

Reinsurance: State of the Market

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Topics to be covered:

- ✓ State of the property and casualty reinsurance markets
- ✓ TRIA extension – reinsurance perspective

State of the property and casualty reinsurance markets



Disciplined marketplace with increased reinsurance demand

- Property - price loading for demand surge; huge rate increases for wind exposures
- Retro - dramatic price movement due to capacity shortages; many U.S. programs exhausted
- Casualty - stable prices; loss costs expected to be favorable

Line of Business		Rate Development	
US	Property	Cat Loss Hit	Up 30%- 100%
		Cat Loss Free	Up 5%-10%
		Risk Loss Hit	Up 20%-40%
		Risk Loss Free	Up 10%
US	Casualty	Casualty- Pro Rata	Flat
		Cas- XL Loss free	Flat to Down 5%
		Cas-XL Loss Hit	Up 10-15%

Source: Guy Carpenter- US Renewals (Jan'06); Willis- Willis Re-View (Jan'06); Benfield- Outrageous Fortune (Jan'06); Banc of America Securities- Reinsurance Conditions

Rate movement consistent across major insurance markets

Territory	Property					Casualty		
	Pro rata	Not risk affected	Risk affected	CAT loss free	CAT loss affected	Pro rata	XL loss free	XL loss affected
US	Ceding Commission Flat or Reduced	↑ +10%	↑ +20 to +40%	↑ +5 to +10%	↑ +30 to +100%	↔	↓ 0 to -5%	↑ +10 to +15%
Germany	↔	↔	Increases according to loss activity	↑ 0 to +5%	N/A	Higher commissions	↔	Increases according to loss activity
UK	↔	↔	↑ +10%	↑ +5 to +10%	N/A	↔	↑ +5%	↑ +5 to +15%
France	↔	↔	Increases according to loss activity	↔	N/A	N/A	GTP- Flat Motor: +20% to +30%	N/A
Hong Kong	↔	↔	↑ +10%	↓ 0 to -5%	↑ +10%	↔	↓ -10%	↑ 0 to +5%

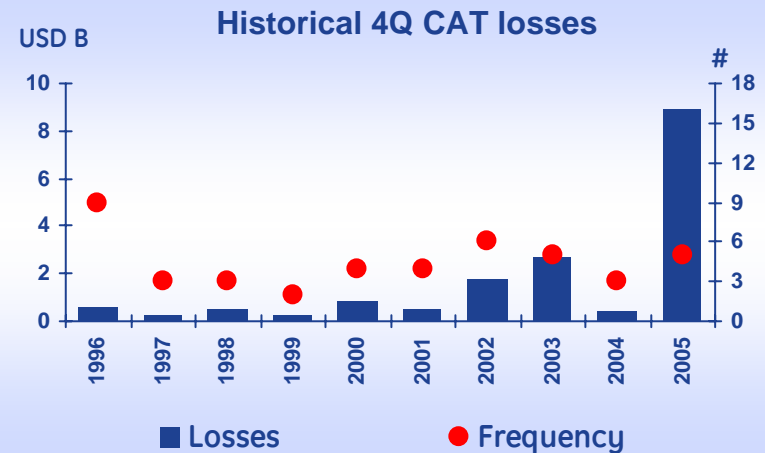
Source: Willis Re-View (Jan'06)



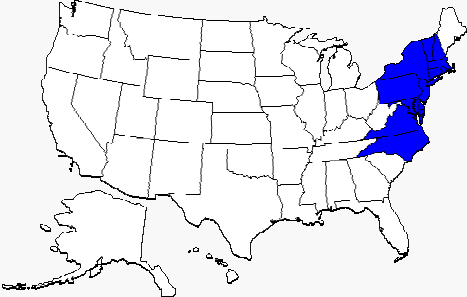
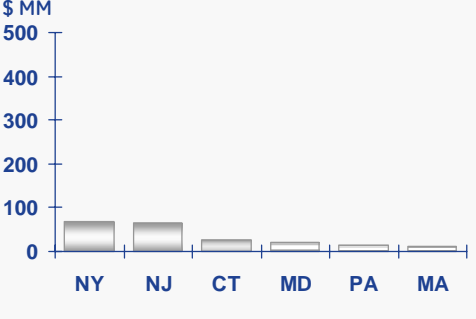

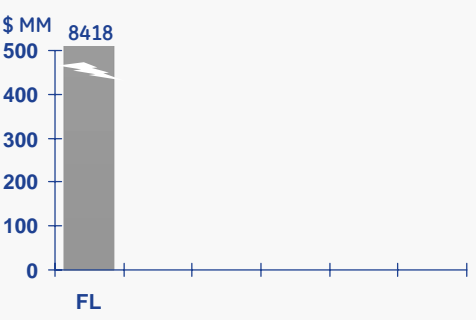
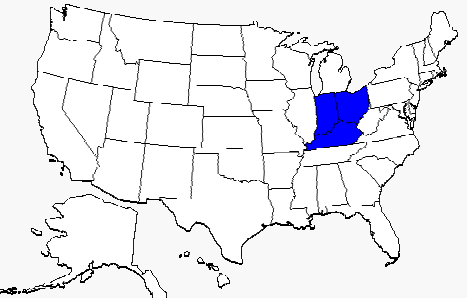
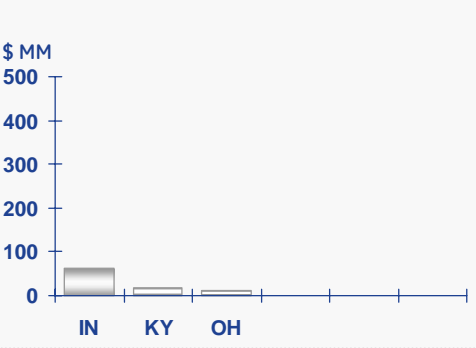
Insurers paid record \$8.9B losses in 4Q05 with more than 1.1 M Claims

