

BIQ

April 2008

BERMUDA INSURANCE QUARTERLY

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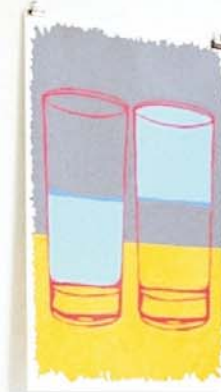


REINSURERS'
UPBEAT
OUTLOOK



NEW YORK'S CHANGING LANDSCAPE

Bermuda insurers are heavily involved in providing coverage for the planned new World Trade Center in New York City. Page 7



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THE QUOTES OF THE QUARTER

“Although our premium volume is down, we are pleased with the results of our January 1 renewals and have constructed an attractive portfolio of business for 2008. We will maintain our underwriting discipline, focusing on profit rather than premium volume.”

— *Renaissance Re* CEO **Neill Currie**



“All areas of the Company performed well, and the financial markets crisis had a relatively modest impact on our results. For the year, we achieved record net income and net operating income, which increased 12% and 15%, respectively, while book value per share increased 16%. Looking ahead, we are well positioned to manage through an increasingly difficult environment marked by continuing volatility in the financial markets, deteriorating economic fundamentals and a softening property and casualty market.”

— *ACE* Chairman & CEO **Evan Greenberg**



“Our disciplined underwriting continues to be supported by significant investment returns and our strong balance sheet. Collectively, these factors resulted in our generating an impressive operating income ROE of 22% for 2007 despite the challenging market conditions. Additionally, our diluted book value per share grew by over 20% during the year even as we acquired Allied World stock from one of our founding shareholders.”

— *Allied World* President & CEO **Scott Carmilani**



“The past year was very successful for Endurance on many fronts. Financially, we generated record earnings driven by strong underwriting and investment results. We returned over \$375 million of capital to our shareholders through share repurchases and dividends and our financial strength rating was upgraded to A by AM Best. Strategically, we continued to expand our expertise through the hiring of several seasoned specialty underwriting teams and acquired ARMtech Insurance Services, Inc.”

— *Endurance* Chairman & CEO **Kenneth J. LeStrange**

Fitch releases new Bermuda report

UPBEAT OUTLOOK FOR ISLAND'S REINSURERS, BUT WARNINGS OF PRESSURE ON FUTURE PROFITABILITY

Bermuda's reinsurance sector gets a generally positive outlook from rating agency Fitch in a new special report.

Bermuda Market Review is the first of what the agency says will be part of its increased commentary on the Bermuda market. The report also introduces Fitch's Bermuda market aggregate index, a group of Bermuda-based reinsurers that are important components of the Bermuda reinsurance market, and provides Fitch's first discussion of a separate Rating Outlook for the Bermuda market.

The March 3 report states that Bermuda continues to develop as a thriving domicile for (re)insurance organisations, thanks to an attractive regulatory and tax environment, an accumulation of investment capital and underwriting talent, and innovative approaches to risk management.

However Fitch noted: “Though this market has enjoyed this

tremendous operating success in the past two years, Bermuda reinsurers will face significant pressure on profitability going forward as property/casualty insurance pricing continues to trend steadily downward. Key near-term challenges facing the Bermuda market include managing the execution risk derived from expansion strategies adopted by some market participants, coping with the market's unique infrastructure challenges, and retaining financial and competitive advantages derived from the island's tax status.

Fitch believes that Bermuda reinsurers' capital management prowess will be tested over the next few years as they strive to profitably deploy their capital, or decide to return capital to shareholders and risk reducing their cushion against

unforeseen volatility.

The agency is maintaining a stable outlook on the Bermuda market, reflecting its belief that most rating actions over the next 12-18 months are likely to be affirmative and that the number of upgrades and downgrades are likely to approximate each other.

“The market's rapid growth has strained the country's infrastructure”

It says the market faces additional challenges regarding infrastructure and maintaining its tax advantage.

“Attracting qualified personnel to Bermuda is challenging because of the myriad of issues associated with living on a 21-square-mile island 650 miles from the US coast,” states the report. “Additionally, finding suitable and affordable family housing can be difficult given the dynamics of the Bermuda real estate markets. Moreover, obtaining work

permits required for non-Bermudians can be a difficult and lengthy process. In the aggregate, Fitch believes that these issues represent competitive challenges for Bermuda-domiciled (re)insurers.

“Historically, Bermuda's infrastructure was sufficient to enable Bermuda reinsurers to overcome these obstacles in an economic manner. Fitch continues to believe that this is the case for Bermuda reinsurers' senior management and, to a lesser extent, for key underwriting staff. However, the Bermuda market's rapid growth since 2005 has strained the country's infrastructure to the point where it is increasingly difficult to justify the economics of conducting back-office and ancillary operations on the island. In response, several reinsurers have decided to conduct such functions in locations other than Bermuda, and Fitch expect this trend to continue for the foreseeable future.”

Scottish Re reels over mortgages

UNCERTAIN FUTURE AS COMPANY'S RATINGS ARE DOWNGRADED

Troubled Bermuda-based life insurer Scottish Re says it plans to sell off some of its business and seek strategic alliances as the mortgage crisis continues to batter its investments.

The company says it will try to sell some of its smaller businesses, including its International Life Reinsurance division and the wealth management unit, and attempt to strengthen its main life reinsurance business in the US and Canada by tracking down strategic alliances or "other means."

Scottish Re announced in August that it had more than \$2 billion of securities backed by sub-prime mortgages and \$1 billion of Alt-A mortgage-backed securities. The crisis had already led to almost \$100 million of unrealised

losses at that point. The situation has worsened since then and Scottish Re's shares have slumped.

Standard & Poor's downgraded Scottish Re to BB on January 31, and placed the ratings on CreditWatch with negative implications. Scottish Re said similar actions by other rating agencies would make it difficult to achieve its goal of restoring its rating to at least A- by the middle of 2009 and "its ability to grow its life reinsurance businesses and maintain its core competitive capabilities".

On February 21, a Special Committee formed earlier this

year to evaluate strategic alternatives by management, recommended that the Board accept the revised business strategy.

In a statement, the company said: "The Board unanimously adopted the Special Committee's recommendations and the Company will now actively pursue the following key strategies:

"Pursue dispositions of the Company's non-core assets or lines of business,

including the International Life Reinsurance segment and the Wealth Management business; develop, through strategic alliances or other means, opportunities to

maximise the value of the company's core competitive capabilities within the North American Life Reinsurance segment, including mortality assessment and treaty administration; and rationalise the company's cost structure to preserve capital and liquidity."

The company added: "There can be no assurance that any of these key strategies will be successful and each of them may be subject to review by insurance regulators. The company will report further developments regarding any strategic actions only as circumstances warrant."

It also said it had established a programme of financial incentives designed to persuade essential employees to remain with the company.

'There is no assurance that any of these key strategies will be successful'



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Billionaire backs Assured Guaranty

\$1BN VOTE OF CONFIDENCE IN BERMUDA-BASED BOND INSURER

Leading financier Wilbur Ross has given the troubled bond insurance market his backing by agreeing to invest up to \$1 billion in Bermuda-based bond insurer Assured Guaranty Ltd.

In a February 29 announcement, New York-based investment firm WL Ross & Co. said it would purchase \$250 million worth of common stock and commit to buying an additional \$750 million in shares at the company's option.

Many bond insurers have struggled due to the sub-prime mortgage crisis and their all-important credit ratings have come under pressure. Assured is one of only two that have managed to retain AAA ratings from all three major credit agencies, and its municipal bond business quadrupled in December and January.

Analysts say Assured Guaranty and Dexia SA's Financial Security Assurance Inc. avoided much of the losses because they didn't expand as rapidly into guarantees on subprime-mortgage securities including collateralised debt obligations. Even so, Assured reported a \$260.1 million loss for Q4 2007 after a drop in the value of securities it guarantees.

Bloomberg said that Ross's investment would provide Assured with the capital to win market share from its larger rivals MBIA Inc. and Ambac Financial Group Inc. which have been losing business as they struggle to raise money to retain their AAA ratings.

In a company statement, Ross said: "We believe that Assured has an excellent opportunity during this time of uncertainty in the financial markets to provide investors with credit enhancement products in both the public and structured finance markets. We look forward to a long and profitable association with Assured."

Assured's President and CEO Dominic Frederico said: "We are extremely pleased that Wilbur Ross has chosen Assured as his

preferred investment vehicle in the financial guaranty industry. This flexible capital source will allow us to continue to capitalise on the significant growth opportunities we see, and will support our further expansion in both the direct and reinsurance markets."

