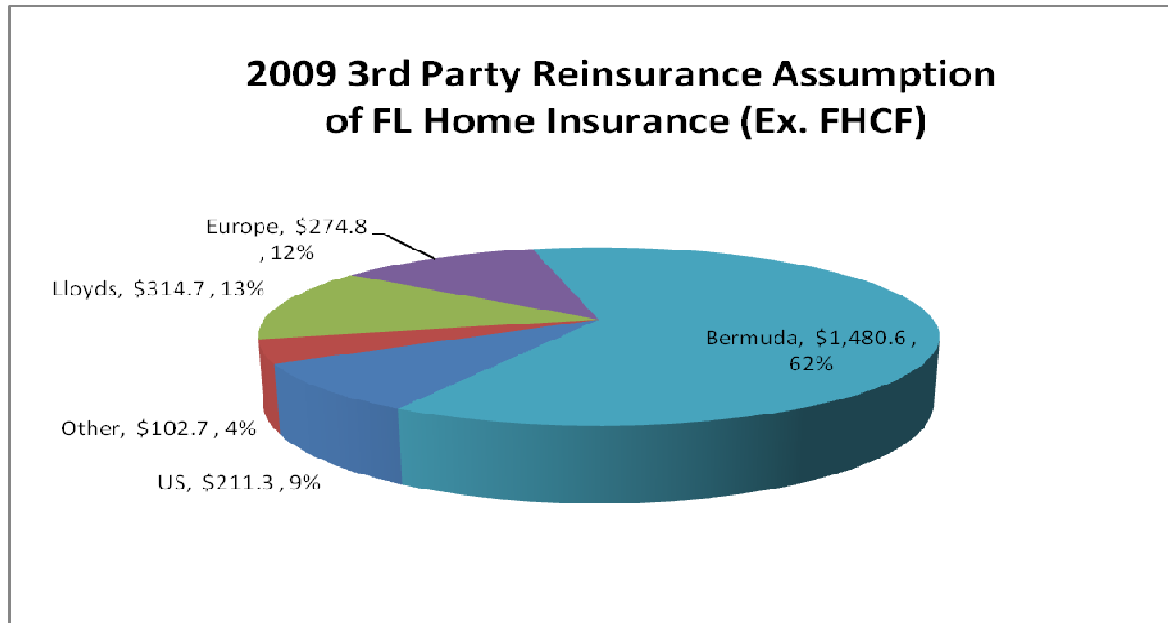
Figure 4. Regional Distribution of 2005 Hurricane Insurance Payments



Source: J. David Cummins, "The Bermuda Insurance Market: An Economic Analysis," 2008.

Florida Cats

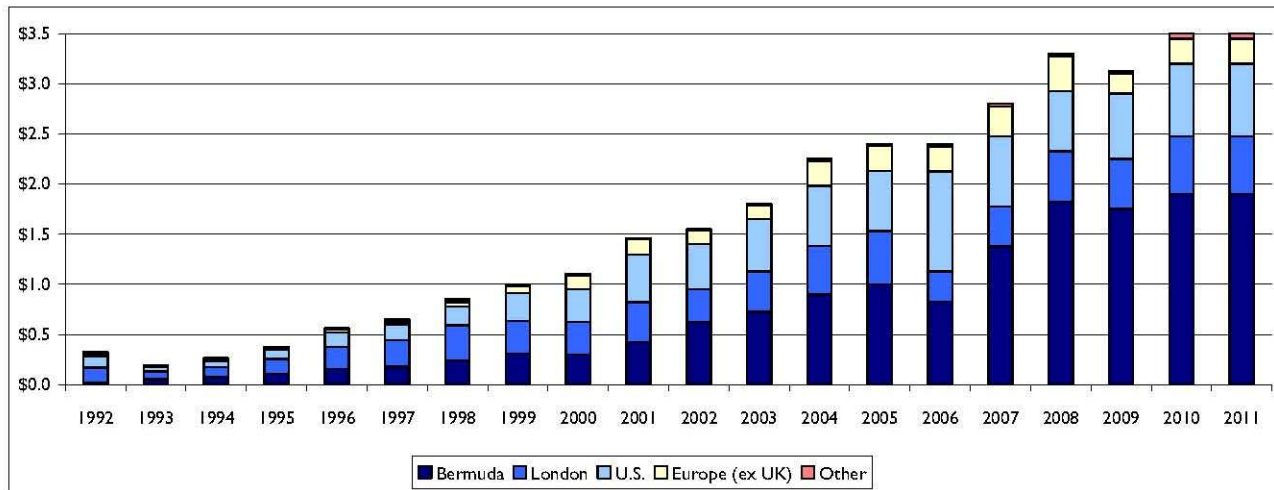
Florida Insurers: 91% Private Reinsurance is Non-US



