

# *Bermuda's Support of US Cat Exposed Markets*

Bradley Kading, December 2011

# *Mark Twain*

**“You can go to Heaven if you want to, I’d druther stay here (Bermuda).”**

**Mark Twain, 1909**

## *Bermuda's American Partnership*

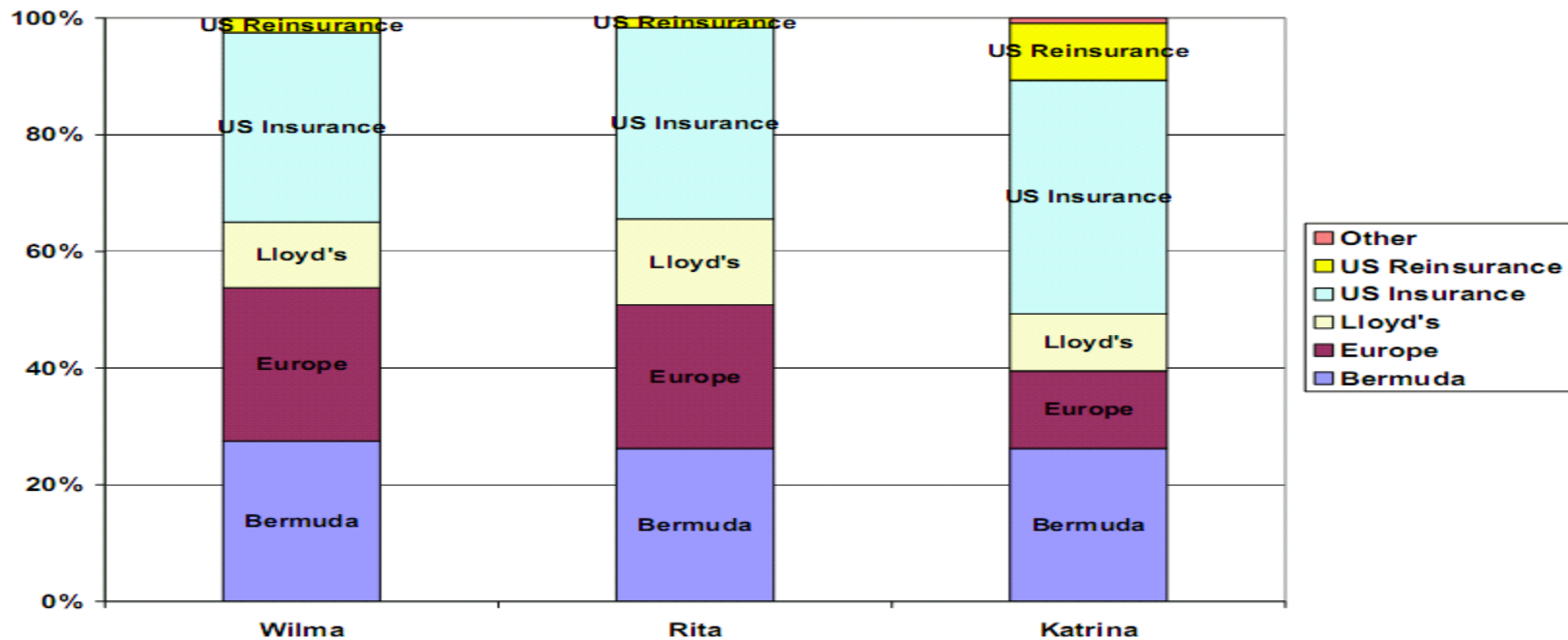
- 400 years and counting
- Rescue of the Jamestown Colony
- Gunpowder to save George Washington's army
- Aiding the North and the South in the Civil War
- Anti-Nazi submarine warfare
- Cold War mid-Atlantic spying
- Insurance market support

# *Review*

- **Reinsurers' commitment to US**
- **Benefits of reinsurance**
- **Reinsurance underwriting, capacity**
- **Cost drivers**
- **FL Cat Fund**

