

Just When You Needed Good News on Catastrophe Insurance – It's Here!

NAIC P/C Committee

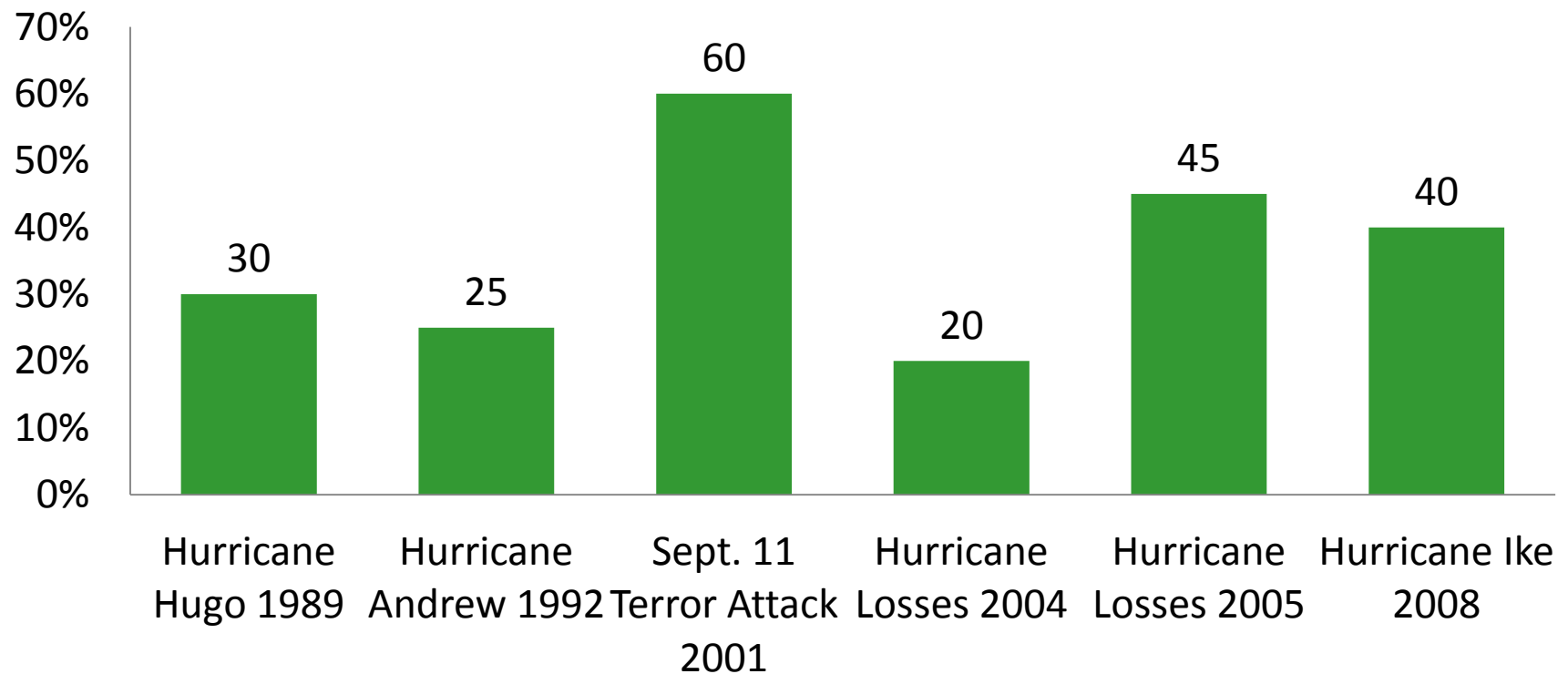
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Summary

- Document role of reinsurance in cat events
- Document distribution of cat losses globally
 - and the benefits of that
- Document impact of new capital
- Focus on risk management opportunity
- Focus on public policy opportunity