Source: ScheduleF.Com: Dowling & Partners Securities, L.L.C. 4/23/2010; private sector reinsurance, does not include Florida Hurricane Catastrophe Fund; Home insurance defined to be Florida domesticated insurance companies

US Cat Reinsurance Supply: Reliable, Growing

Property catastrophe capacity



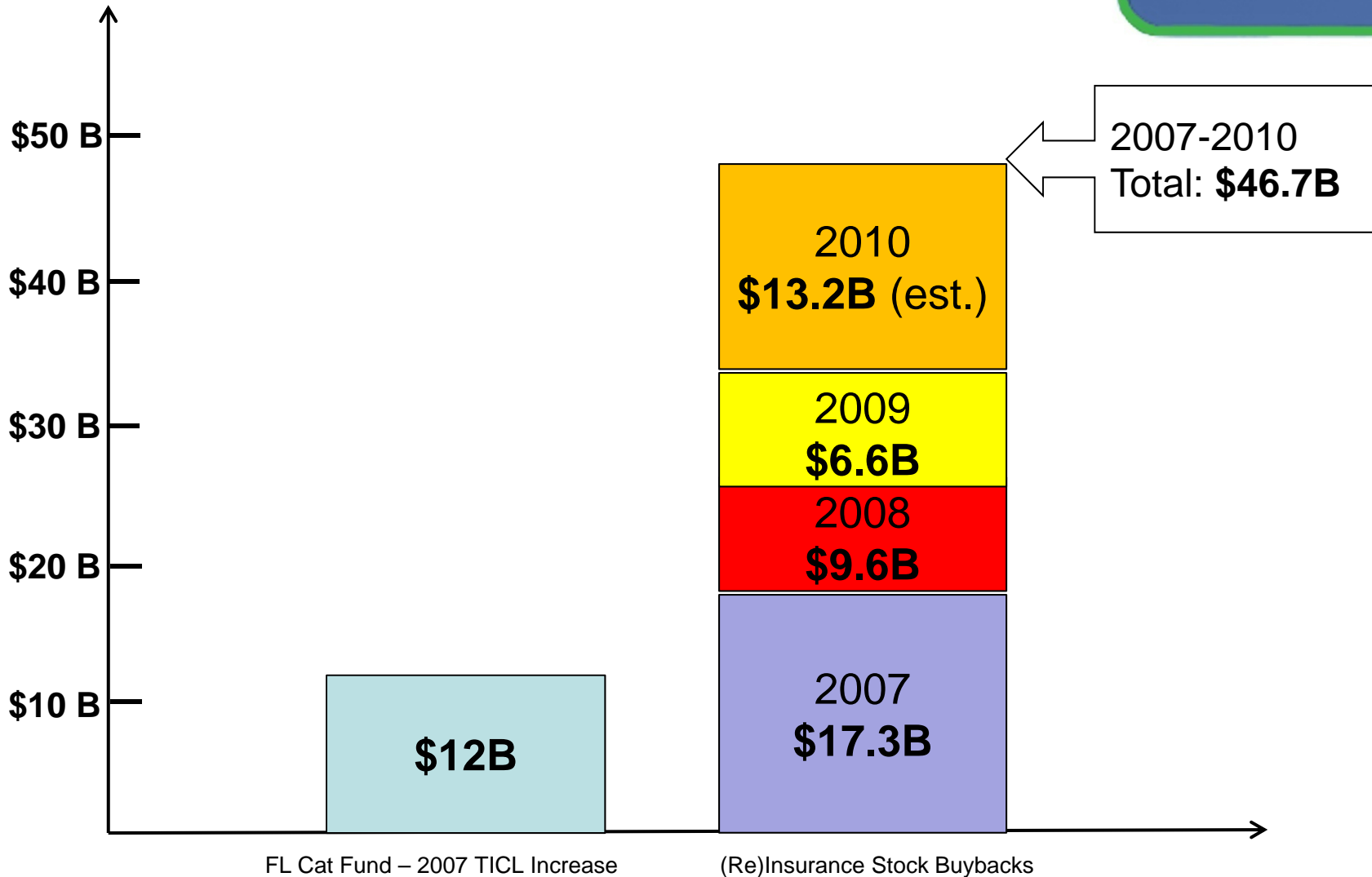
Note: Size of largest U.S. placement in \$Billions, based on maximum amount exposed in any zone by a single ceding company program, including aggregate excess contracts. Excludes Cat bond capacity and side cars; includes National Indemnity. Market regions are shown by underwriting office, not domicile.