Fourth quarter CAT losses

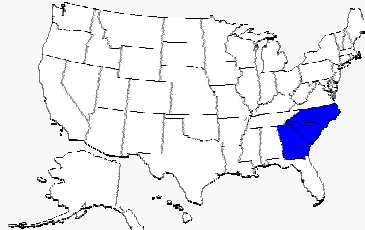
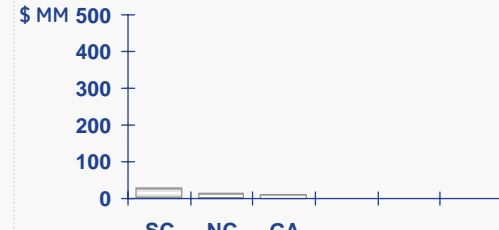
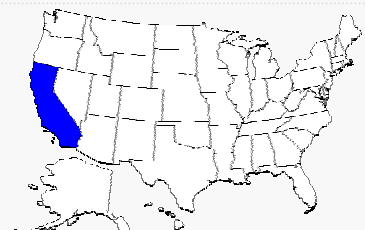
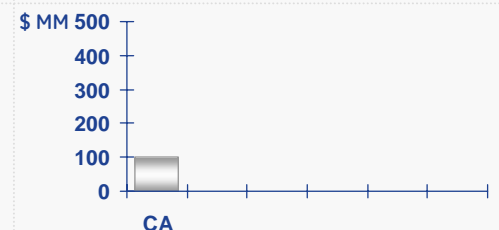
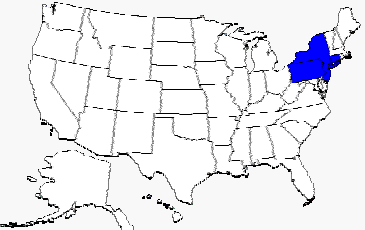

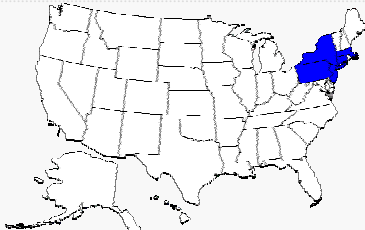

- Five 4Q events triggered \$8.9B in insured losses... costliest 4Q on record in past 10 years
- Over last 10 years (excluding '05), 5 CAT events occurred on average in 4Q & caused average insured damage USD 1.07 B
- Wilma accounted for >94% of 4Q dollar losses & 84% of the claims filed



4Q05 losses...attributable to Wilma (\$8.4B)

CAT Events	Loss (\$ MM)	States Affected	Losses by States
<p>CAT No. 53 Event: Wind & Thunderstorm Period: October 7-15, 2005</p>	<p>246</p>		
<p>CAT No. 54 Event: Hurricane Wilma Period: October 24, 2005</p>	<p>8,418</p>		
<p>CAT No. 55 Event: Wind & Thunderstorm Period: November 6, 2005</p>	<p>91.5</p>		

4Q05, 1Q06 YTD losses

CAT Events	Loss (\$ MM)	States Affected	Losses by States
CAT No. 56 Event: Winter Storm Period: December 15-17, 2005	55.4		
CAT No. 57 Event: Wind & Thunderstorm Period: Dec 30 '05-Jan 3 '06	101.1		
1Q06 CAT Losses CAT No. 58 Event: Winter Storm Period: January 14-15, 2006	NA		
CAT No. 59 Event: Winter Storm Period: January 18-19, 2006	NA		

Where is the reinsurance market headed?

- Impact of 2005 windstorms – short term vs. long term
- Factors driving reinsurance market:
 - ✓ Windstorm frequency
 - ✓ Impact and continued emergence of new capacity
 - ✓ Rating agency approaches and actions
 - ✓ Investment returns

TRIA extension – reinsurance perspective

TRIA Extension – What does it mean?

- 2002 Act was extended through 12/31/07
- Short-term effects:
 - ✓ Status quo in terms of reinsurance availability
 - ✓ Domestic terrorism outside TRIA umbrella
 - ✓ Minimal funding from government for another event like 9/11
 - ✓ Of the \$32.5B in 9/11 insurance claims, about 2/3 of the losses were borne by the reinsurance industry

Source: III

TRIA Extension – What does it mean?

- Longer-term view is highly uncertain:
 - Government has not committed to permanent backstop
 - Terrorism modeling still a challenge, regardless of backstop
 - Availability and affordability questionable
 - LOBs, such as WC, may face even more difficult challenges

Questions?

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