



Bermuda market update

Pablo Nunez, CAS Affiliate, MAAA

Casualty Loss Reserve Seminar
September 2011



Agenda

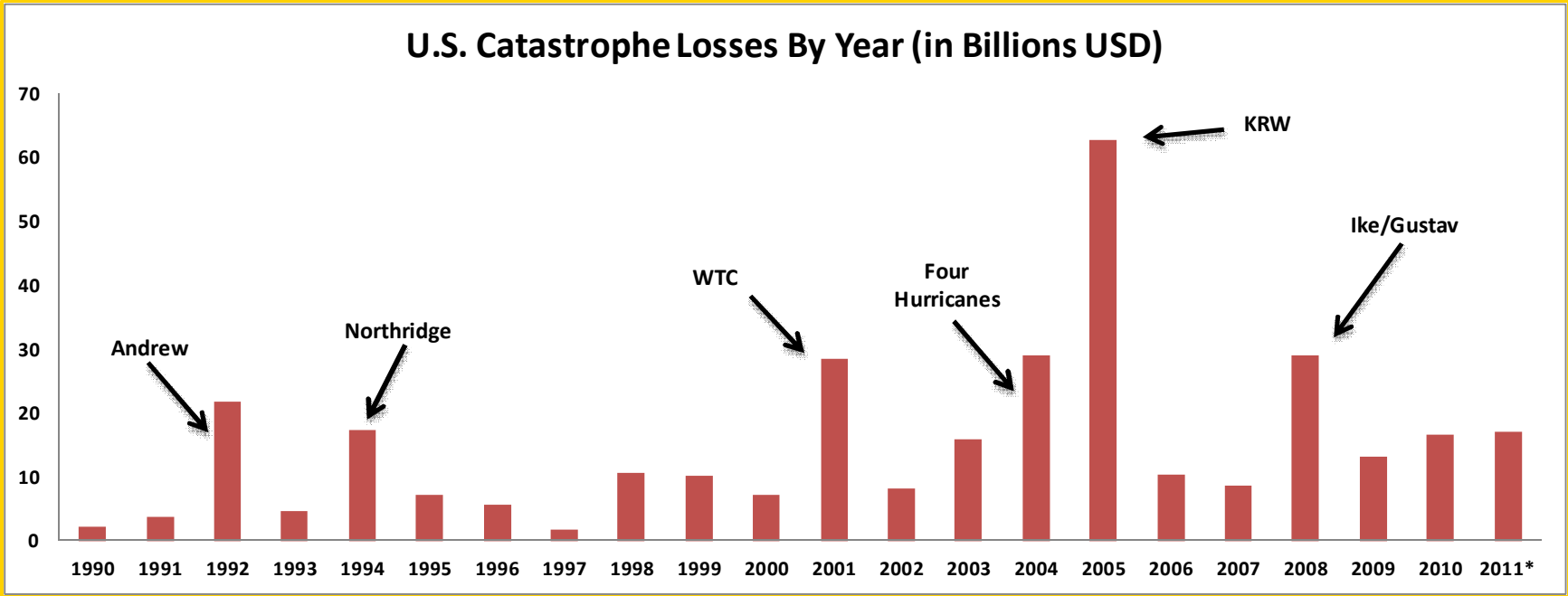
- ▶ Bermuda history
 - ▶ Captives
 - ▶ Reinsurance market (Andrew, WTC, KRW)
 - ▶ Reinsurance market highlights
- ▶ Bermuda current state
 - ▶ Financial crisis and soft market
 - ▶ 2011 international cat events (Japan, NZ EQ, Aussie Floods)
 - ▶ Re-domestication
- ▶ Future outlook
 - ▶ Market trends
 - ▶ BMA SII equivalency: capital requirements, risk management, regulatory reporting

Bermuda market history

- ▶ Pioneering domicile for captives in the 70s
- ▶ In the 80s, Bermuda attracted new capital in the excess liability market and incipient structure risk (finite) market (XL, ACE, Centre Re)
- ▶ Seven new reinsurance companies formed during 1993 after the occurrence of Hurricane Andrew (Renaissance Re, Partner Re)
- ▶ Class of 2001 after WTC attack: AWAC, AXIS, Montpelier, Endurance (Aspen and Platinum are also considered part of this class)
- ▶ Class of 2005 after KRW hurricanes: Flagstone, Validus, Lancashire, Ariel, Ironshore