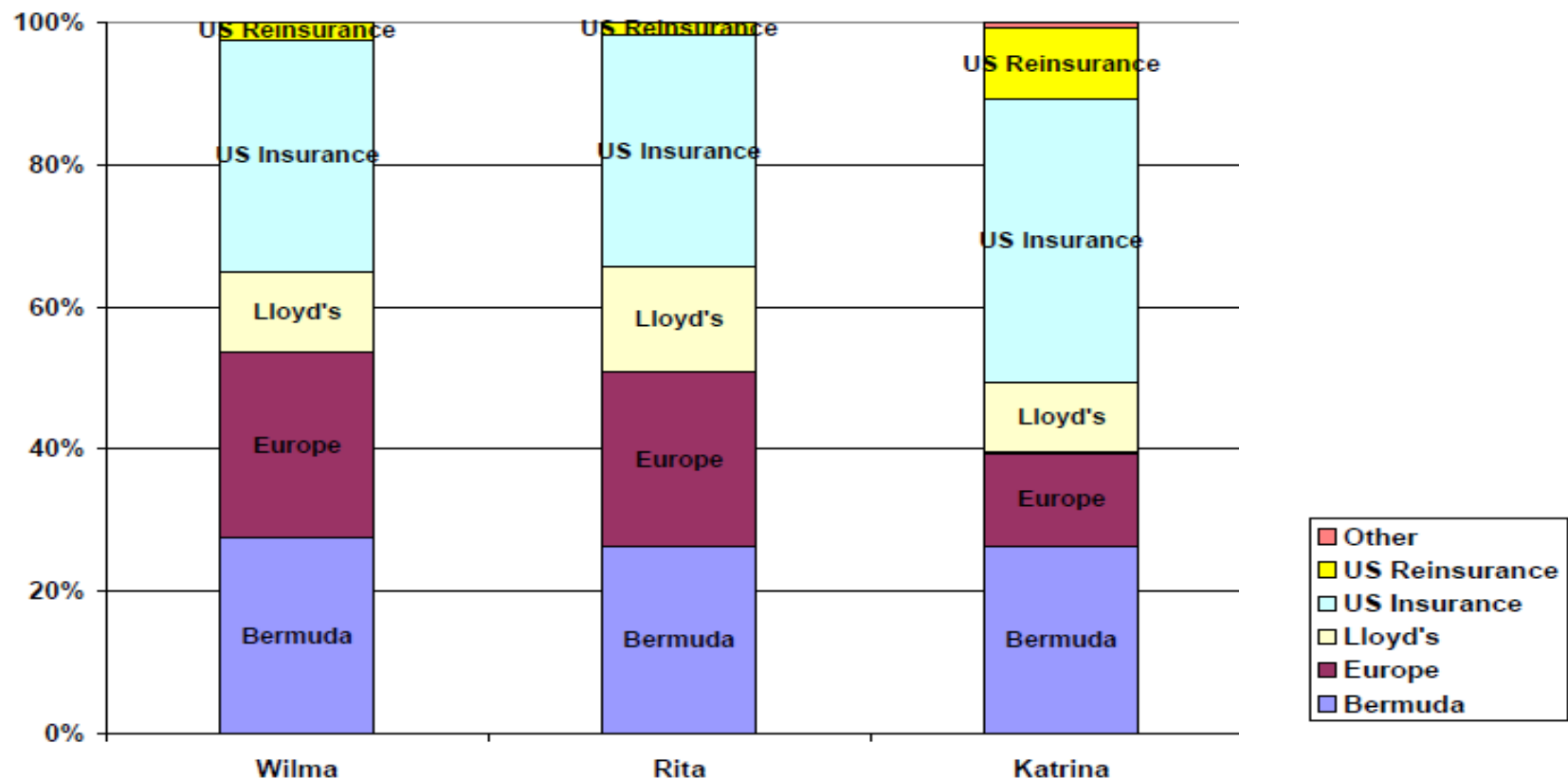
Share of Losses Paid by Reinsurers, by Disaster*



* Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at \$3.85 billion for 2004 and \$4.5 billion for 2005. Ike share is an estimate as of 2/9/09.

Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

Regional Distribution of '05 Hurricane Payments: Wilma, Rita, and Katrina

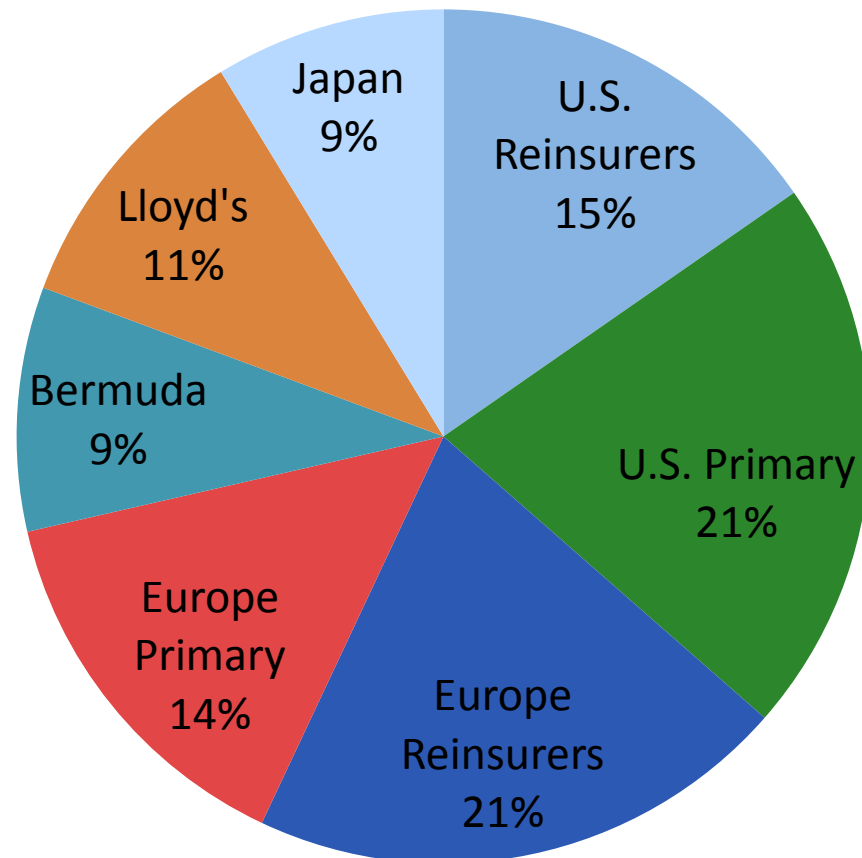


U.S. 9/11 Losses as Reported by Reinsurer Headquarters

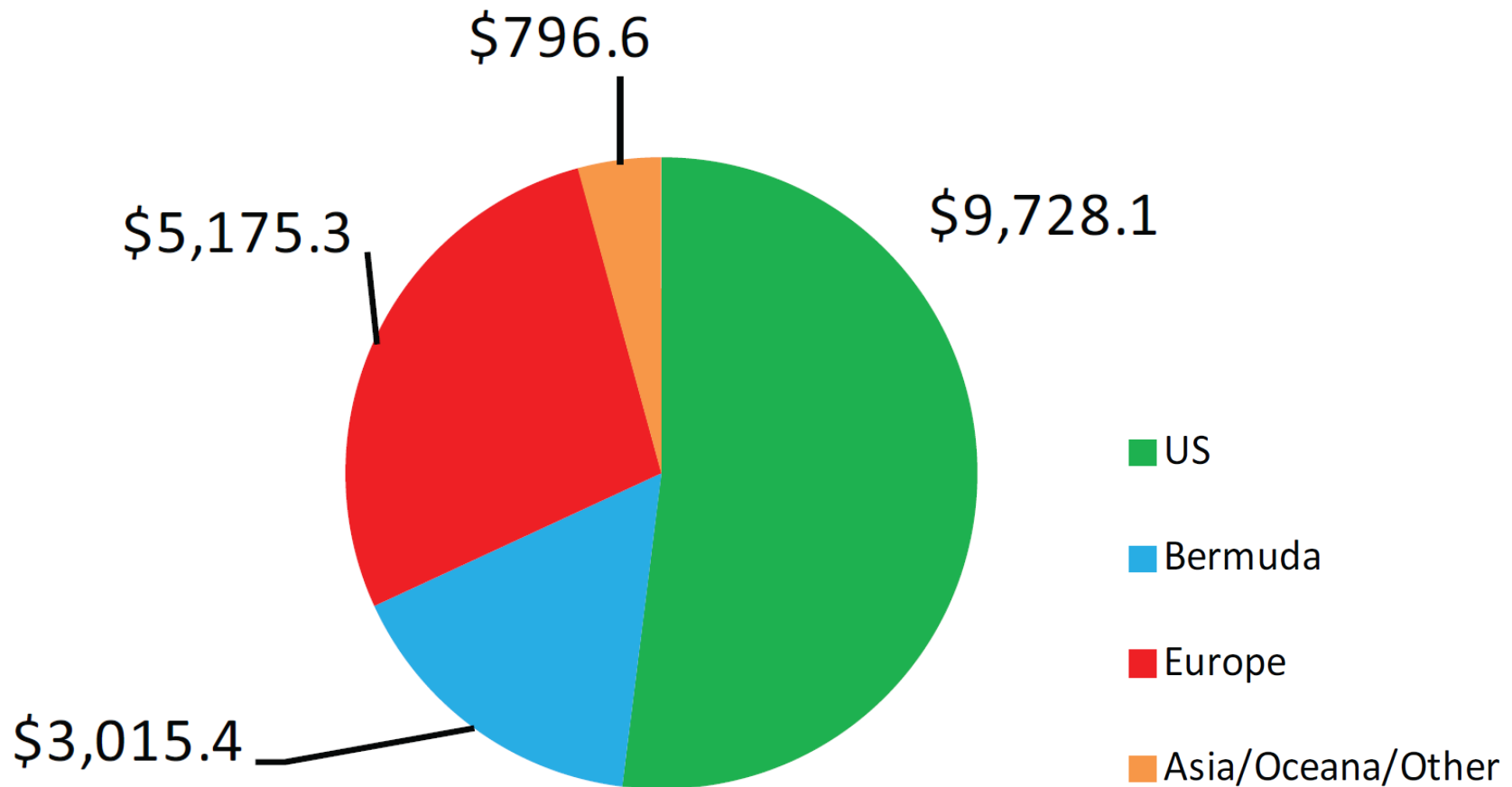
International insurers and reinsurers paid 64% of U.S. 9/11 claims.