## *More than 60% of Katrina/Rita/Wilma Losses Paid by International (Re)Insurers*

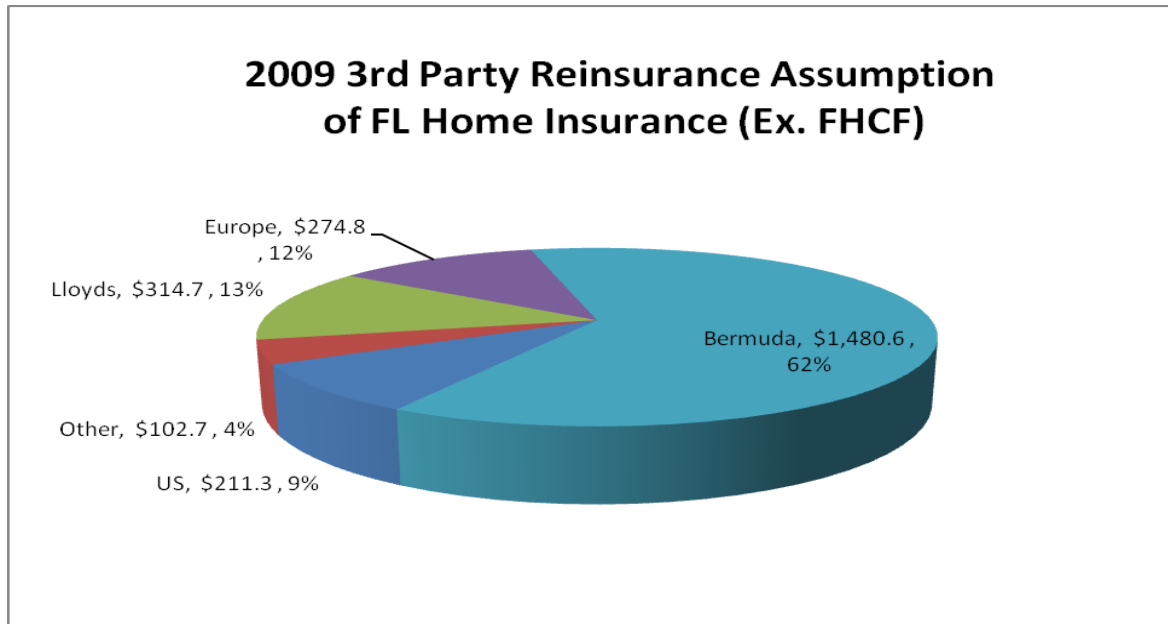
Figure 4. Regional Distribution of 2005 Hurricane Insurance Payments



Source: J. David Cummins, "The Bermuda Insurance Market: An Economic Analysis," 2008.