Bond insurers are under increased scrutiny as ratings on

CDOs (collateralised debt obligations) they guarantee have been slashed amid record rates of US foreclosures and house price falls. Analysts estimate banks could lose as much as \$70 billion on insured debt they own if the ratings of bond insurers are cut. MBIA said that it was writing very little business and had sold off more than \$1

billion of common shares to ward off a ratings downgrade. Its insurance unit also sold \$1 billion in notes to help bolster its capital.

Ross's investment may indirectly help the other troubled bond insurers because by insuring securities already guaranteed by rivals, Assured Guaranty would help them free up capital.

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RenRe behind latest Disney attraction

REINSURERS HIGHLIGHT SEVERE WEATHER RISKS IN NEW STORMSTRUCK EXPERIENCE

Move over Thunder Mountain, Bermuda-based reinsurer Renaissance Re is one of the companies behind a new Disney attraction.

Scheduled to open in late summer, “StormStruck: The Tale of Two Homes,” at INNOVENTIONS at Epcot at the Walt Disney World Resort, will give visitors a taste of what it’s like to be in a hurricane

— and raise awareness about risk research and recommendations for reducing homeowners’ risk.

StormStruck is being put together by RenRe and its US affiliate WeatherPredict Consulting Inc. with the non-profit Federal Alliance for Safe Homes, Inc. (FLASH), State Farm and Simpson Strong-Tie. RenRe says StormStruck will “combine experi-

encing what it feels like to be in severe weather, with learning about the associated risks and ways to protect the home in an interactive and entertaining setting.”

The INNOVENTIONS attraction, located in the heart of Epcot, is more than 100,000 square feet of hands-on, interactive exhibits about innovations that improve peoples’ lives and expand their

horizons. The weather-related experience will be located in INNOVENTIONS East, one of two buildings in the pavilion at Epcot.

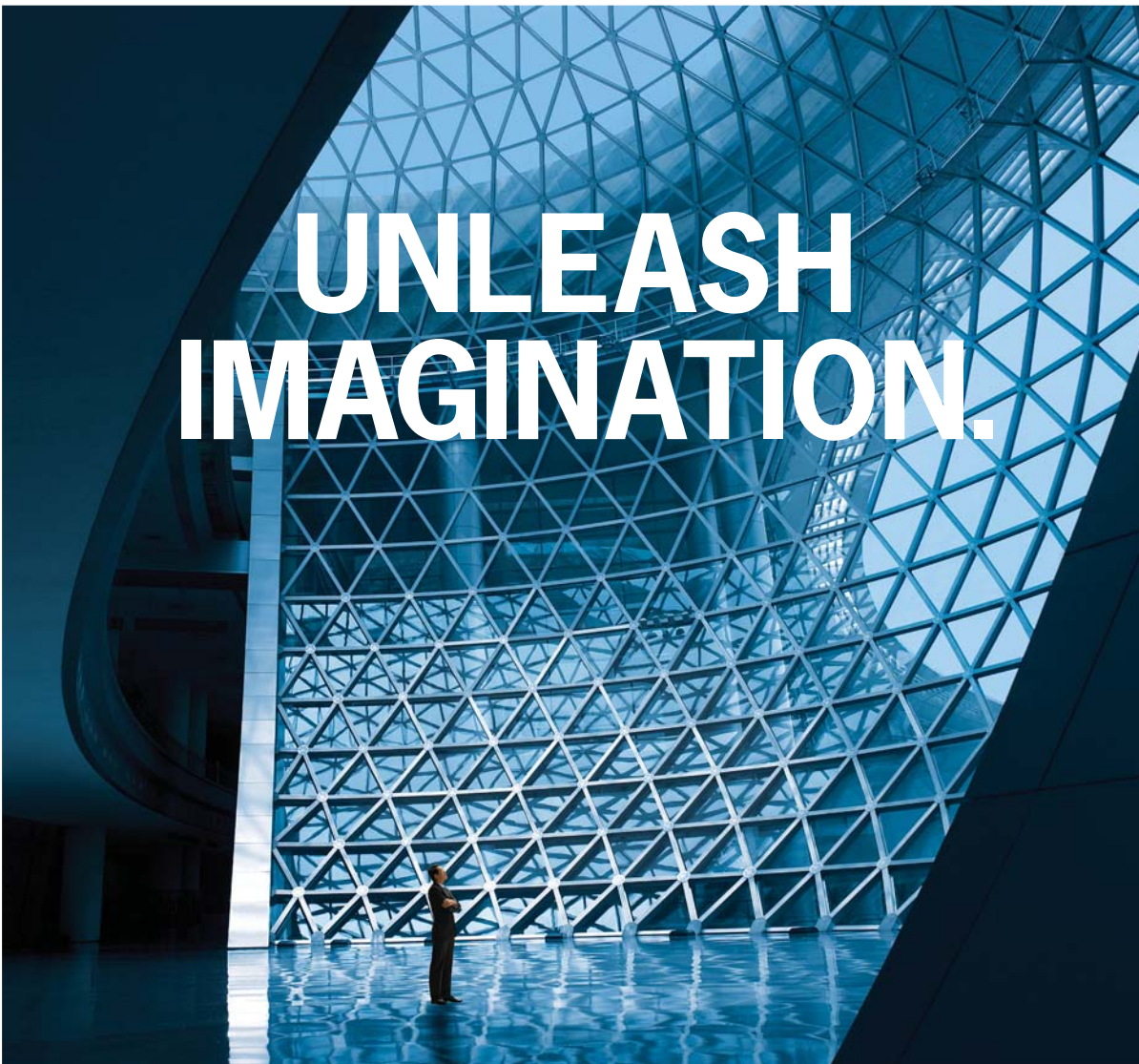
Neill Currie, RenRe’s CEO, said: “Understanding severe atmospheric hazards and vulnerability has been central to our business since our founding. It has been a natural extension of our philosophy, over time, to increase our focus on developing loss mitigation technologies, not only to reduce the severity of the financial impact of storms on our clients, but ultimately to enable people to make themselves, their families and their businesses safer.

“We are delighted to join forces with our partners in the StormStruck experience to share important information on how to protect communities from severe weather storms.”

Craig Tillman, President of WeatherPredict Consulting Inc., said: “A critical component of minimizing both loss of life and property damage in a hurricane is to better understand the impact of these storms on our buildings. RenaissanceRe demonstrated a desire to lead by example with the launch last year of the RenaissanceRe Wall of Wind hurricane safety testing facility in Florida. StormStruck represents a wonderful opportunity to further the risk mitigation effort in an exciting, entertaining way.”

RenaissanceRe has been investigating the damage patterns and economic impact of catastrophic storms for several years. WeatherPredict Consulting Inc. leads the company’s hurricane risk mitigation efforts, which have become an increasingly important component of RenaissanceRe’s business strategy.

In 2007, the ground-breaking “RenaissanceRe Wall of Wind” testing facility was launched, in partnership with the International Hurricane Research Centre at Florida International University.



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Industry muted over Budget

DISAPPOINTMENT AT HIGHER PAYROLL TAX AND FAILURE TO STREAMLINE WORK PERMITS. CHRIS GIBBONS REPORTS

Finance Minister Paula Cox's Budget got a lukewarm response from Bermuda's international business sector.

The Association of Bermuda International Companies (ABIC) — whose members include the Island's leading (re)insurance companies — was broadly supportive of Budget measures to assist a larger cross-section of the community in vital areas such as education, housing and transport, but expressed concern about the growth of Government expenditures and debt loads, and the additional taxes imposed on businesses to support them.

In a statement, ABIC noted that while increased taxes to their members were supporting government initiatives, the Budget failed to address their specific needs such as streamlining the work permit process.

In her Budget statement, Mrs Cox said: "Financial services continued to be the leading contributor to the growth of the nation's economy. This was especially true of international business. This sector expanded by four per cent while generating an additional 198 jobs."

ABIC chairman David Ezekiel said: "That's simply a statement of fact. What we were looking for was the follow on: '... and because they are so important, we're doing A, B and C'. We just didn't see that second piece. There was no indication that this sector, which is so impor-

tant to them, is at the top of their thoughts. The Budget is an annual report of the Government and as such the Government should reassure its biggest customer that things are being done for them."

Mr Ezekiel said his members had wanted to see a maximum four-week turnaround for work permit applications. "There has been some improvement of late but we were looking for reliable benchmarks so that we can plan accordingly. It's not just work permits but temporary permits where people are starting up a company. These are essential in the early period before all staff are in place."

ABIC is also unhappy about another increase in payroll tax. The standard rate for businesses with annual payrolls of \$1 million or more, and on exempted companies, will increase from 13.5% to 14% in 2008/09, although the salary cap will remain at \$350,000. The lower rates of payroll tax for small and medium sized businesses, will remain unchanged, as will the employee portion of the payroll tax, currently at 4.75%.