Dowling & Partners
WTC Losses

By Co. Headquarters	\$,MM
U.S. Reinsurers	\$4,109
U.S. Primary	\$5,659
Europe Reinsurers	\$5,506
Europe Primary	\$3,865
Bermuda	\$2,479
Lloyd's	\$2,844
Japan	\$2,338
Total Announced	\$26,799



Hurricane Sandy – Where the Money Comes From (\$ Millions)



Bermuda's \$35b U.S. Contribution

From 2001 to 2012, Bermuda's (re)insurers estimated contribution to U.S. catastrophe losses:

Disaster	Estimated Contribution
2001, Terrorism 9/11	\$ 2.5 B
2004, Florida Hurricane Quartet	\$ 3.5 B
2005, Katrina, Rita and Wilma	\$18.0 B
2008, Hurricanes Ike, Gustav	\$ 4.0 B
2010, BP Deepwater Horizon	\$ 1.0 B
2011, 2012, US Tornadoes + Irene	\$ 3.0 B
2012, Hurricane Sandy	\$ 3.0 B

Reinsurance Capital at Record Levels

Reinsurance capacity available to take on natural catastrophe risk is at record levels (2012) – Supply Exceeds Demand!

Aon Benfield calculates reinsurance capital at \$505 billion.

- The subset of 31 traditional reinsurers reported capital of \$313 billion.
- Guy Carpenter (a unit of Marsh) reported overall capacity \$312 billion (April 2013).
- Property catastrophe reinsurance is a subset of this reinsurance market.
 - Dowling and Partners, globally \$240 billion of limit (coverage) was written in 2012
 - The US accounted for one third (\$79 billion) of this limit.