# *Florida Cats*

## **Florida Insurers: 91% Private Reinsurance is Non-US**

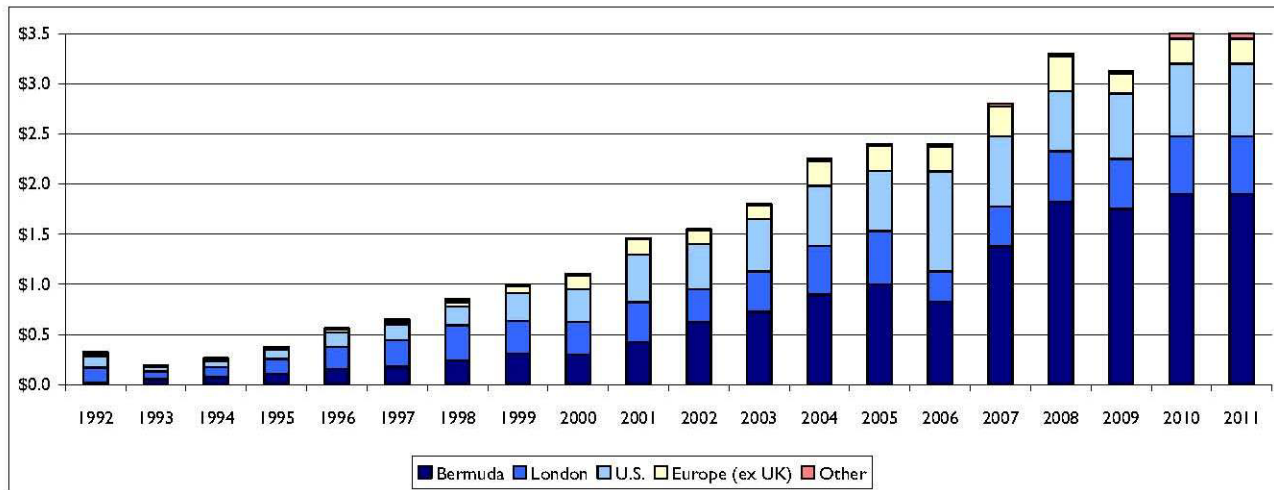


Source: ScheduleF.Com; Dowling & Partners Securities, L.L.C. 4/23/2010; private sector reinsurance, does not include Florida Hurricane Catastrophe Fund; Home insurance defined to be Florida domesticated insurance companies

# *US Cat Reinsurance*

## *Supply: Reliable, Growing*

**Property catastrophe capacity**



*Note: Size of largest U.S. placement in \$Billions, based on maximum amount exposed in any zone by a single ceding company program, including aggregate excess contracts. Excludes Cat bond capacity and side cars; includes National Indemnity. Market regions are shown by underwriting office, not domicile.*

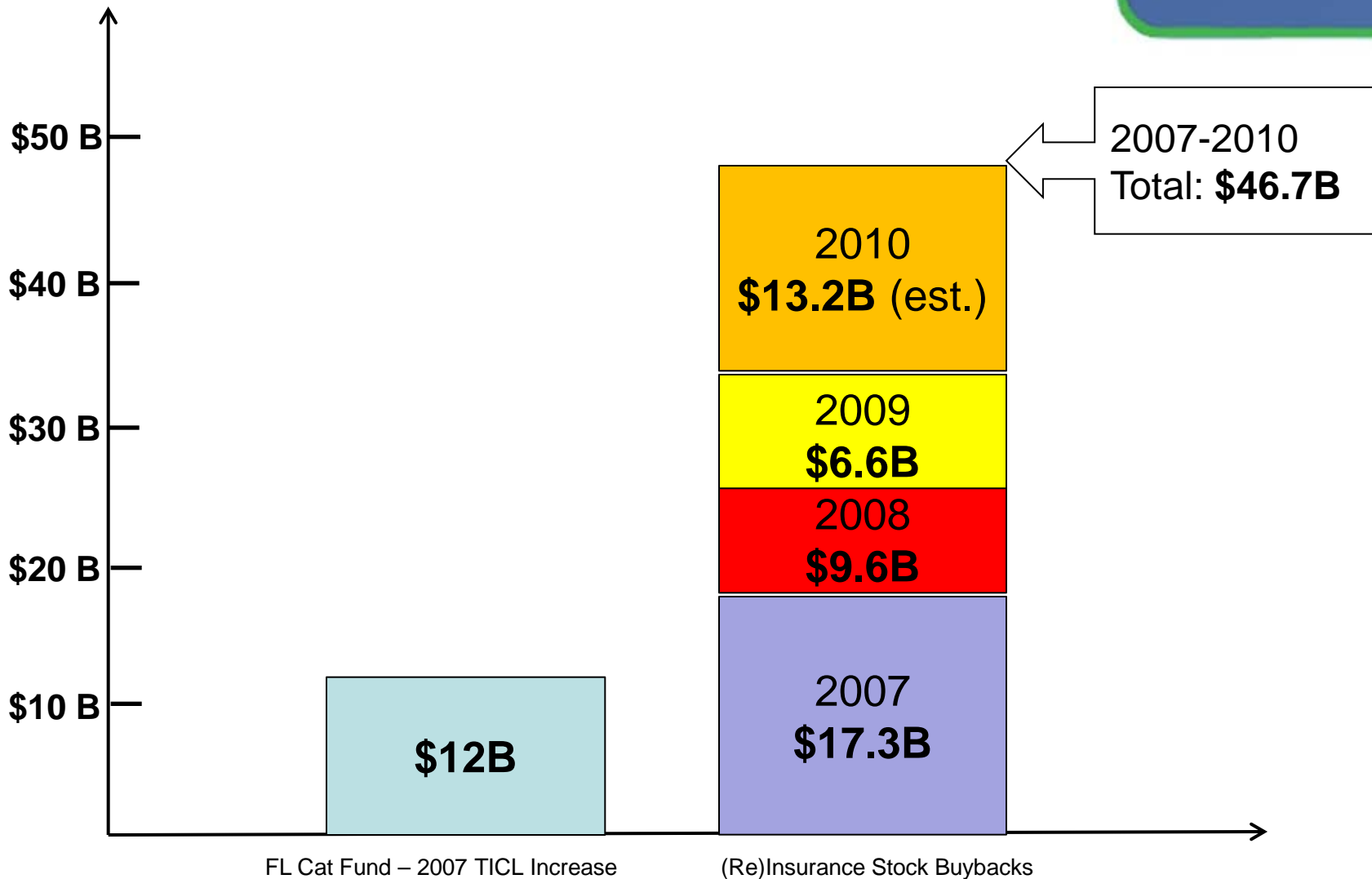
Source: Holborn Perspectives: The 2011 Reinsurance Market: Managing Exposures and Expenses, January 1, 2011;  
Association of Bermuda Insurers and Reinsurers (ABIR) February 2011