Source: Holborn Perspectives: The 2011 Reinsurance Market: Managing Exposures and Expenses, January 1, 2011; Association of Bermuda Insurers and Reinsurers (ABIR) February 2011

Cost Drivers

- **Supply and demand**
- **Global diversification**
- **Loss reduction/mitigation**
- **Political risk – demand instability**
- **Ceding insurer credit issues – premium defaults**

*(Re)Insurance Excess Capital: Since 2007**

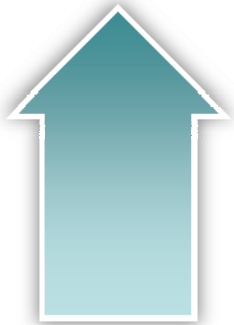


*Dowling & Partners (Re)Insurance Composite Historical Share Repurchases

Reinsurance Supply - Elasticity of Private Capital

1993-1994

Raising \$



~\$7B raised in
~1 year

1995-2000

Returning \$



Buybacks and
dividends

2001

Raising \$



~\$20B raised in
~4 months

2002-2005

Returning \$



Buybacks and
dividends

2006

Raising \$



~\$34B raised in
~4 months

2007-2010

Returning \$



~\$66B in buybacks
+ dividends

2006 capital
raise exceeded
2005
storm losses

Florida's
Hurricane Cat
Fund increased
by \$12B in 2007

Bermuda's (re)insurers cover the globe

Of reported claims liabilities from 2010 and 2011 catastrophes, Bermuda (re)insurers covered:

- 29% of the reported liabilities for the international reinsured share of the Japanese earthquake
 - 25% from the Gulf of Mexico oil spill
 - 37% from Europe's Windstorm Xynthia
 - 51% from New Zealand's earthquakes
 - 38% from Chile's earthquake.

... But first we cover Florida:

- 62% of the private sector reinsurance to Florida's domestic insurers
- 25 of the top 41 Florida property reinsurers underwrite in Bermuda.