Bermuda-registered companies also face a 6.5% increase in company fees, applicable from April 1, 2008. According to Mrs Cox, this measure will raise an additional \$2 million in revenues, that will ensure that the government has "the necessary financial resources to address improvements to our regulatory framework".

She added: "The cost of maintaining the good name of Bermuda's company registry continues to increase. We have always prided ourselves on effective gate keeping powers. We must continue to enhance that and to ensure that we have the necessary resources. There have been instances of action, and in tandem with the work that the independent regulator is undertaking, we in Government also have to ensure that we have the necessary financial resources to address improvements to our regulatory framework."

Mr Ezekiel noted: "Payroll tax has now become the single major expense for many companies in the International Business and local sectors. Especially hard hit by these increases are the 'service companies' in each of these sectors, whose major expense has always been payroll. Service companies are the lifeblood of any economy, and we would ask Government to ensure that these businesses are

encouraged to grow."

Failure to do so, he said, would lead to an increase in outsourcing to other, cheaper countries. Faced with rising local costs, a growing number of Bermuda companies are using improving technology to outsource everything from claims and IT to catastrophe modeling.

He said: "ABIC has previously warned that the move to outsourcing will start to have a major impact on entry level job opportunities for Bermudians in the international sector, which is to be avoided at all costs."

He added: "The more expensive it gets to employ people here, the more likely companies are to ask, 'Can we do this better and cheaper anywhere else?'"

The Island's top executives may also think twice about some of their leisure activities as the duty on boats rose from 33.5% to 55%. Like everyone else, businesses will also have to fork out \$10 more in individual departure tax, which rose to \$35 per head.

Payroll is now the single major expense for many companies



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Catlin agrees to \$150m cat bond deal

COMPANY UNVEILS 'UNUSUAL' AND HIGHLY INNOVATIVE TRANSACTION

Bermuda-based specialty property/casualty insurer and reinsurer Catlin Group Limited has purchased a collateralised US\$150 million annual aggregate reinsurance contract to protect the Group's portfolio of property treaty reinsurance against accumulated losses from specific perils.

According to a company statement: "The transaction is unusual as it provides retrocessional 'catastrophe bond' type coverage for a diverse portfolio of property catastrophe exposures on an indemnity basis. As it would be triggered by Catlin's actual losses, it reduces the basis risk present in most indexed or parametric-based catastrophe bond products."

The coverage, which expires on December 31, 2010, will be triggered if Catlin's losses from

defined US windstorms and earthquakes, European windstorms, and Japanese windstorms and earthquakes exceed an annual aggregate threshold amount. The coverage complements the collateralised catastrophe protections purchased by Catlin in 2006 and 2007 and its traditional reinsurance programme.

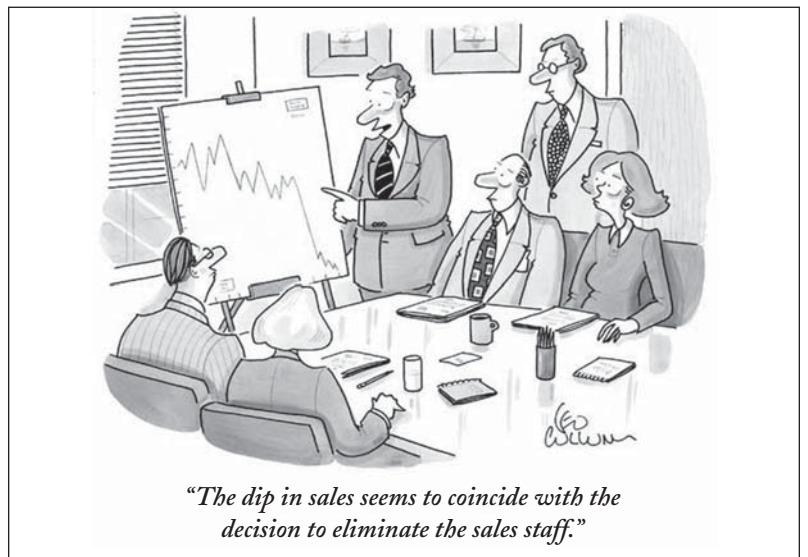
Under the contract, Catlin has entered into a reinsurance agreement with Newton Re Limited, a Cayman-based special purpose reinsurer. Newton Re in turn has issued US\$150 million of principal at-risk variable rate notes, the proceeds of which will be used to provide collateral for Newton Re's obligations to Catlin under the reinsurance agreement.

The notes, which were rated 'BB' by Standard & Poor's and 'bb'

by A M Best, have a coupon of Libor plus 750 basis points.

Mark Hvidsten, CEO of Willis Capital Markets, which acted as co-lead manager of the offering, said: "Careful and

sophisticated structuring has resulted in a transaction that enables investors to support the deal, while providing Catlin with economic and rating agency capital efficiencies."



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Bermuda market has new WTC covered

INSURANCE PROGRAMMES REVEALED FOR TOWERS 2, 3 AND 4

Bermuda insurers have again been heavily involved in providing coverage for the planned new World Trade Center development in New York City.

On February 25, World Trade Center developer Larry A. Silverstein announced the placement of the Workers' Compensation, General Liability, Excess Liability, and Specialty insurance programmes for the construction of Towers 2, 3, and 4 at 200, 175, and 150 Greenwich Street.

ACE and XL — which paid out \$298 million and \$67 million after the 9/11 terrorist attack which destroyed the original Twin Towers — are again involved. ACE USA is leading the Excess Liability Programme that also features many of the world's leading insurers including Bermuda-based

Aspen, Allied World and XL Insurance. Ironically, Allied World and Aspen were among the "class of 2001" insurers formed when the 9/11 tragedies led to a drain on market capacity.

The insurance programmes were finalised in anticipation of the recent turnover to Silverstein Properties by the WTC site's owner, the Port Authority of New York and New Jersey, of the sites for Towers 3 and 4. The site for Tower 2 is expected to be delivered in mid-2008.

The three office towers, developed by Silverstein Properties and designed by award-winning architects Norman Foster, Richard Rogers, and Fumihiko Maki, will rise along the site's eastern edge. As the first construction-related liability insurance programmes

secured for the three towers, they cover the contractors' employees on the site, and the liability exposure resulting from construction.

"This is a significant step in our efforts to build these three buildings," said Mr Silverstein. "The insurance industry has an historic connection to lower Manhattan, and our renewed partnership with the industry is key to the entire rebuilding effort."

Since last April, the WTC insurance team led by global brokers Willis engaged more than 60 insurance markets in the United States, London and Bermuda. The team developed a comprehensive and open approach to informing prospective insurers about this world-renowned project.

The WTC insurance team included more than 40 technical

experts and placement professionals from Willis, led by Leslie Nylund and Silverstein's WTC executives led by Shari Natovitz, Silverstein's Risk Manager.

The WTC insurance programme responds to the specifications of the Port Authority as one of the requirements for site turnover. The Controlled Insurance Programme, which consists of Workers' Compensation and General Liability, is being provided by AIG Group. The programme also includes extensive safety and loss control resources, as well as a tailored claims management programme to assist workers. AIG has also been selected to underwrite environmental liability insurance for the project. Beazley Syndicate (Lloyd's of London) is providing specialised protection.

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XL rides out record losses, downgrade

CEO SAYS NO FURTHER LOSSES ARE EXPECTED AFTER TAKING 'THE FULL MEASURE OF PAIN'

XL Capital management says it is not concerned about the future of the company despite being downgraded by rating agency A M Best following its record fourth quarter loss of \$1.06 billion. XL reported a net income of \$430 million for 2007, compared to a \$1.76 billion profit in 2006.

The results reflected charges

totaling \$915.5 million related to its \$670 million investment in bond insurer Security Capital Assurance Ltd. (SCA). XL wrote down \$523.7 million of its investment and set aside \$330 million in loss reserves in connection with SCA.

XL owns a 46% share in SCA which has lost more than 80% of its market value since last summer

as a result of the US mortgage crisis. Some of the mortgage-linked securities guaranteed by SCA have plummeted in value as a wave of delinquencies has swept the US in the wake of plunging property prices.

As a result, in late January Best downgraded the financial strength rating (FSR) to 'A' (Excellent) from 'A+' (Superior) and the issuer

credit ratings (ICR) to "a" from "aa-" of XL Capital Group and its members. Best also downgraded the ICR to "bbb" from "a-" and all existing debt ratings of Cayman Islands-based, XL Capital Ltd. However, Best maintains a stable outlook on all of the ratings.

Standard & Poor's said it was taking no action on XL's ratings and maintaining its 'A-' (Stable) mark. "XL's capital adequacy, though diminished, remains very strong and well supportive of the rating," it said.