# *Cost Drivers*

- **Supply and demand**
- **Global diversification**
- **Loss reduction/mitigation**
- **Political risk – demand instability**
- **Ceding insurer credit issues – premium defaults**

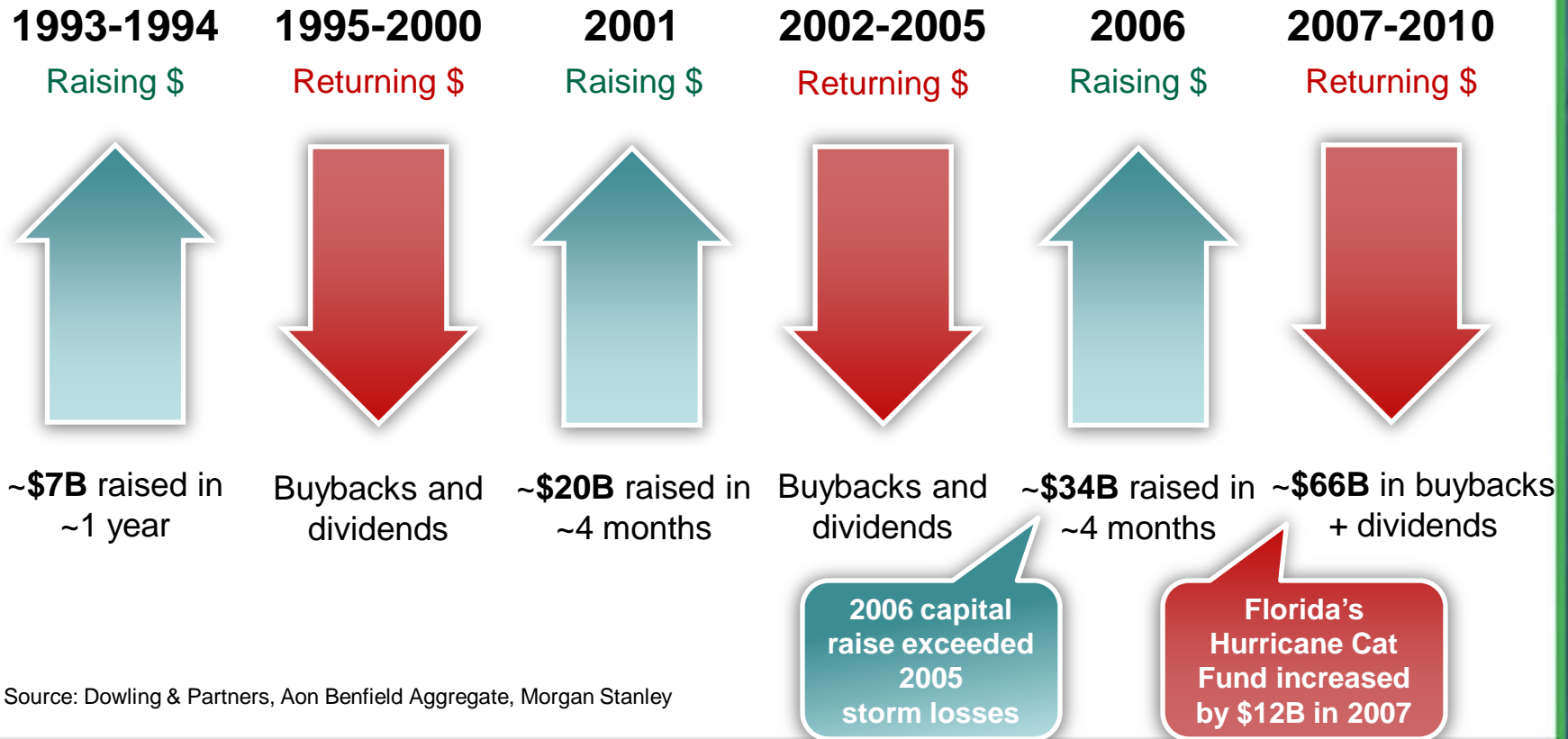