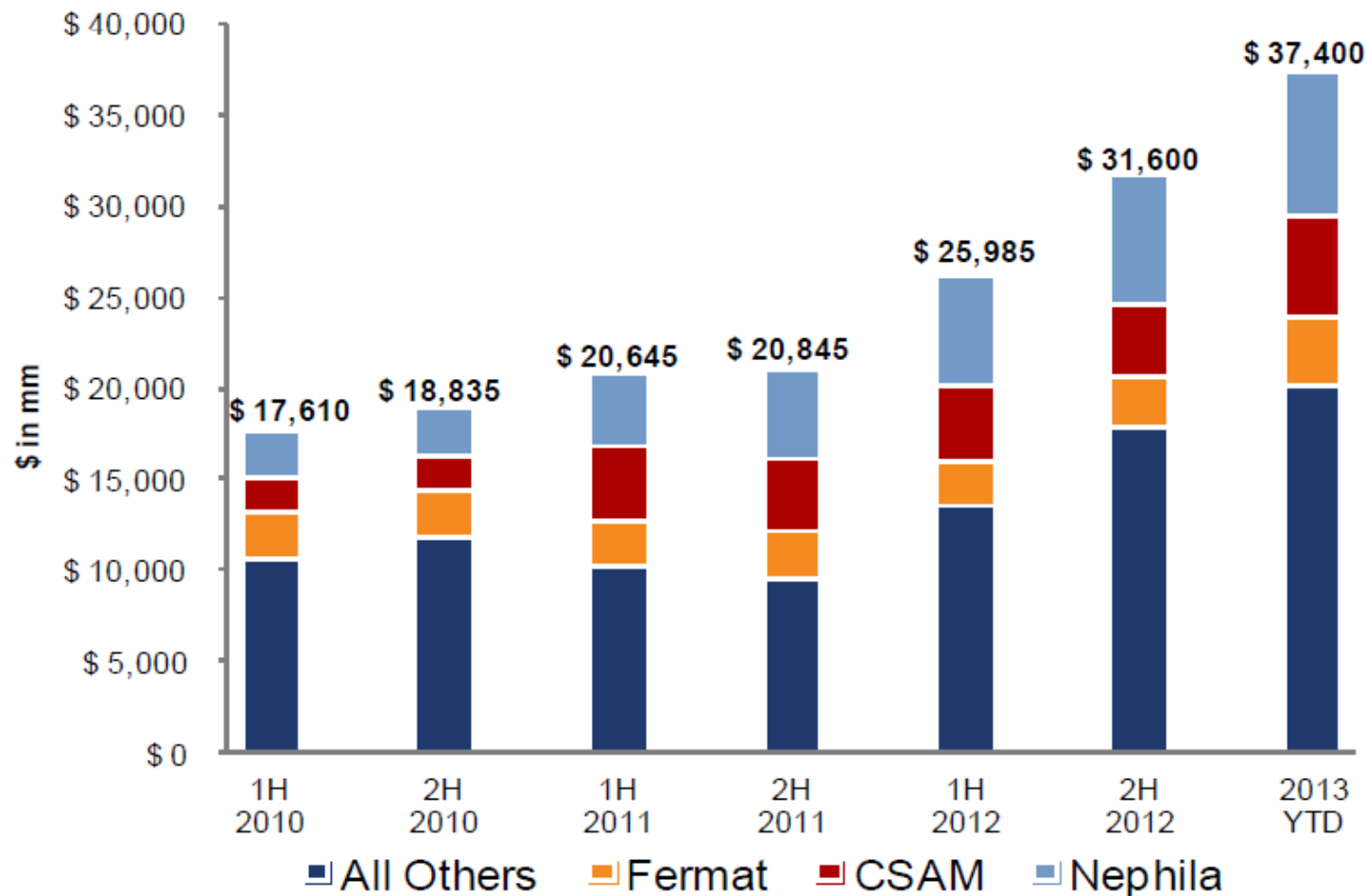
Benefits of Global Catastrophe Pooling

- Increased capacity for insurers:
 - Reinsurers can offer more coverage per client
- Reduced credit risk for cedents:
 - Fewer eggs in more baskets
- Diversification of reinsurers' risk:
 - Uncorrelated risk by peril, geography and time
 - Capital supports more capacity at lower prices
- External capital contribution to devastated local economy

