

Press Briefing Hurricane Ike – Role of Reinsurance

September 12, 2008

For Immediate Release: The global reinsurance market plays an integral role in spreading US hurricane risk around the world. Without it, the risk would be concentrated in a single state (or geographic region) or in the US with the result being higher insurance costs for US consumers. The reinsurers of US hurricane risk are predominantly located outside of the United States with a very large number located in Bermuda. Many of these reinsurers are members of the Association of Bermuda Insurers and Reinsurers (ABIR). Below you will find some background information that may be useful to you in analyzing the impact of the hurricane on insurance markets.

ABIR president Brad Kading noted today:

1. Bermuda's insurers and reinsurers understand property catastrophes including hurricanes. We understand the tragedy they create for families who lose loved ones or lose their homes. Hurricane Ike has the potential to cause a tremendous loss of life. ABIR member employees themselves are exposed to hurricane risk in Bermuda and they are familiar with what families and businesses need to do to protect themselves against these storms and to recover from those losses. We offer our heartfelt sympathy to those affected so severely by Hurricane Ike in Texas and in the Caribbean prior to the US landfall.
2. Bermuda's insurers provide an estimated 66% of the reinsurance purchased by the Texas Windstorm Insurance Association (TWIA). The TWIA protects the property most exposed to hurricane damage in Texas. It is entirely possible that TWIA will collect on the entire amount of its approximate \$1.5 billion in hurricane reinsurance coverage. If so Bermuda's carriers will pay approximately \$1 billion of the TWIA reinsurance recovery. This will directly aid Texas taxpayers because without this reinsurance there would be a bigger hit to the state treasury based on the current TWIA assessment framework.
3. Based on an analysis of reinsurance premium from insurers most exposed to hurricane risk in Texas, Bermuda's insurers will provide an estimated 45% of the reinsurance claims that will eventually be paid to insurers for damage caused by Hurricane Ike. It is impossible to accurately forecast the total insured losses for Ike at this time. All loss estimates at this time are purely hypothetical. However, the more severe Ike's damage is, the more likely it will be that reinsurers pay a larger share of the actual insured hurricane damage. For example, if Ike's insured losses are \$10 Billion, insurers will primarily pay for these costs (with exceptions including the TWIA payment noted above). If Hurricane Ike's insured losses are \$25 Billion, reinsurers may pay \$10 to \$15 billion of the eventual Hurricane claims. Based on these estimates Bermuda reinsurers' share of these losses may then be \$4 to \$7 billion.
4. In the period from 2001 to 2008, Bermuda insurers have paid nearly \$25 billion in insured and reinsured US property catastrophe losses. These reinsurers have remained financially strong despite these losses and these reinsurers have remained committed, and indeed have expanded, their capabilities to provide protection to US insurers and their property insurance clients. Bermuda's insurers

- and reinsurers paid an estimated \$17 billion in claims in 2005 for Hurricanes Katrina, Rita and Wilma. These reinsurers in turn in 2006 -2008 continued to provide protection to support US consumers and expanded their capacity (either through their own underwriting capacity or via capital markets resources) to provide even more protection to US consumers.
5. It is estimated that following Hurricane Katrina, that Bermuda reinsurers paid out enough to rebuild 45,000 homes in Louisiana and 24,000 homes in Mississippi.
 6. The lessons of the last decade indicate that Bermuda's reinsurers, and global reinsurers generally, are: financially strong, capable of absorbing enormous losses, capable of raising capital when needed and committed to continuing to provide US property insurance and reinsurance protection.
 7. Bermuda's reinsurers are well regulated by the Bermuda Monetary Authority and have very high financial strength ratings and are well capitalized to absorb these losses. Losses such as these are expected by reinsurers. Reinsurers will reimburse their US insurance company clients promptly as claims are submitted. Reinsurers are financially strong enough to pay all these claims and more.
 8. ABIR has 23 member insurance companies, all based in Bermuda. 14 of these companies have US subsidiary insurance companies. These US subsidiaries will also write US insurance for hurricane risk. Thus many ABIR members will be paying claims both from their US subsidiaries and their Bermuda parent corporations.
 9. Important hazard mitigation statistics:
 - a.. As a result of a stronger building code passed by Florida after Hurricane Andrew (1992), the number of claims for property damage was reduced by 60%, and losses were reduced by 42%, when another major hurricane struck the state in 2004 (Hurricane Charley closed claim study, Institute for Business and Home Safety, 2004).
 - b. It is estimated that adoption of hazard mitigation measures by every homeowner would reduce hurricane property losses caused by a 1/100 year storm by 61% in Florida, 44% in South Carolina, 39% in New York, and 34% in Texas (Wharton University, Managing Large Scale Risks, March 2008).
 10. ABIR members employ more than 10,000 people in the United States.

Note: Market information contained in this report is drawn from material provided by Credit Suisse, Dowling and Partners and Morgan Stanley.

Note: Reinsurers reimburse their client insurers for losses from hurricanes pursuant to reinsurance contract provisions. Reinsurers do not pay consumer claims directly.

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