# *(Re)Insurance Excess Capital: Since 2007\**



\*Dowling & Partners (Re)Insurance Composite Historical Share Repurchases

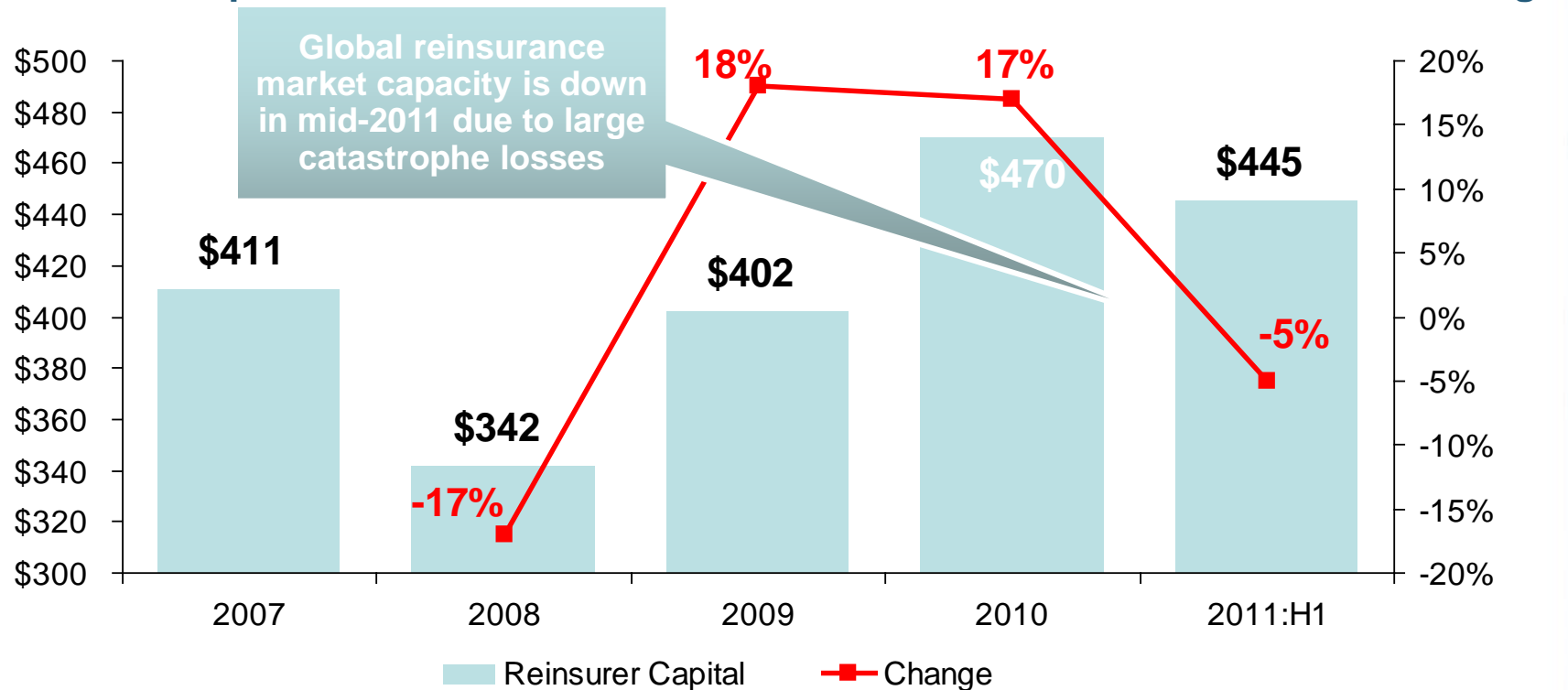
# *Reinsurance Supply - Elasticity of Private Capital*