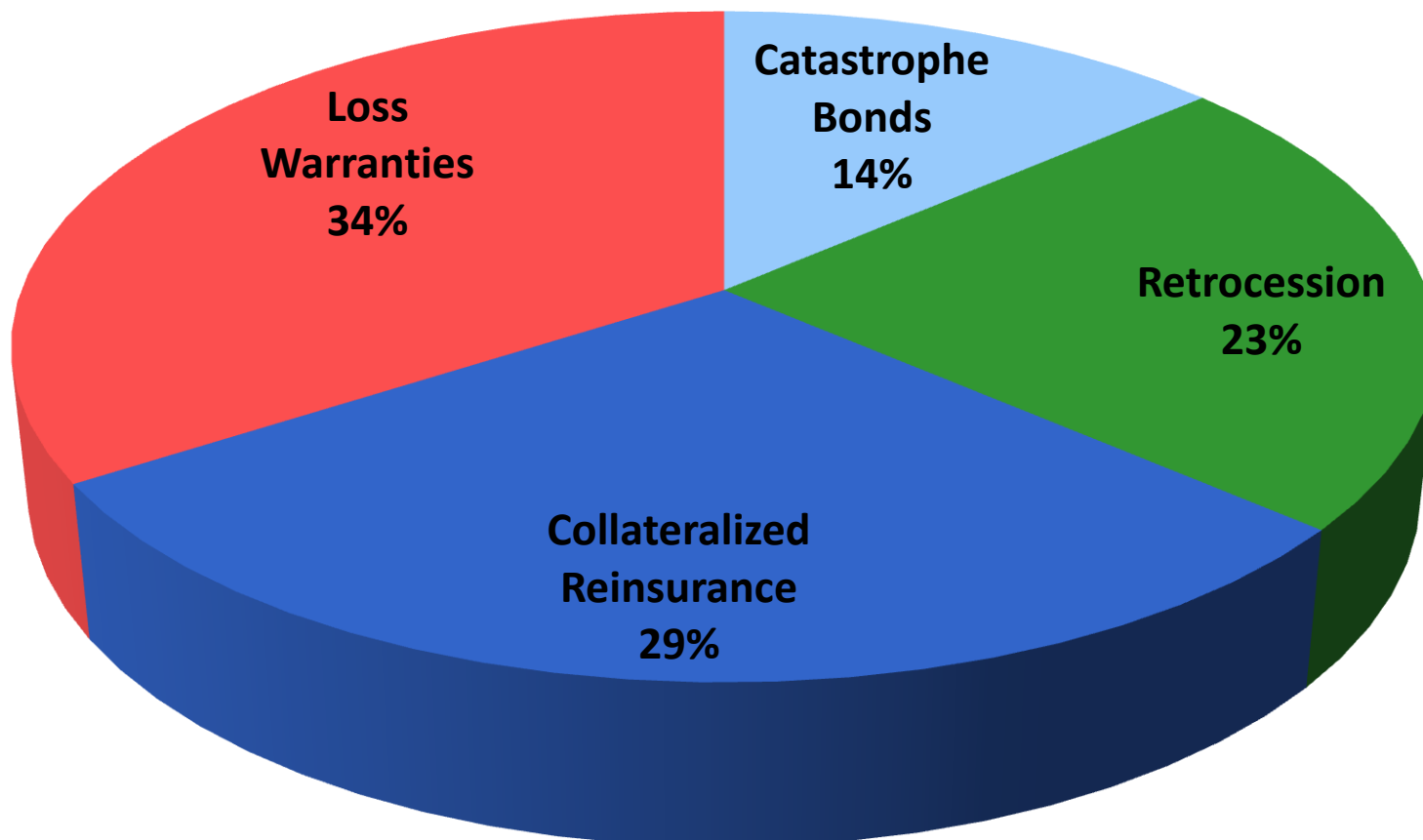
Capital Markets 14% of Cat Capacity: Who Are They?

- Alternative markets supplied \$44 billion in property cat limits while traditional reinsurance supplied \$268 billion
- Guy Carpenter:
 - **“In general terms, it is safe to say that capacity from alternative markets has never been more competitive and in some cases it is clearly priced below the traditional market.”**