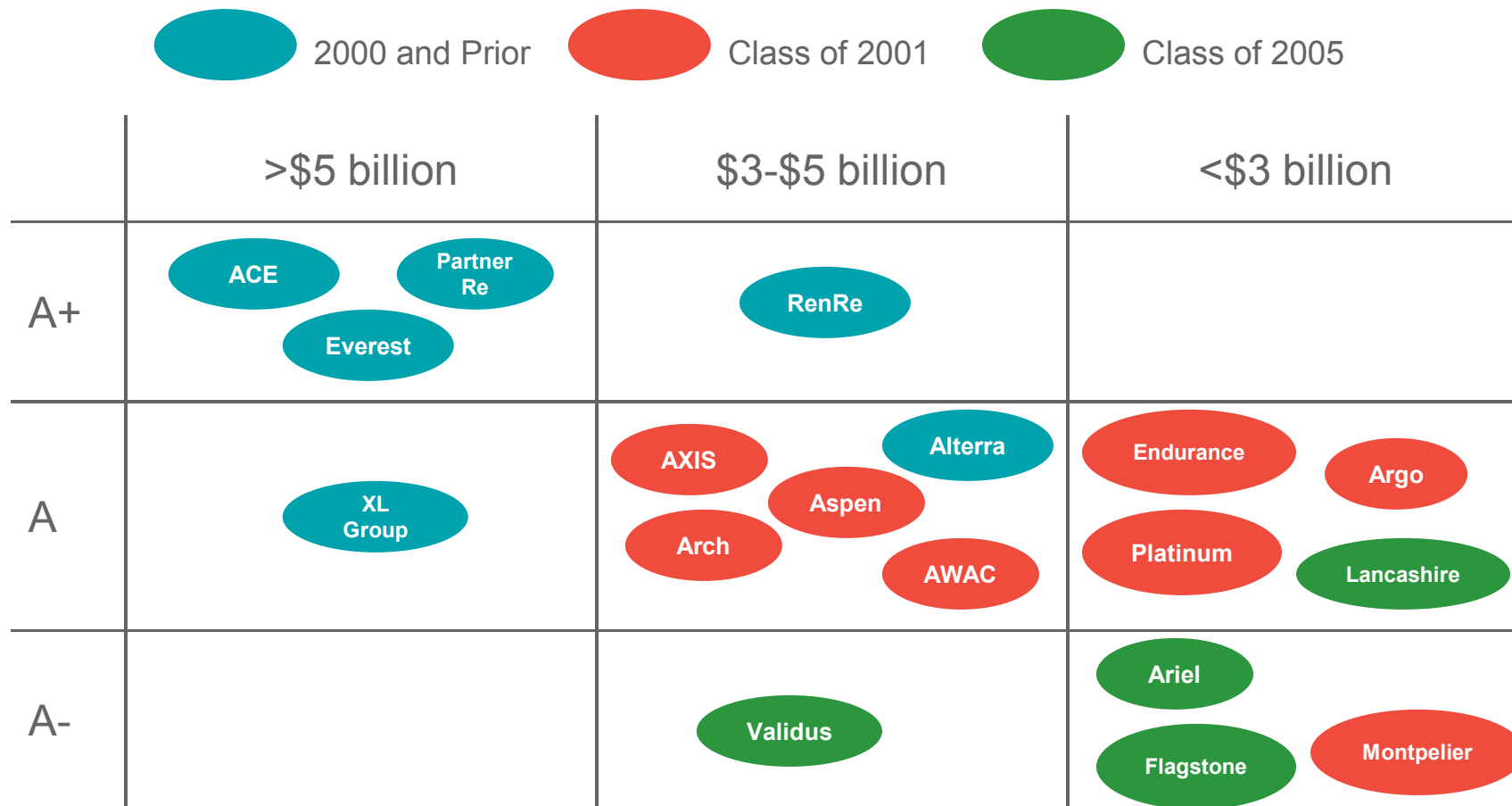
Bermuda market history

Historical US large events



Source: PCS
* 2011 at Q2

Bermuda market history



* Source: AM Best and 2011 Q1 Common Shareholders' Equity

Bermuda market history

Why Bermuda?