Henry Keeling, XL's COO, told *The Royal Gazette*: "We are disappointed with Best's decision, but an A from Best is still an excellent rating." He said XL still had a very strong capital base and its core lines of business were still performing well, and that excluding the charges, the company still made a profit of \$430 million.

"There is no reason for people to be concerned about the future of the company," he said. "We have a 21-year track record of paying customers' claims and we shall continue to do that."

Insurance Journal commented: "The differences in the two rating actions are more apparent than real. S&P currently rates XL 'A-' with a stable outlook, which is at the lower end of its third highest category (S&P's ratings go from 'AAA', 'AA', 'A', etc. further modified by a 'plus' or a 'minus' sign). Best's 'A+' rating is its second highest ('A++' is the highest). XL's one notch demotion removes its ratings from the "Superior" category, and brings them roughly into line with S&P's."

In a statement accompanying the fourth quarter results, XL President and CEO Brian O'Hara said: "I believe that these previously announced fourth quarter charges, while disappointing, have reduced uncertainty and increased investors' ability to recognise the strength of XL's diversified and global insurance and reinsurance franchise, which continues to per-



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form very well as evidenced by our full year combined ratio of 88.8%. In addition, our investment fund and manager affiliates have had another strong performance in 2007. We remain committed to building shareholder value as we execute our strategy.”

However, Best voiced ongoing concerns about SCA, in relation to XL’s recent history, stating that “XL Capital’s risk management controls are below expectations as the company takes an unanticipated charge, albeit below the operating line, continuing the trend established by the litany of NAC Re related reserve charges, the Winterthur acquisition charge and higher than anticipated losses stemming from the 2005 catastrophe season.”

The agency said XL might still have exposure to SCA losses, as well as “further subprime exposure through its D&O and E&O liability portfolio on both a primary and reinsurance basis. This exposure gives rise to concerns that there may be a potential resurgence in claims for these lines as they relate to subprime issues in the future.”

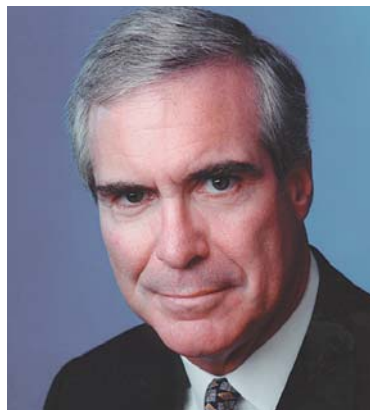
However, Brian O’Hara said he did not anticipate further losses. “We don’t anticipate anything more emerging in future quarters,” he told *The Royal Gazette*. “We have taken the full measure of pain. We still have \$117 million of equity in SCA and if conditions deteriorate further than expected, then it is a possibility that it could be written down further. But once it gets to zero, if it goes that far, that’s it.”

While XL’s capital adequacy was not an immediate concern, Best said the extent of the losses raised questions about “XL Capital’s earnings inconsistency and enterprise risk management that are not indicative of a Superior-rated company.”

In explaining its ratings review, S&P said the \$550 million write-down did not affect its view of capital. “Similarly, our model incorporated a material quantitative charge relative to outstanding related party arrangements with SCA, thus addressing a significant proportion of the \$330 million in additional loss reserves on reinsurance agreements with SCA.”

S&P added that it believes XL has “the appropriate liquidity and financial flexibility to address such a scenario”.

S&P said its current rating on XL and its subsidiaries was based on the company’s “very strong global market presence, very strong interest and fixed-charge coverage, and diversified earnings stream. Somewhat offsetting these strengths are a track record of inconsistent earnings performance; material, though reduced, exposure to large catastrophic losses; susceptibility to adverse reserve development, and business integration challenges borne from the relative-



XL chief Brian O’Hara

ly rapid building of a very strong and diversified global competitive position.

“The stable outlook reflects our

expectation that the continued integration of XL’s strongly positioned global platform of insurance, reinsurance, and life operations — in combination with reduced volatility borne from an evolving enterprise risk management process — will result in a strong, consistent earnings stream consistent with similarly rated peers, with capitalisation remaining at a very strong level.”

The agency warned: “If there are significant negative operating developments, particularly in the operating segments, that dampen consolidated results, the outlook could be revised to negative.”



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Company ratings on CreditWatch

S & P REVIEW BOND REINSURANCE COMPANIES' CAPITAL POSITIONS

Standard and Poor's has placed its ratings on BluePoint Re Ltd (AA), Channel Reinsurance Ltd. (AAA), and RAM Reinsurance Co Ltd (AAA) on CreditWatch, with negative implications due to projected subprime-related losses. Ratings on the companies' related entities, as well as RAM Re's contingent capital facility, were also affected. S&P also

affirmed its AA rating on Assured Guaranty Re Ltd., with a stable outlook.

S&P stated: "The rating actions are the result of our most recent review of all the bond reinsurance companies' capital positions, our projections of their respective subprime-related losses, and the companies' plans for managing their capital positions. This review is

part of Standard & Poor's ongoing assessment of these bond reinsurers' potential subprime-related losses and management of their capital positions to handle the losses. Further reviews will occur as circumstances warrant."

Standard & Poor's has assigned its BBB+ long-term counterparty credit and insurer financial strength ratings to Bermuda-based

marine insurer The Steamship Mutual Underwriting Association (Bermuda) Ltd with a stable outlook. S&P said the "ratings reflect the company's core status within the economic grouping collectively known as The Steamship Mutual, of which the principal operating entities include its sister direct underwriting company, the UK-based Steamship Mutual Underwriting Association Ltd, and Bermuda-based reinsurer Steamship Mutual Underwriting Association (Reinsurance) Ltd. The ratings also reflect the club's strong and improving competitive position, strong financial flexibility, and the high barriers to entry of protection and indemnity (P&I) insurance.

Partially offsetting these strengths are an aggressive investment strategy and the moderately high industry risk of the P&I sector."

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Aon buys Gallagher units

Aon Corporation has agreed to buy most of Arthur J Gallagher & Co's US and UK reinsurance brokerage operations. Aon said it will pay \$30 million in cash, plus a performance-related sum based on revenues generated in the 12 months following the close of the transaction.

Gallagher's reinsurance business employs about 250 people in 14 offices in the US, UK, Bermuda, Singapore and Australia — but the deal is not likely to affect its Bermuda office, which operates under the Artex Risk Solutions brand.

David McManus, President of Artex Risk Solutions, said: "As of January 1, 2007, we had separated our insurance and reinsurance operations from a strategic perspective.

MBIA threatens Bermuda move

CONCERN OVER TAX LOOPHOLE COULD FORCE TRANSFER

Troubled Armonk, New York-based bond insurer MBIA Inc. says it will move to Bermuda unless the US Government closes the controversial tax loophole that benefits competitors with foreign affiliates.

CEO Jay Brown, in a February 25 letter to investors, said the loophole benefits companies selling insurance in the United States, from financial guarantors to property-casualty insurers, who then reduce their tax bill through reinsurance arrangements with Bermuda-based affiliates.

“In a move to level the playing field in terms of the cost of capital, we will escalate our efforts to campaign vigorously against the ability of US financial guarantors to reinsure US domestic financial guarantee transactions with foreign affiliates without paying US corporate tax rates,” he wrote.

“As more money comes into existing and new competitors’ public finance business, the discrepancy this loophole allows becomes even more pronounced. In a competitive and open market to provide all American public entities with access to the capital markets, it makes no sense to allow foreign competitors with US domiciled operations to operate without paying their fair share of US taxes.

“I still don’t look good in Bermuda shorts, but we will eventually have to move the company if the US tax code is not modified,” he added.

Meanwhile, Brown said this year MBIA would earmark \$1 million or more towards the Coalition for a Domestic Insurance Industry (CDII), which is lobbying the Government to close the loophole.

As reported in the last issue of *BIQ*, the CDII wants to see offshore competitors like Bermuda pay higher excise tax, or be restricted in the amount of business they can acquire from within the US in order to level the playing field with solely US-based companies, and pay full taxes on earnings.

In September, the Association of Bermuda Insurers and Reinsurers (ABIR) put their case before the US Senate Finance Committee, claiming the CDII attack is not just on Bermuda subsidiaries but on any US subsidiaries of a non-US owned enterprise.

BIR and the Coalition for Competitive Insurance Rates

(CCIR) have called the move protectionist and anti-competitive. They warned that it would lead to decreased capacity and higher insurance costs for US policyholders.

MBIA announced last week that the tax issue was one reason why it would be withdrawing from the Association of Financial Guaranty Insurers (AFGI), the

bond insurance trade group.

According to a Reuters report, in the past Brown has been critical about the tax loophole benefiting rival bond insurer Security Capital Assurance Ltd., in which Bermuda-based XL Capital is a major investor.