Reinsurance Reliability

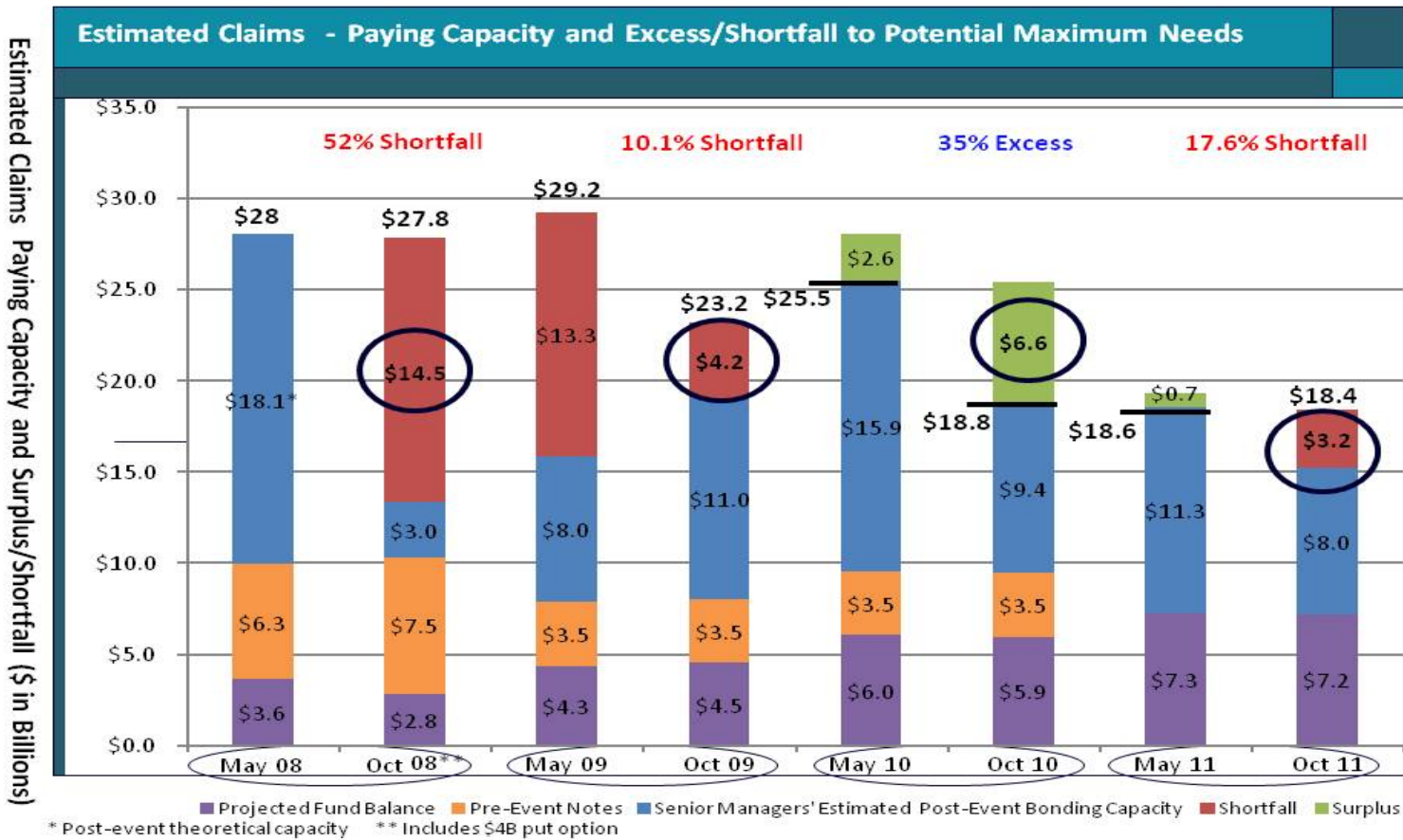
- **Private reinsurers:**
 - provide reliable, steady and growing capacity
- **When there are shock losses:**
 - it is not supply of reinsurance that falls, but demand for reinsurance that jumps
- **We have an excellent track record:**
 - of meeting increased demand
 - of raising capital when needed
 - of paying claims, we don't have the default risk of the Florida Cat Fund; 3 of the last 4 years Cat Fund has had funding shortfall!

Re Underwriting 101

- **A client with poor financials, will find it harder to buy reinsurance:**
 - **The company needs more capital!**
- **Inadequate capital:**
 - **creates moral hazard in risk selection, reserving, claims handling**
- **Fail to pay premiums: prices increase, coverage becomes limited – due to credit risk**
- **WITH NO HURRICANES in recent years 9 insurers insolvent in Florida, prior to failure they stopped paying reinsurance premiums – What's going on?**

Reinsurers vs. FL Cat Fund

- **Regulation:**
 - Subject to strict solvency regulation; must have capital on hand to pay claims
 - Risk based pricing
- **Capital:**
 - Far exceeds regulatory requirements
- **Dependability:**
 - Spotless claims record despite shock losses, no pro rata payment
- **Diversification:**
 - Eggs not all in one basket
- **Political manipulation:**
 - Remote



Source: Florida Hurricane Catastrophe Fund

Current FL Cat Fund Issues

- **3 of the last 4 years the Cat Fund would have been unable to meet its obligations**
- **20% shortfall this year, \$3.2 B deficiency could be twice that per Goldman Sachs**
- **Cat Fund advises 6 of top 15 FL insurers would go insolvent if this occurred**
- **Governor now supports “right sizing”**
- **Cat Fund proposes legislative fix, nominal cost to consumers**

Mitigation – Perpetual Reinsurance



WeatherPredict Consulting Inc



Association of Bermuda Insurers and Reinsurers

- **22 Companies**
- **Highly capitalized, distinct regulation**
- **\$62 Billion Gross Written Premiums,**
- **\$90 Billion Surplus**
- **Worldwide business enterprises**
- **Principal underwriting operations in Bermuda, Europe and the United States**

ABIR Members

- **ACE**
- **Allied World**
- **Alterra**
- **Ariel Re**
- **Arch**
- **Aspen**
- **Assured Guaranty**
- **Axis**
- **Catlin**
- **Endurance**
- **Flagstone Re**
- **Hardy**
- **Hiscox**
- **Lancashire**
- **Montpelier Re**
- **Partner Re**
- **Platinum Re**
- **Argo Group**
- **Renaissance Re**
- **Torus**
- **Validus Re**
- **XL Capital**

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