

Bradley Kading

Association of Bermuda Insurers and Reinsurers

www.ABIR.bm

***Bermuda's Class Fours:
Shaping International
Regulatory Standards***

June 2007

Insurance Day Bermuda 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

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**

Bermuda

“Worries about regulatory standards in offshore centres don’t apply to Bermuda, the world’s largest offshore reinsurance centre and the top source of non-US reinsurance for the US.”

“Regulatory standards are high in Bermuda.”

**Geoffrey Bell, Executive Secretary, G30
Global Risk Regulator, 2/06**

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**

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

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%

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 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

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

Environmental Change:

- **EU reinsurance directive**
- **EU Solvency II**
- **US collateral alternatives**
- **US federal regulation debate**
- **IASB and international accounting standards**
- **Bermuda's growth in international insurance and reinsurance markets**

Reinsurance Domiciles

- **More than 90% of reinsurance premiums written in eight centers: Bermuda, France, Germany, Ireland, Japan, Switzerland, United Kingdom and the United States**
- **Can these 8 centers create a harmonized reinsurance regulatory regime?**

G 30 --Offshore Centers

- **Protect against global arbitrage**
- **Reputational risk to reinsurers**
- **Financial Stability Forum concern**
- **International Monetary Fund concern**
- **IAIS standards must be applied**
- **Tighten regulation; improve financial reporting and disclosure, adopt international standards**

G 30 - Sanctions

- **If jurisdictions don't raise standards:**
 - **Only allow credit for reinsurance when placed with reinsurers in a domicile that meets international standards**

G 30 - Regulatory Guiding Principles

- **Regulation should support global capital and risk management supervision**
- **Market discipline is as important as regulation**
- **Future reinsurance capacity from capital markets**
- **Regulation must focus on risk based models and capital measurement**
- **Regulation should be limited to risk based capital adequacy, risk management and governance**

G 30 - Regulatory Recommendations

- Regulation should be on a consolidated basis, focus on the “totality” of risk and financial condition
- Regulation must be “harmonized” and “streamlined”
- “Mutual recognition” should be the goal
- IAIS should be empowered to promote harmonization and mutual recognition
- Offshore centers must have a supervisory code of conduct that includes comprehensive and transparent regulation in order to be included
- Eliminate collateral requirements
- Regulators should promote good risk management
- Capital requirements should be risk based and set on a group basis; regulatory controls tied to deterioration

G 30 - Disclosure Recommendations

- **Create best practices disclosure framework:**
 - **Corporate and risk governance**
 - **Risk factors**
 - **Quality of risk management**
 - **Quality of risk models**
 - **Stress testing, worst case**
 - **Financial risk exposures, non insurance**
 - **Availability/quality of capital**
- **Industry should create this framework via existing trade groups**
- **Regulators should push adoption of risk framework**
- **IAIS should set standard to limit credit for reinsurance to reinsurers that comply with framework and IAIS standards**
- **Risk disclosure framework should evolve over time**
- **Disclosure framework should be joined with educational program to improve market knowledge of reinsurance**

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**

Why Bermuda?

- **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**

Why Bermuda?

- **Avoid regulation?**
 - **You won't avoid solvency regulation--**
 - **You will be regulated to meet IAIS international regulatory standards**
 - **Bermuda's committed to regulation appropriate to the wholesale market**

Why Bermuda?

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

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**

ABIR Contacts

Bradley Kading
President and Executive Director
202-783-2434
Bradley.Kading@ABIR.bm
Washington, DC

Leila Madeiros
Assistant Director and Corporate Secretary
441-294-7221
Leila.Madeiros@ABIR.bm
Hamilton, Bermuda

www.ABIR.bm
www.ReinsuranceBermuda.com

Bradley Kading and Leila Madeiros

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