ACE spin-off Assured Guaranty Ltd is also based in Bermuda.



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INSURANCE/REINSURANCE



OPERATING RATIOS

ANNUAL LOSS RATIOS

	2007	2006	2005
ACE	61.6%	61.2%	74.5%
Arch	55.8%	58.1%	67.2%
Aspen	53.0%	53.0%	90.1%
Allied World	58.8%	59.0%	105.7%
Axis	50.1%	52.9%	80.3%
Endurance	47.0%	50.5%	95.8%
Everest Re	63.7%	63.2%	94.0%
Hiscox	44.0%	49.3%	n/a
IPC	31.9%	14.7%	237.0%
Max Re	64.0%	67.7%	98.0%
Montpelier	31.8%	29.6%	178.0%
PartnerRe	50.8%	54.8%	87.3%
Platinum	55.9%	56.9%	87.8%
Renaissance Re	33.6%	29.2%	116.6%
Validus	33.1%	29.8%	n/a
White Mtn	61.0%	71.0%	90.0%
XL Capital	59.8%	62.2%	107.4%

ANNUAL EXPENSE RATIOS

	2007	2006	2005
ACE	26.3%	26.9%	25.0%
Arch	28.3%	27.3%	28.6%
Aspen	30.0%	29.0%	27.1%
Allied World	22.5%	19.8%	18.7%
Axis	25.2%	24.4%	21.5%
Endurance	32.9%	31.0%	27.7%
Everest Re	27.9%	26.5%	26.2%
Hiscox	40.4%	39.8%	n/a
IPC	18.0%	18.1%	14.8%
Max Re	24.2%	18.7%	12.7%
Montpelier	29.5%	30.7%	22.7%
PartnerRe	29.6%	29.6%	29.0%
Platinum	25.1%	26.7%	26.7%
Renaissance Re	25.7%	25.5%	23.1%
Validus	28.9%	26.9%	n/a
White Mtn	33.0%	31.0%	28.0%
XL Capital	29.0%	27.3%	25.6%

ANNUAL COMBINED RATIOS

	2007	2006	2005
ACE	87.9%	88.1%	99.5%
Arch	84.1%	85.4%	95.8%
Aspen	83.0%	82.0%	117.2%
Allied World	81.3%	78.8%	124.4%
Axis	75.3%	77.3%	101.8%
Endurance	79.9%	81.5%	123.5%
Everest Re	91.6%	89.7%	120.2%
Hiscox	84.4%	89.1%	n/a
IPC	49.9%	32.8%	251.3%
Max Re	88.2%	86.4%	110.8%
Montpelier	61.3%	60.3%	200.7%
PartnerRe	80.4%	84.4%	116.3%
Platinum	81.0%	83.6%	114.5%
Renaissance Re	59.3%	54.7%	139.7%
Validus	62.0%	56.7%	n/a
White Mtn	94.0%	102.0%	118.0%
XL Capital	88.8%	89.5%	133.0%

FINANCIAL STRENGTH RATINGS

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Mar 7, 2008 Mar 9, 2007

S&P RATING

Mar 7, 2008 Mar 9, 2007

	Mar 7, 2008	Mar 9, 2007	Mar 7, 2008	Mar 9, 2007
ACE	A+	A+	A+	A+
Arch	A	A	A	A-
Aspen	A	A-	A	A
Allied World	A	A	A-	A-
Axis	A	A	A	A
Endurance	A	A-	A	A-
Everest Re	A+	A+	AA-	AA-
Hiscox	A	A	A	A
IPC	A	A	A-	A
Max Re	A-	A-	NR	NR
Montpelier	A-	A-	A-	A-
PartnerRe	A+	A+	AA-	AA-
Platinum	A	A	NR	NR
Renaissance Re	A+	A	AA-	A+
Validus	A-	A-	NR	NR
White Mtn	A-	A-	A-	A-
XL Capital	A	A+	A+	A+

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ANALYSIS / PRICewaterhouseCOOPERS

Year end 2007

Renewals

- Rates have continued to soften more steeply than expected in certain lines in the second half of 2007.
- Competition for new business is particularly strong and those rates are showing significant reductions over expiring rates.
- The reduction in demand in the cat reinsurance market for the first time since 2005 was commented on by some companies.
- Despite this softening, client retentions continue to rise, possibly due to their own business being written at softer rates.
- Several Bermuda companies continued the trend of building out their US operations, particularly in specialty areas.

Earnings

- Despite a lack of premium growth, most companies exceeded annual earnings estimates and several generated record earnings,

due to a combination of better than expected current year combined ratios as well as prior year reserve releases.

- It has been a year of relatively low insured catastrophes, with Windstorm Kyrill, the summer UK floods and the California wildfires being some of the more significant.
- Net investment income provided a strong contribution to the bottom line and sub-prime losses to date have been generally minimal for the Bermuda companies in this listing, with the exception of XL Capital.

Capital management

- For the year, the Bermuda companies repurchased shares to a value of approx \$4.5 billion.
- The expectation is that share repurchases will continue in 2008 due to the limited growth opportunities expected.

ANNUAL GROSS PREMIUMS WRITTEN \$M

	2007	2006	2005
ACE	17,740	17,401	16,811
Arch	4,140	4,282	4,015
Aspen	1,819	1,946	2,093
Allied World	1,506	1,659	1,560
Axis	3,590	3,609	3,394
Endurance	1,781	1,790	1,669
Everest Re	4,078	4,001	4,109
Hiscox	2,397	2,206	n/a
IPC	404	430	472
Max Re	1,078	865	1,246
Montpelier	654	728	979
PartnerRe	3,810	3,734	3,665
Platinum	1,140	1,275	1,765
Renaissance Re	1,810	1,944	1,809
Validus	989	541	n/a
White Mtn	4,190	4,312	4,602
XL Capital	8,998	9,786	11,849

ANNUAL NET PREMIUMS EARNED \$M

	2007	2006	2005
ACE	12,297	11,825	11,748
Arch	2,945	3,082	2,978
Aspen	1,734	1,676	1,508
Allied World	1,160	1,252	1,272
Axis	2,734	2,694	2,554
Endurance	1,595	1,639	1,724
Everest Re	3,998	3,853	3,963
Hiscox	1,929	1,741	n/a
IPC	391	397	453
Max Re	818	665	1,053
Montpelier	557	583	848
PartnerRe	3,777	3,667	3,599
Platinum	1,173	1,337	1,715
Renaissance Re	1,424	1,530	1,403
Validus	858	307	n/a
White Mtn	3,784	3,713	3,799
XL Capital	7,205	7,570	9,617

Q4 EARNINGS DATA

	Net income (loss) attributable to common shareholders (\$m)			Fully diluted earnings per share (\$)		
	Q4 2007	Q4 2006	Q4 2005	Q4 2007	Q4 2006	Q4 2005
ACE	572	665	236	1.69	1.99	0.69
Arch	234	239	101	3.31	3.12	1.34
Aspen	135	120	30	1.44	1.20	0.33
Allied World	123	128	(24)	2.01	2.04	(0.08)
Axis	306	281	233	1.89	1.69	1.47
Endurance	149	195	(52)	2.18	2.70	(0.80)
Everest Re	12	206	(162)	0.19	3.15	(2.63)
Hiscox	n/a	n/a	n/a	n/a	n/a	n/a
IPC	167	108	(75)	2.48	1.52	(1.28)
Max Re	62	95	(11)	1.00	1.51	(0.20)
Montpelier	91	122	(61)	0.97	1.26	(0.68)
PartnerRe	172	234	(42)	3.04	4.03	(0.76)
Platinum	100	83	(103)	1.60	1.28	(1.94)
Renaissance Re	62	201	(210)	0.88	2.78	(2.97)
Validus	139	69	n/a	1.77	1.16	n/a
White Mtn	101	278	33	9.55	60.33	2.82
XL Capital	(1,216)	471	(822)	(6.88)	2.62	(5.51)

ANNUAL EARNINGS DATA

	Net income (loss) attributable to common shareholders (\$m)			Fully diluted earnings (loss) per share (\$)		
	2007	2006	2005	2007	2006	2005
ACE	2,578	2,305	1,028	7.66	6.91	3.31
Arch	832	693	256	11.28	9.08	3.43
Aspen	489	378	(178)	5.11	3.75	(2.40)
Allied World	469	443	(160)	7.53	7.75	(3.19)
Axis	1,055	926	90	6.41	5.63	0.57
Endurance	506	483	(223)	7.17	6.73	(3.60)
Everest Re	839	841	(219)	13.19	12.87	(3.79)
Hiscox	382	321	n/a	0.93	0.79	n/a
IPC	368	377	(626)	5.55	5.48	(12.30)
Max Re	303	217	10	4.75	3.43	0.18
Montpelier	316	303	(753)	3.31	3.22	(11.16)
PartnerRe	683	715	(86)	11.87	12.37	(1.56)
Platinum	347	319	(138)	5.38	4.96	(3.01)
Renaissance Re	570	762	(281)	7.93	10.57	(3.99)
Validus	403	183	(50)	5.95	3.11	(0.85)
White Mtn	407	673	290	37.89	62.32	26.56
XL Capital	206	1,722	(1,292)	1.15	9.60	(9.14)