- ▶ Major market with excellent reputation and track record
- ▶ Well-established infrastructure/professional services
- ▶ Focused / credible regulatory environment (speed to market)
- ▶ Political and economic stability
- ▶ Unique geographical location (NYC – London)
- ▶ Income tax considerations
- ▶ British system of law (right to appeal to Privy Council in London)
- ▶ Quality of life
- ▶ Ease of exit

Bermuda reinsurance market highlights

- ▶ Bermuda's property/casualty market is very efficient and pays out claims very fast
- ▶ Bermuda supplies 50% of Florida's homeowner catastrophe coverage
- ▶ Bermuda supplies 40% of the entire US market property-catastrophe reinsurance coverage
- ▶ In 2005, the US suffered \$60 billion of insured losses from hurricanes Katrina, Rita & Wilma. Bermuda covered an estimated \$17 billion of those commercial and residential losses
- ▶ Bermuda is a major insurer of American crop insurance (35% of US crop insurance is written by Bermuda-owned affiliates).

Source: Business Bermuda

Bermuda market current state

- ▶ Financial crisis (investment losses, D&O/E&O claims, economic downturn)
- ▶ Overall, the P&C industry generally fared much better than other financial services sectors in the global economic crisis
- ▶ No major events during 2009 produced strong results and “excess capital”
- ▶ Significant share repurchases
- ▶ Despite Chile EQ, NZ EQ and Deepwater Horizon, there were no huge industry events during 2010 and rates continued to trend downwards last year
- ▶ Very low investment yields put pressure on underwriting performance and is perhaps the main reason why rate softening was not even worse

Bermuda market current state

- ▶ M&A – activity restricted by low valuations; however, there has been some activity: Partner Re/Paris Re, Validus/IPC, Max/HP, TRH/AWAC/Validus
- ▶ There are still a large number of companies capitalized in the \$1b to \$3b range of equity; however, most of them are trading below book value
- ▶ There has been very limited capital available to fund start-ups, side-cars and strategic growth initiatives (slightly better since Japan EQ)
- ▶ Japan EQ estimates for the Private Non-Life Reinsurance market are in the \$15b - \$25b range (in comparison to \$41b for Katrina only)
- ▶ NZ EQ II (2011) \$8b - \$12b at Q1 (additional development during Q2)
- ▶ Q2 Tornados and Irene are also affecting earnings
- ▶ Overall all the 2011 events are affecting earnings (not capital); however, US winds rates have been improving (5%-15%)
- ▶ Companies have put their share repurchases on hold and we have seen some market activity (new companies, side-cars and cat bonds)
- ▶ RMS Version 11 may be also affecting cat-exposed pricing

Bermuda market current state

Re-domestication:

- ▶ Mostly due to regulatory, political and tax uncertainty
- ▶ Bermuda-based (re)insurers have been positioning themselves within Europe (holding company re-domestications or formation of new company)
- ▶ The re-domestication destinations are Switzerland, Ireland and Luxembourg
- ▶ Most of the Bermuda-based companies have launched or formed a UK syndicate during the last few years
- ▶ European credit crisis may impact the balance sheet of the larger European reinsurers and/or re-domesticated companies

