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Association of Bermuda Insurers and Reinsurers

www.ABIR.bm

***Bermuda's Class 4 Insurers:
Who are we? Why are we here?***

June 2007

International Reinsurance Summit



Our ears are burning . . .

Wild West . . .

- **“Bermuda is not the Wild West, but it is a lot less restricted [with regards to regulation] than London.”**
 - » Anthony Hilton
 - » Evening Standard
 - » January 2006

Friends like these . . .

When asked about future consolidation in the industry, Aigrain said some of the smaller Bermudan insurers "had no right to exist They have no franchise and no resilience and when the wind blows they tend to go with the wind.

"They would have to consolidate among themselves, because no one else would have any interest in acquiring them," he added.

– Jacques Aigrain, Reuters, March 2006

Here to stay . . .

- **But, says Bob Hartwig of the Insurance Information Institute, an industry group, “Bermuda is here to stay.” Bermuda was under pressure several years ago to tighten regulatory standards, but he and others say it has done so satisfactorily.**
 - » **Bob Hartwig, III**
 - » **Economist, January 2006**

Lloyd's and Bermuda

- **Lord Levene denied the Bermudan insurance market posed a threat to London. "This is not a great contest," he said. "Those two markets are inter-dependent and actually co-operate very well."**

**Lord Peter Levine, Chair, Lloyds
Daily Telegraph, April 2006**

Association of Bermuda Insurers and Reinsurers

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

ABIR Members

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

World Wide Rankings

- **AM Best top 35 reinsurers:***
 - Bermuda 15 of top 35
 - Europe 11 of top 35; US 4 of top 35
- **Standard and Poor's reinsurer rankings:***
 - Bermuda 13 of the top 40
 - More than either Europe or the US
 - Bermuda 3 of top 10 P/C reinsurers
- **Benfield top 20 P/C Reinsurers***
 - Bermuda 7 of the top 20
 - Tied with Europe for 7 of the top 20

*2006 reports

Bermuda Snapshot

Insurance vs. Reinsurance

Property vs. Casualty

Insurance vs. Reinsurance

- This Group: 35% vs. 65%
- Excluding 100% reinsurers: 50% vs. 50%
- 6 largest companies: 47% vs. 53%

Property vs. Casualty

- This Group: 57% vs. 43%
- Excluding 100% reinsurers: 54% vs. 46%
- 6 largest companies: 49% vs. 51%

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

What a difference a year makes . . .

- **Benfield reinsurance reporting group:**
- **2006 CY gross premium: \$58.4 B**
- **2006 CY shareholders' equity: \$\$64 B**
- **2006 aggregate net income: \$11.6 B**

Benfield quarterly report, March 2007
Reporting bases differ for two slides

Public Companies

- **82% of ABIR members publicly traded, New York or London**
- **68% of ABIR members traded on US Stock Exchanges, Subject to SOX and SEC rules**
- **94% of ABIR member surplus subject to SEC rules**

*2005 surplus data, 2005 membership data

Class 4 Market Impact

- **Largest property cat reinsurance market**
 - **Supplies 40% of the US market**
- **Growing casualty market:**
 - **3 of the US top 10 professional liability**
- **Important in large commercial risk market:**
 - **4 of the US top 25 surplus lines carriers**
- **Supply 25% of Lloyds 2007 capacity**
- **Diversifying reinsurance market**
- **Global players**

*Market Diversification Reinsurance**

- **AM Best, top 5 groups 52% of market**
- **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

Market Concentration

- **Top 5 carriers AM Best: 4 of 5 European**
- **Top 10 carriers AM Best:**
 - **4 European**
 - **3 US**
 - **2 Bermuda**
 - **1 Canada**

*AM Best 2005 data, top 35 report

Non-US Capital Raising

- **Post Katrina:***
 - **\$31 billion in capital raised**
 - **\$21 billion of that to Bermuda**
 - **\$10 billion to Bermuda start ups**
 - **\$5-6 billion in “side cars”**
 - **\$4-5 billion in cat bonds**

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

Cat Bond issuance and Side Car creation continues

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

Class 4 Regulatory Recalibration

- **Distinctive, heightened regulatory standards**
- **Commitment to IAIS core principles**
- **Risk based capital**
- **Stress and scenario testing**
- **Public financial statements**
- **Human resources**
- **Risk based financial examinations**

2008 Work to Come:

- **Economic capital modeling**
- **Group supervision**
- **Class 3 review**
- **New regulatory code**
- **Solvency II implications**
- **Regulatory equivalency US and Europe**

S & P: Bermuda v. London

Bermuda:

- **Momentum, place to be**
- **Tax rate**
- **Speed to market**
- **Intensity of regulation**
- **Regulatory turnover**
- **Service quality**
- **US market access**
- **Dominant in key lines**
- **Lower brokerage**

London:

- **Global financial center**
- **Incumbent industry leader**
- **Distribution capabilities**
- **Breadth of business**
- **EU market access**
- **Industry support services**
- **Infrastructure depth**
- **Leading edge regulation**
- **Lloyd's capital efficiency**

An ABIR member . . .

Positives:

- **Laboratory for innovation**
- **The place to be**
- **Technology lead**
- **Professionalizing underwriting**
- **Entrepreneurial and nimble**

Negatives:

- **Can't be a consumer market**
- **Expensive**
- **Resource constraints**
- **Can't be under one roof**

Why Bermuda?

- **Unharnessed 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**

Why Bermuda?

- **Avoid regulation?**
- **Avoid taxation?**
 - **You won't avoid regulation--**
 - **You will be regulated to meet IAIS international regulatory standards**
 - **Making a decision solely based on tax--**
 - **Bad way to run a business**

Why Bermuda?

Create your company in Bermuda to be part of a thriving, entrepreneurial center of excellence in the insurance business!

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