# Global Reinsurance Capital, 2007-2011:H1



## Reinsurer Capital



**High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity**

# Bermuda's (re)insurers cover the globe

Of reported claims liabilities from 2010 and 2011 catastrophes, Bermuda (re)insurers covered:

- 29% of the reported liabilities for the international reinsured share of the Japanese earthquake
  - 25% from the Gulf of Mexico oil spill
  - 37% from Europe's Windstorm Xynthia
  - 51% from New Zealand's earthquakes
  - 38% from Chile's earthquake.

... But first we cover Florida:

- 62% of the private sector reinsurance to Florida's domestic insurers
- 25 of the top 41 Florida property reinsurers underwrite in Bermuda.



# *Reinsurance Reliability*

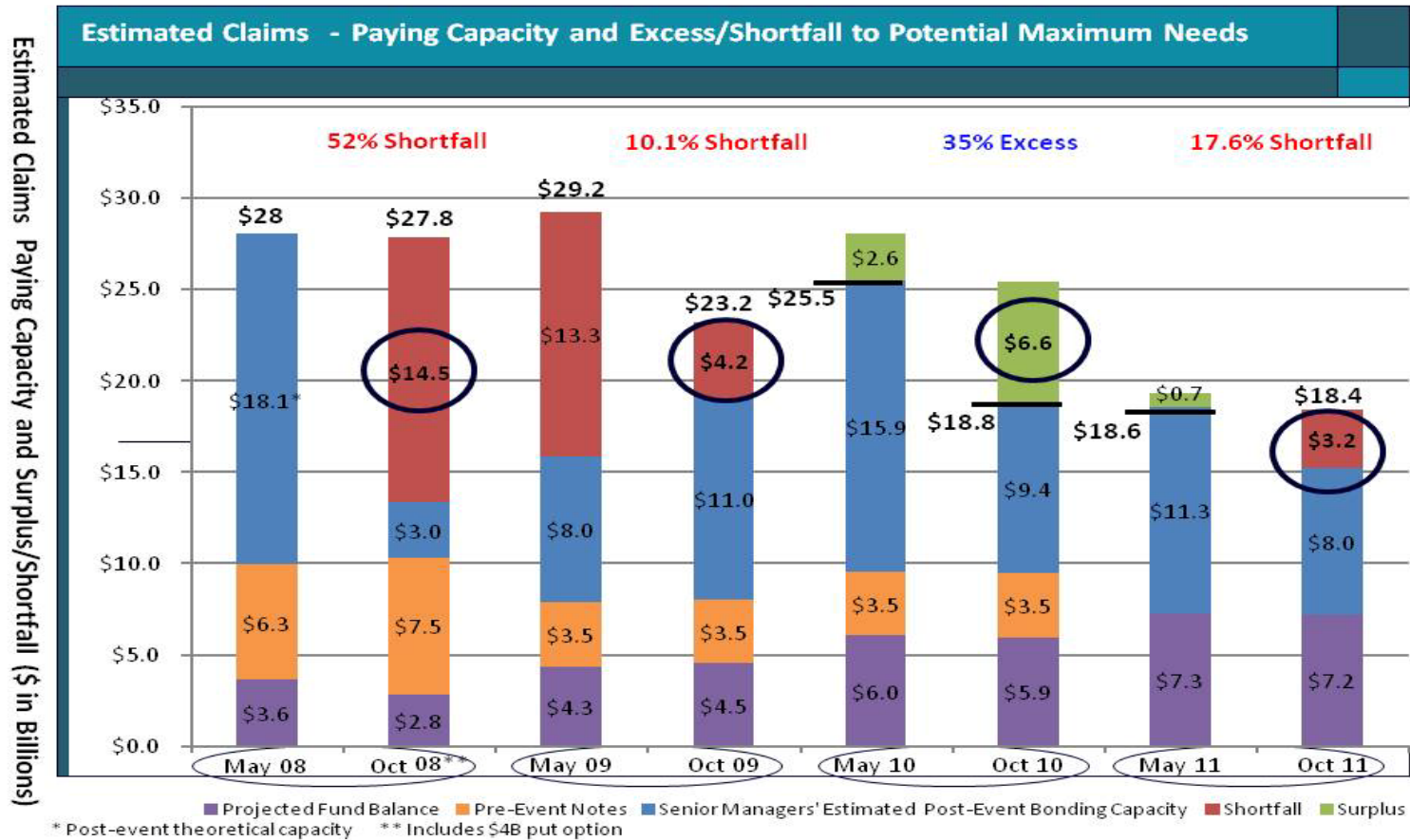
- **Private reinsurers:**
  - provide reliable, steady and growing capacity
- **When there are shock losses:**
  - it is not supply of reinsurance that falls, but demand for reinsurance that jumps
- **We have an excellent track record:**
  - of meeting increased demand
  - of raising capital when needed
  - of paying claims, we don't have the default risk of the Florida Cat Fund; 3 of the last 4 years Cat Fund has had funding shortfall!