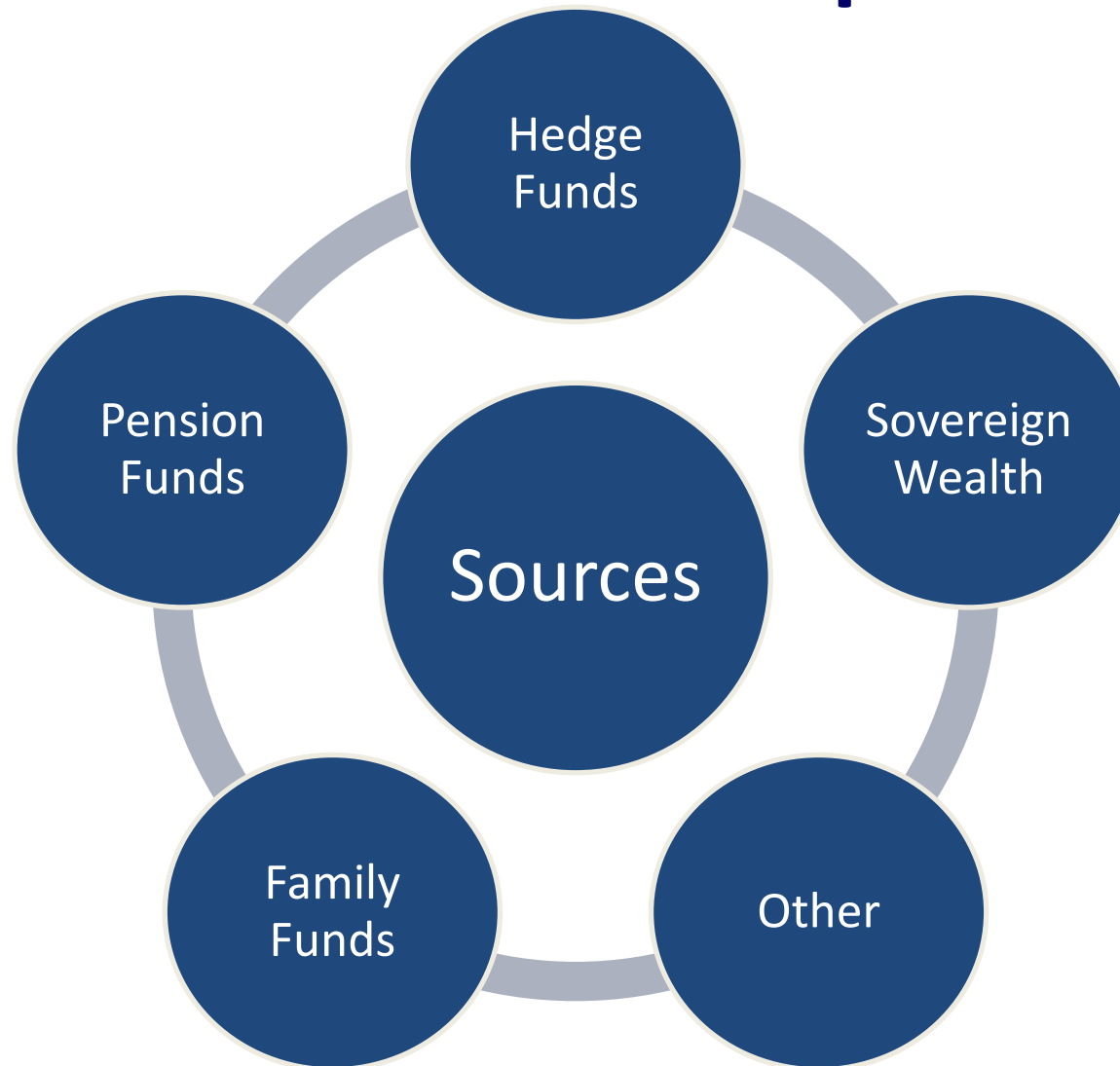
Growth of ART Cat Capacity



Goldman Sachs Non-Traditional Capacity Breakdown



Sources of Alternative Capital



Capital Markets and Reinsurance

Markets Converge:

What Does it Mean?

- ECON 101: Supply outstrips demand, prices fall
- Florida catastrophe reinsurance prices drop 15 to 20%
- Reinsurance prices decline generally July 1 renewals

More Capacity is Available! Use it!

- Based on current excess supply:
 - *Reinsurers have been reducing prices*
 - Increasing dividends to shareholders
 - Buying back stock
- Why not put capital to work taking on more risk?

What Could Change this Dynamic?

- Are capital providers weak-kneed after loss?
 - Tested over 20 years, committed for the long haul
- Paradigm shifting events:
 - Unexpected events can change the equation; but trend is to more capital/capacity
- Increase in interest rates/recovery to the norm:
 - Impact if market rates move up to 5%?
- Obama reinsurance tax:
 - Oppose the affiliate reinsurance tax, reduces reinsurance supply by 20%

State Policy Makers: What this Means for You

- Coastal residual markets:
 - Buy more reinsurance, transfer the risk and prevent bond debt/cross state subsidies
- Flood Insurance (NFIP):
 - Support Biggert/Waters, transfer risk to reinsurance markets
- Earthquake insurance:
 - Secondary mortgage market EQ requirements?
increase consumer take up of EQ cover

About ABIR

- 21 Companies
- Highly capitalized, distinct regulation
- \$66.4 billion gross written premiums, \$95.2 billion surplus
- Worldwide business enterprises
- Principal underwriting operations in Bermuda, Europe and the United States

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