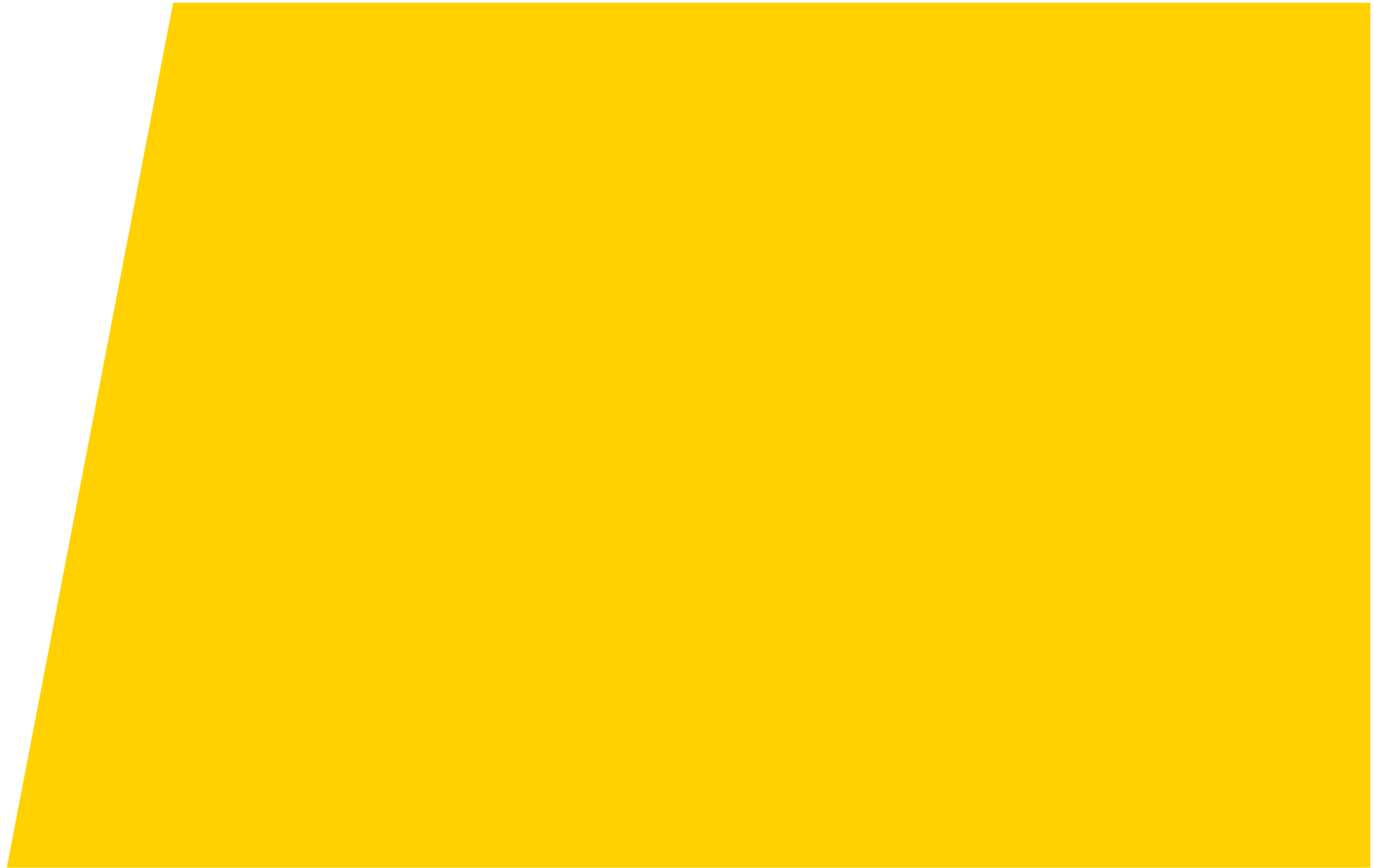
Bermuda market current state

- ▶ Classes: 1, 2, 3, 3A, 3B, 4
- ▶ Long-term (A-E), dual, special purpose insurer
- ▶ Statutory deadlines
- ▶ LRSO and adequacy of loss reserves (line 17)
- ▶ Discounting and margins
- ▶ Deposit accounting
- ▶ Consolidation of reserves
- ▶ Premium deficiency

Bermuda market future outlook

- ▶ An active hurricane season during 2011 should reaffirm (and deepen) the current market cycle turn
- ▶ Incorporations are still below expectations; however significant improvement from last year (2010: 36 – 2011 @8/31: 33 of which 13 are SPIs)
- ▶ Further M&A may be possible
- ▶ No major changes are expected in the captive market
- ▶ SII equivalency is the key regulatory objective for the BMA:
 - ▶ Capital requirements
 - ▶ Risk management
 - ▶ Regulatory reporting

Thank you



Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

Ernst & Young is a leader in serving the global financial services marketplace

Nearly 35,000 Ernst & Young financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, Ernst & Young is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Office today includes more than 4,000 professionals at member firms in over 50 locations throughout the US, the Caribbean and Latin America.

Ernst & Young professionals in our financial services practices worldwide align with key global industry groups, including Ernst & Young's Global Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, Ernst & Young's financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

It's how Ernst & Young makes a difference.

© 2011 Ernst & Young LLP.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

1108-1283882 NY