# *Re Underwriting 101*

- **A client with poor financials, will find it harder to buy reinsurance:**
  - **The company needs more capital!**
- **Inadequate capital:**
  - **creates moral hazard in risk selection, reserving, claims handling**
- **Fail to pay premiums: prices increase, coverage becomes limited – due to credit risk**
- **WITH NO HURRICANES in recent years 9 insurers insolvent in Florida, prior to failure they stopped paying reinsurance premiums – What's going on?**

## *Reinsurers vs. FL Cat Fund*

- **Regulation:**
  - Subject to strict solvency regulation; must have capital on hand to pay claims
  - Risk based pricing
- **Capital:**
  - Far exceeds regulatory requirements
- **Dependability:**
  - Spotless claims record despite shock losses, no pro rata payment
- **Diversification:**
  - Eggs not all in one basket
- **Political manipulation:**
  - Remote





# ***Current FL Cat Fund Issues***

- **3 of the last 4 years the Cat Fund would have been unable to meet its obligations**
- **20% shortfall this year, \$3.2 B deficiency could be twice that per Goldman Sachs**
- **Cat Fund advises 6 of top 15 FL insurers would go insolvent if this occurred**
- **Governor now supports “right sizing”**
- **Cat Fund proposes legislative fix, nominal cost to consumers**

# *Mitigation – Perpetual Reinsurance*



WeatherPredict Consulting Inc



# *Association of Bermuda Insurers and Reinsurers*

- **22 Companies**
- **Highly capitalized, distinct regulation**
- **\$62 Billion Gross Written Premiums,**
- **\$90 Billion Surplus**
- **Worldwide business enterprises**
- **Principal underwriting operations in Bermuda, Europe and the United States**

## ***ABIR Members***

- **ACE**
- **Allied World**
- **Alterra**
- **Ariel Re**
- **Arch**
- **Aspen**
- **Assured Guaranty**
- **Axis**
- **Catlin**
- **Endurance**
- **Flagstone Re**
- **Hardy**
- **Hiscox**
- **Lancashire**
- **Montpelier Re**
- **Partner Re**
- **Platinum Re**
- **Argo Group**
- **Renaissance Re**
- **Torus**
- **Validus Re**
- **XL Capital**

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