MARKET CAPITALISATION

	2007		2006		2005	
	Common shares issued	Market value	Common shares issued	Market value	Common shares issued	Market value
ACE	329,704,531	61.78	326,455,468	60.57	323,322,586	53.44
Arch	67,318,466	70.35	74,270,466	67.61	73,334,870	54.75
Aspen	85,510,673	28.84	87,788,375	26.36	95,209,008	23.67
Allied World	48,741,927	50.17	60,287,696	43.63	50,162,842	n/a
Axis	142,520,000	38.97	149,982,000	33.37	148,868,759	31.28
Endurance	60,364,488	41.73	66,480,381	36.58	66,138,901	35.85
Everest Re	65,400,000	100.40	65,000,000	98.11	64,600,000	100.35
Hiscox	393,573,000	5.70	393,916,000	5.49	n/a	n/a
IPC	57,626,395	28.87	63,706,567	31.45	63,666,368	27.38
Max Re	57,515,075	27.99	60,276,560	24.82	58,829,354	25.97
Montpelier	99,290,078	17.01	111,775,682	18.61	89,178,490	18.90
PartnerRe	57,379,516	82.53	57,076,312	71.03	56,730,195	65.67
Platinum	53,779,914	35.56	59,671,959	30.94	59,126,675	31.07
Renaissance Re	68,920,319	60.24	72,140,045	60.00	71,552,701	44.11
Validus	74,199,836	25.98	58,482,601	n/a	n/a	n/a
White Mtn	10,553,572	514.05	10,782,753	579.43	10,779,223	558.55
XL Capital	177,910,151	50.31	180,983,611	72.02	179,528,593	67.38

n/a = data not publicly available

SHAREHOLDERS' EQUITY (\$M)

	2007	2006	2005
ACE	16,677	14,278	11,812
Arch	4,036	3,591	2,480
Aspen	2,818	2,389	2,040
Allied World	2,240	2,220	1,420
Axis	5,159	4,413	3,512
Endurance	2,512	2,298	1,873
Everest Re	5,685	5,108	4,140
Hiscox	1,640	1,337	n/a
IPC	2,126	1,991	1,616
Max Re	1,584	1,390	1,186
Montpelier	1,653	1,493	1,058
PartnerRe	4,322	3,786	3,093
Platinum	1,998	1,858	1,540
Renaissance Re	3,478	3,280	2,254
Validus	1,935	1,193	n/a
White Mtn	4,713	4,455	3,833
XL Capital	9,948	10,131	8,472

CEOs get a fix on the future

FEARS OF COMPETITION AND REGULATORY RISK, SAYS NEW SURVEY FROM PRICEWATERHOUSECOOPERS

Insurance sector CEOs are just as confident about revenue growth over the next 12 months as their peers in other industries, according to PricewaterhouseCoopers' 11th Annual Global CEO Survey. But the report reveals uncertainties among insurance bosses about what the future holds.

For example, more insurance CEOs are worried about low cost

competition than their peers in the banking sector. The survey shows that they are more concerned than executives from other industries about how pandemics and other health crises could threaten business growth.

Feedback from insurance executives about perceived opportunities for business growth shows that organic growth (better penetration

of existing markets) scores higher than growth through new product development or mergers & acquisition. Only 20.4% of insurance CEOs indicated that they are planning M&A in the next 12 months, compared to 30.9% globally.

But will Bermuda companies resist the urge to merge? Commenting on the survey, PwC managing partner Peter Mitchell says companies could have more reason to partner up. "There may be some M&A as Bermuda companies seek to consolidate their position," he says. "We have seen this cycle before, as CEOs look to maintain IRR in a difficult business period."

Regulatory risk is a constant preoccupation for the insurance industry. The report found that over three quarters of insurance

industry respondents factor in the regulatory framework to a great extent when making business decisions (globally the figure is 62.5%). Asked to identify the most important area in which government could potentially improve the business environment, insurance executives follow the global trend by choosing "tax regime" followed by labour laws.

Peter Mitchell says: "CEOs are conscious of the labour costs and immigration issues in Bermuda and there is a trend for companies to outsource certain labour intensive functions to other geographic locations, which will assist in controlling costs without affecting their Bermuda domicile and tax status."

PricewaterhouseCoopers' 11th Annual Global CEO Survey is available at www.pwc.com/ceosurvey

Hardy on course for Bermuda

Hardy Underwriting Group PLC, is the latest Lloyd's of London insurer and reinsurer to announce it will redomicile in Bermuda. The company said it is making the move to take advantage of the country's "strategic positioning in the insurance and reinsurance market." Hardy joins a growing list of Lloyd's insurers and reinsurers including Kiln, Hiscox and Omega Underwriting that have either opened offices in Bermuda or redomiciled there, to take advantage of the Island's proximity to the US catastrophe reinsurance market and its low corporate tax rate.

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— *Aspen CEO Christopher O'Kane in an analysts call, commenting on competition from Florida's Cat Fund which is impacting sales in US hurricane regions* [Sarasota Herald Tribune]

"We're not pleased with these

results especially given the continuing strength of our underlying property and casualty business."

— **Brian O'Hara, CEO of XL Capital** in a conference call with analysts

"Clearly we are way undervalued and this has to be a result of the overhang from what people think we have liabilities for — but we don't think we do, as we keep trying to tell people. In time, I think

investors will get their minds around that. Clearly we should be trading above book value, like our peers."

— **Brian O'Hara, CEO of XL Capital**, *The Royal Gazette*, February 15

"I've seen headlines that claim the financial guaranty industry stands to lose \$200 billion and that's not even in the realms of possibility. And I don't think the general pub-

lic fully appreciates that there's a big difference between being downgraded and going bankrupt. A company which has been downgraded to AA still has a very high credit rating. It's not such a fall from grace. And it can still write a lot of business."

— **Dominic Frederico, CEO of Bermuda-based bond insurer Assured Guaranty**, *remains bullish amid the sub-prime crisis*

WHAT'S ON

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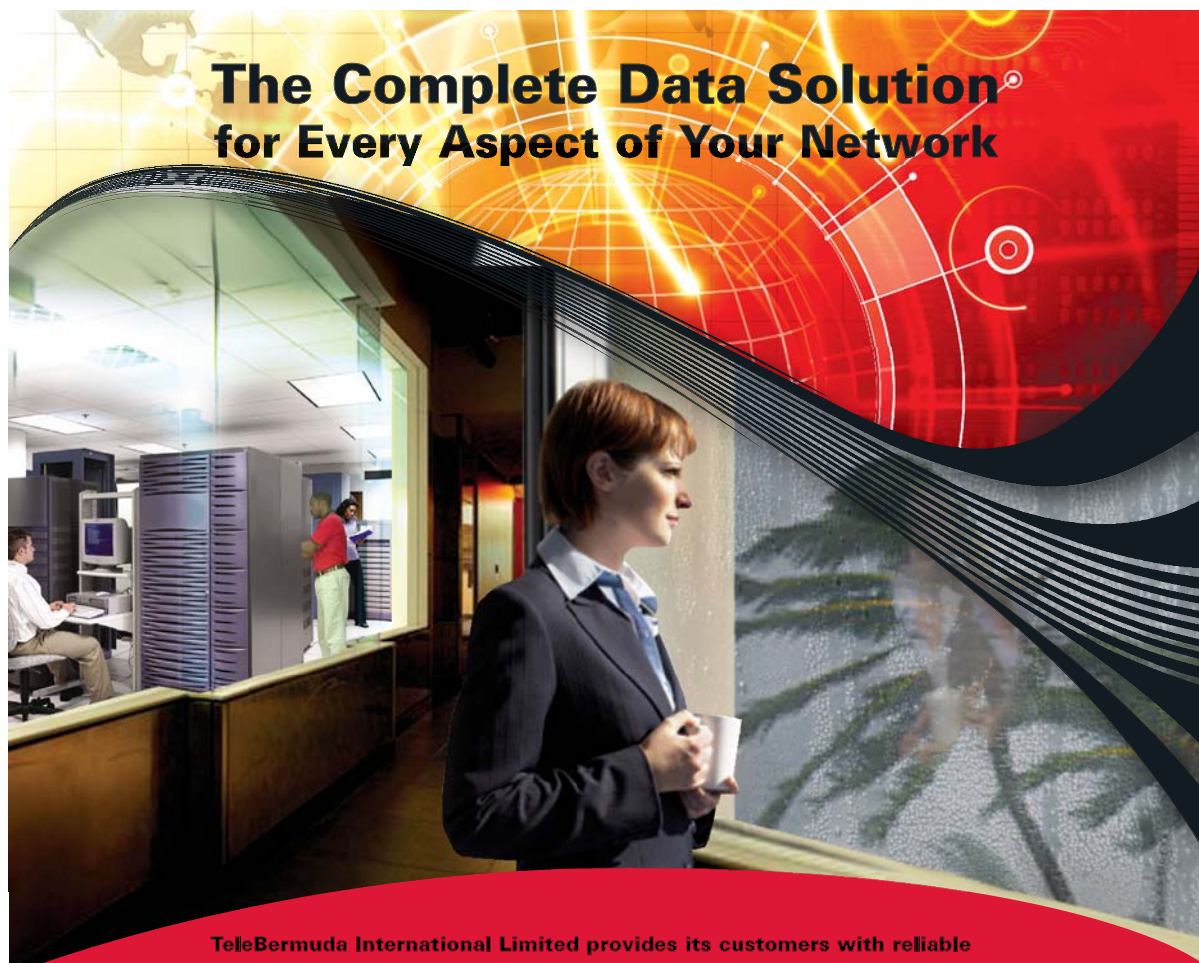
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Duperreault named CEO of MMC

CHRIS GIBBONS ON THE BERMUDIAN WITH NO PLANS TO RETIRE

At a time when most people in his position might consider riding off into the sunset with a set of golf clubs slung over his shoulder, Brian Duperreault is taking on arguably the biggest challenge of his career.

Instead of grasping the opportunity of a well-earned early retirement, the 60-year-old Bermudian, who enjoyed a hugely successful career as chairman and chief executive officer of ACE Limited, has been named Marsh & McLennan Companies' (MMC) new president and CEO.

Duperreault has been chairman of the board at ACE since stepping down as CEO in 2004, but relinquished that post to replace Michael G. Cherkasky as CEO of beleaguered MMC. Duperrault was paid \$5 million in severance by ACE as "compensation for his past service", according to an SEC filing.

MMC, the US-based global professional services and insurance brokerage firm, has been in trouble since 2004 when its insurance brokerage unit, Marsh, was involved in a price-fixing scandal.

Stephen R. Hardis, chairman of MMC's board, welcomed Duperrault in a company statement, saying: "Throughout his career, including 10 years as a CEO, Brian Duperreault has proven his ability to produce results and create shareholder value. We are delighted to welcome him to MMC."

Mr Duperreault said: "I am honoured to become the CEO of MMC, a company that comprises several of the world's greatest brands in risk and insurance services and consulting.

"I look forward to working with the company's talented executives. This is an institution with unrivalled resources and capabilities. My mission is to capitalise on the strength of MMC's operating companies to deliver value to clients, employees and shareholders."

From 1994 to 2004, Duperrault

was CEO of ACE, the Bermuda-based insurer MMC helped found in 1985.

Duperrault, who maintains property in Bermuda, will split his time mainly between Marsh's offices in Bermuda and New York. Following his appointment, he has stepped down as chairman of Butterfield Bank but remains

chairman of non-profit organisations The Centre on Philanthropy and the Bermuda Institute of Ocean Sciences.

Under Duperreault, ACE's market capitalisation grew from \$1.1 billion to about \$19 billion today and its stock rose more than five-fold. ACE's net premiums are currently around \$12 billion.



Brian Duperreault

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Making Technology Your Advantage

Cyber risk offers opportunity

LOOKING TO BERMUDA MARKET AS LIABILITIES INCREASE

A few years ago, the words “cyber risk” might have conjured up images of spotty teenage computer geeks hacking into corporate systems for little more than bragging rights. Such attacks might have been irritating and embarrassing, but in the long run not especially damaging.

But, following several high-profile data breaches — most notably at US retail company TJX which is facing at least \$256 million in costs after hackers swiped customer details from more than 45 million credit and debit cards — a growing number of industries are waking up to the real and far-reaching risks posed by the Internet and computer networks.

In addition to security risks to their own operations — such as a denial of service attack that can cripple an online ordering system — businesses may be liable for loss of confidential data such as customer credit card information and healthcare records which can be sold or used to commit fraud. They face consumer claims and litigation for breach of increasingly stringent data privacy laws and at least 39 US States now require companies to notify every affected customer which, coupled with the costs of reissuing credit cards, can cost millions for a large retail chain.

Companies don't even have to be victims of computer hackers either — good old-fashioned theft of physical property such as backup discs, laptops and tapes can be equally damaging. And it's not just immediate financial losses that worry companies — the damage to their reputation and therefore their long-term viability is potentially even greater.

However, organisations are finding that many of these “cyber risks” are not covered by traditional professional lines policies. Consequently there has been an increase in specific cyber risk policies and as liabilities increase — especially in the wake of the TJX



case — clients are increasingly looking to the Bermuda market for solutions.

David Friston, Specialty Insurance Manager for Bermuda-based Chubb Atlantic, said Chubb had been involved in cyber coverage since 2001, when it launched CyberSecurity by Chubb for Financial Institutions, a first party policy, followed in 2003 by CyberSecurity by Chubb Liability Insurance for Financial Institutions, a third party policy which includes disclosure injury, and last year a product for non-financial institutions.

“Demand is being driven by a combination of increased regulation and the requirement of disclosure, regardless of whether there has actually been a loss sustained by individuals,” he said. With the heightened media exposure brought about by a data breach, institutions that might have previously “battened down the hatches” and sorted out the problem themselves are increasingly worried about reputational damage.

The computer data breach at TJX, the parent company of American retail giants TJ Maxx and Marshalls, is the largest to date in corporate history. In July 2005, hackers used a poorly protected local wireless network in one of its Miami stores to place software on the company's network to capture data from customer credit and debit cards. Undetected for 18 months, they stole details of more than 45 mil-

lion cards, using some of the data to create false credit cards, which were then used to buy and sell millions of dollars worth of goods from Wal-Mart and other major retailers.

TJX has estimated the attack could cost it \$256 million in computer security fixes, lawsuits, claims and other settlements. However, the final cost could be much higher as a group of banks claims more than 94 million credit cards were compromised and the company is also facing state and federal investigations.

Explains Friston: “TJX isn't unique in terms of the amount of information it holds. The size of the databases that some of these large institutions hold is phenomenal and that, coupled with the fact that we now have so much more functionality on the internet whether it's internet banking or the purchasing of goods, the potential is enormous from a liability perspective.”

The key point about the TJX case for the insurance industry was that it put a quantifiable figure on the cost of cyber risk as well as marking out some legal precedents.

“There has definitely been an increase in interest and demand, primarily in the last six months on the back of the TJX claims,” reports broker Mark Evans, Divisional Director (UK), Willis North America Bermuda. “One of our producers in Boston was the broker for TJX and rather than him having to cold call, he now has clients calling him wanting the product. They have seen there's definitely an exposure to losses that can have a significant impact on the balance sheet.

“Up until about a year ago, \$50 million was a big programme but at

the end of 2007, we put two \$150 million programmes together.”

In December, Allied World, which was one of the earliest excess entrants into the market and has been participating in cyber programmes since 2002, participated with a variety of US and London carriers on cyber liability programmes including one major US retailer that purchased cyber liability for the first time as a direct result of the TJX case.

Lorene Phillips, Professional Lines Team leader at Allied World, said: “It is indicative that there is not only an interest, but that interest is materialising into concrete deals. Companies purchasing a limit of liability greater than \$50 million would have been unheard of 18 months ago. Now it has become more regular.”

David Friston, of Chubb Atlantic, said: “Institutions now are heightening risk management in relation to mitigating losses as a result of breaches, driven primarily by concerns of reputational risk.”

“Breaches may have an impact on the bottom line and the stock price so from that perspective it is getting the attention of directors and officers. Chief information officers are getting more attention within organisations as these institutions are increasingly relying on electronic means to do business.”

At present, the Bermuda market is focused on excess liability for cyber programmes, but Evans says he would not be surprised if some companies move into the potentially lucrative primary business. “It's very much in the early stages on the Island. At the moment we see US brokers try to max out the capacity they can get from the US and come to us to try and help complete the tower of limits they need.

‘Institutions now are heightening risk management in relation to mitigating losses as a result of breaches’

Best positive about global outlook

STABLE FORECAST FOR REINSURANCE SECTOR FOR SECOND CONSECUTIVE YEAR

Strong balance sheets, continued improvements in enterprise risk management (ERM) and general earnings momentum through 2007 have led rating agency A M Best Co to maintain a stable outlook in 2008 for the global reinsurance sector for the second consecutive year.

Best noted: "The global reinsurance sector has benefited from two years of moderate catastrophe losses and solid operating earnings. The capitalisation of the sector and the majority of its participants are currently healthy when just a few years back, many reinsurers were struggling to find capital. In large part, improved loss reserve adequacy is apparent for several companies benefiting from the hard market years and intensified risk management strategies.

"Though still nagging a handful of companies, legacy issues from soft market years continue to subside. Nonetheless, with rate declines in both property and casualty business lines, it is unlikely that current reserving levels can be maintained or be relied upon to boost earnings in outward years."

Best says that depending on catastrophe activity, the sector is poised for a profitable 2008 given that technical rates of most major lines of business are still profitable to this point. Investment income fueled by strong cash flow should also support earnings. It believes 2008 results will reflect more accurately current market trends as margins are expected to moderate. Barring "a mega-catastrophe that removes enormous amounts of industry surplus from the market", Best does not expect an improvement in pricing levels for some time.

"The success factors for navigating these rough waters are for reinsurers to maintain underwriting controls and standards to determine pricing adequacy and maintain discipline in a challenging environment," it noted.

"History indicates these are not easy tasks to accomplish."

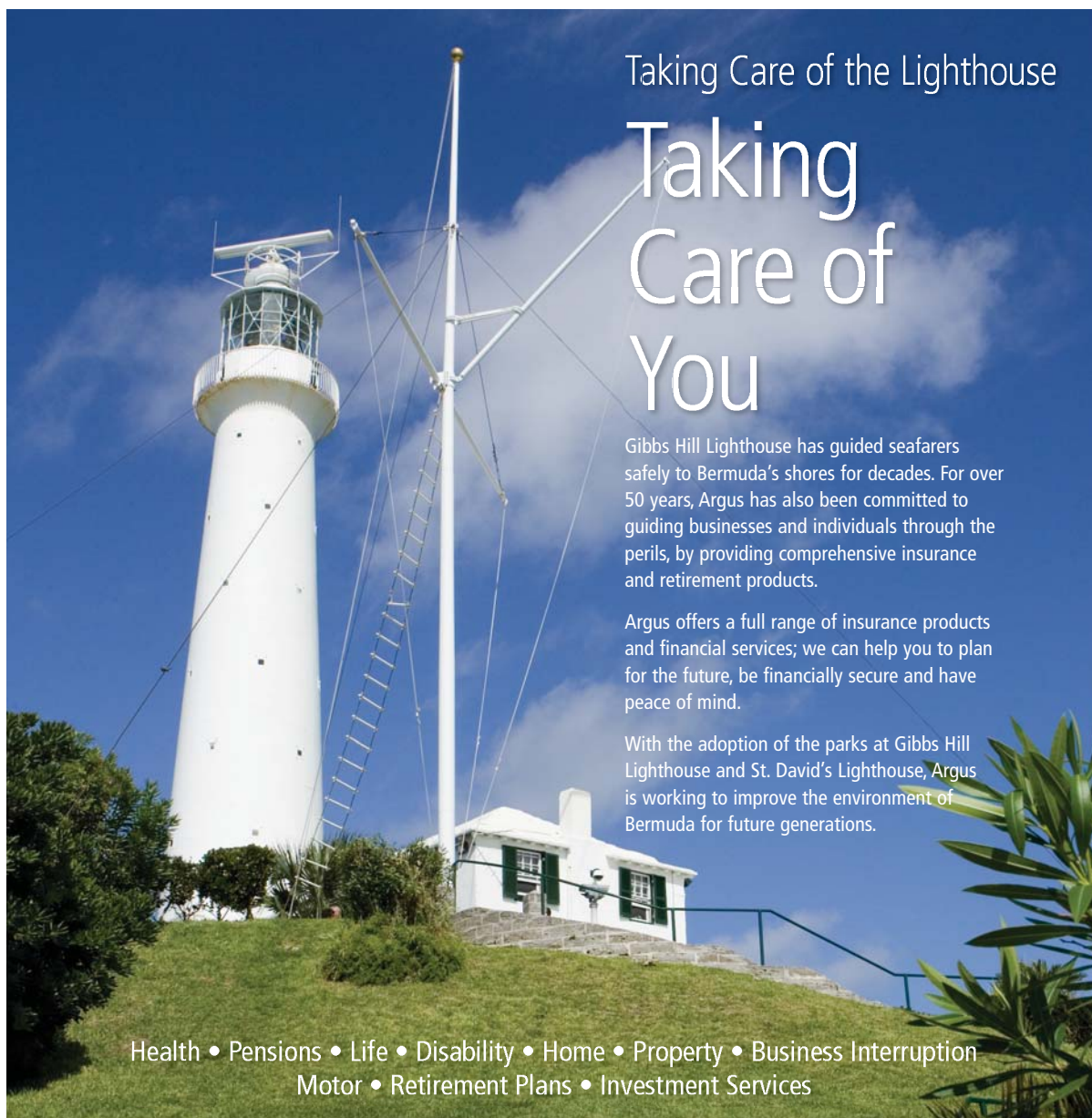
It noted that capital management is a critical factor in managing the market cycle, and while share repurchase programmes and increased dividends have given a sizeable portion of accumulated earnings back to stakeholders, there is considerable pressure on

reinsurers to achieve targeted return on equity.

"Many carriers since have established diversified operating platforms, while newer formations have looked to build underlying capabilities to manage the cycle and deploy capital," said Best, adding that there were likely to be further mergers and acquisitions in 2008.

Despite the improved position of the reinsurance sector, Best said challenges remain in light of the increased capacity of industry participants, new entrants and forms of capital.

"It is no longer easy to ignore the reality of the capital markets as an alternative solution for primary markets."



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Changing chairs at XL

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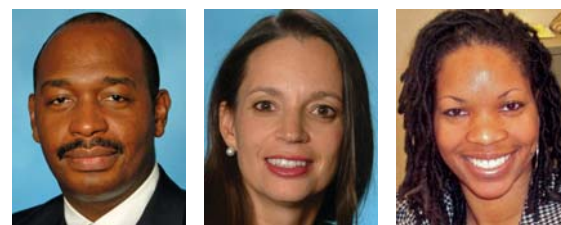
Clive R. Tobin is to retire as CEO of insurance operations at XL CAPITAL LTD on April 1. He will be succeeded by **David B. Duclos**, currently the unit's COO. XL said Mr Tobin will remain with XL and concentrate on assisting the global insurer and reinsurer with strategic opportunities and emerging markets. He also will become vice chairman of XL

Insurance (Bermuda) Ltd. XL Capital has also announced that **Celia R. Brown**, Executive Vice President and Head of Global Human Resources and Corporate Relations, has joined its Executive Management Board. Ms Brown was promoted to her current position in 2006. She oversees the Company's activities related to Human Resources, Marketing,

Global Communications, Public Relations and Corporate Social Responsibility. XL INSURANCE, the global insurance operations of XL Capital Ltd., has appointed **Daniel Maurer** as chief underwriter, middle market property & casualty for Continental Europe and Asia.

Bob Cooney, the former presi-

dent and CEO of Max Re, is back in business. The 53-year-old has been appointed Managing Director of Aon Capital Markets for AON RE GLOBAL, the world's largest reinsurance broker and integrated capital solutions provider of Aon Corporation. Cooney also will serve as Vice Chairman of Aon Re Global - Bermuda, and will be based in Bermuda. He will be responsible for originating capital market and financial advisory transactions both in Bermuda and in the UK.



BMA's Cox, Lespere and Crockwell

ALLIED WORLD ASSURANCE COMPANY HOLDINGS LTD has appointed **W Gordon Knight** as the President of US Operations, Distribution and Marketing. He will be responsible for expanding Allied World's US insurance platform, including leading marketing and distribution initiatives and assisting the management team with the growth of specialty programme business. He will be based in Allied World's New York office.

Global professional services firm TOWERS PERRIN has appointed former PXRE COO **Guy Hengesbaugh** as managing principal of its Bermuda reinsurance operation. Mr Hengesbaugh will be responsible for client-focused consulting within the Bermuda market, including facilitating the placement of business and offering risk financing guidance.

Jeremy Cox has been appointed to the newly-created position of Deputy Chief Executive Officer at the BERMUDA MONETARY AUTHORITY. He will be responsible for all supervisory activities conducted by the Authority. **Shanna Lespere** has been promoted to the position of Director, Insurance, Licensing and Authorisations. **Mesheiah Crockwell** has been promoted to the position of Assistant Director, Insurance, Compliance.

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