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THE QUOTES OF THE QUARTER

Our catastrophe losses were within our tolerance level ... Exclusive of hurricanes Rita and Katrina, earnings were excellent from both underwriting and investment income.

— **Evan Greenberg, ACE**



Although we sustained significant losses, our exposure management programme sufficiently protected our capital position.

— **Scott Carmilani, AWAC**

My stated management goal has always been, at a minimum, preservation of capital and I believe we have achieved this.

— **John Charman, AXIS**



Diversification allowed us to produce better results in Q3 than most of our competitors.

— **Robert Cooney, Max Re**

In the light of [Katrina and Rita] losses, we are already seeing significant rate increases for numerous classes of insurance and reinsurance.

— **Stephen Catlin, Catlin Group**

Our capital position is strong and balanced and we believe we [can] take advantage of potential future market opportunities.

— **Kenneth LeStrange, Endurance**

We are taking steps to reduce the potential impact of very large events by managing both our gross and net exposures ... post-Katrina.

— **Anthony Taylor, Montpelier Re**



"Here it is — the plain, unvarnished truth. Varnish it."

FROM THE EDITOR

PROTECTING A PRICELESS BRAND NAMED BERMUDA

It is entirely true, as Bermuda Monetary Authority chief Cheryl Lister and international business leader David Ezekiel have said recently, that the island runs into a lot of unfair criticism when one bad egg of a company is found to have a local connection.

The opportunity is taken by major media and our rival jurisdictions and businesses (more than occasionally hand in glove) to give the impression that Bermuda as a whole is rotten, crooked and a blight on an otherwise honorable business world.

In fact, Bermuda's regulation of insurance and other financial endeavours is generally beyond reproach in both theory and practice. But that's not a message which will fly in the papers or politics. It's too boring.

As a journalist, I can see the temptation for writers to have a go at Bermuda as rich, smug, greedy and ready to bend the rules. It definitely is rich, after all, and that alone invites trouble.

Officialdom here is clearly becoming concerned about unwarranted bad news involving Bermuda, and so should the re/insurance companies that continue to flock here.

The Bermuda market has reached the point where it is a valuable brand to be used by its participants. It is therefore in their interests to protect and burnish that brand. Obviously, the best way is to do a good job, and Bermuda has not been let down very often by the re/insurance firms based here.



BY CHARLES BARCLAY

But having the respect of those you do business with will not help when, for example, an Eliot Spitzer comes gunning for you in the lay media: *the People versus the Insurance Industry in General and a Bunch of Lotus-Eating, Non-Taxpaying Islanders in Particular.*

That's when a better general understanding or image of Bermuda is required, to ensure that the Court of Public Opinion isn't so easily persuaded against us.

There was a stage when men wearing pink Bermuda shorts at RIMS had a purpose, drawing attention to a cheeky upstart jurisdiction with some clever ideas. But Bermuda is on the cusp of joining the financial establishment now, and perhaps it is time to present the more accurate image of a proper international business centre within a sophisticated, democratic and responsible country, albeit a small one.

Before Andrew, before 9/11, before Katrina, the island was a happy-go-lucky beach umbrella for bright opportunists. Now it is something very significant and incredibly valuable and yet, due to its staggering progress, increasingly vulnerable to attack upon and devaluation of the brand.

We suggest a continuing major international media campaign to get it across to the

world's business and political opinion formers that we are for real; that we have the same values and concerns as everyone else; that we are no less entitled to succeed than, say, Dublin or Des Moines.

We hope you agree this publication is a step in that direction; but much more is required, along with many millions of dollars a year, if Bermuda is to start properly looking the part.

Until recently, we would have said Bermuda's image was solely Bermuda's issue and not that of the Bermuda re/insurance market, but it is increasingly uncertain if one could prosper without the other.

Nothing can ever guarantee the protection of the Bermuda brand from tarnish but failure to try hard enough is surely courting trouble ... for all concerned.

PS Before Bermuda market participants panic that the Bermudian begging bowl is coming out yet again, the local Government has an enormous media budget that is currently directed at attracting tourists. With a little friendly persuasion, at least part of it could be diverted to support something a bit more promising.

The new capital

Bermuda stakes its claim as post-Katrina billions pour in

Pop group Katrina and The Waves were a one-hit wonder back in the 1980s but the 2005 Katrina is making waves that will impact the Bermuda market for years to come. As we went to press, at least 11 major new reinsurance companies were being set up, bringing more than \$10 billion in fresh capital to the Bermuda property/casualty market. These companies had been granted the Bermuda Class 4 licences reserved for highly-capitalised ventures:

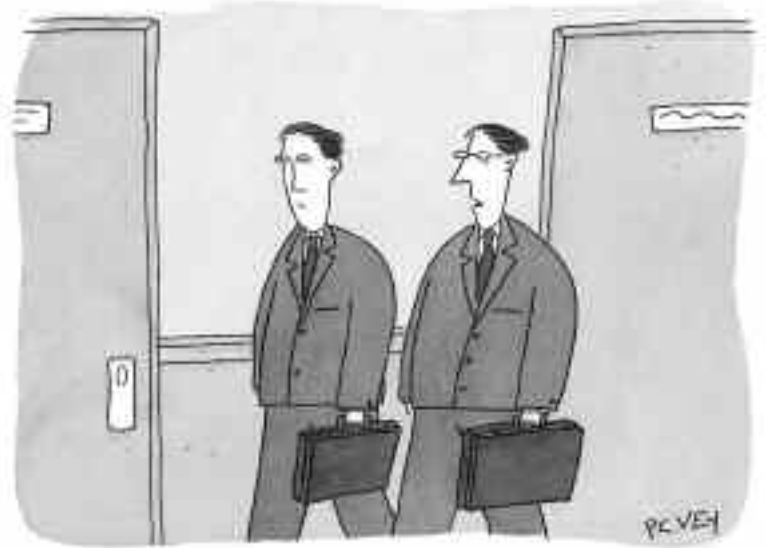
Amlin Bermuda, Ariel Reinsurance, Arrow Capital, Flagstone Reinsurance, Harbor Point Re, Hiscox Insurance (Bermuda), Lancashire (Bermuda), New Castle Reinsurance, Validus Reinsurance.

The new money matched that

which flowed in following 9/11 with companies like AWAC, Montpelier and AXIS, and A M Best was moved to comment: "The draw of capital to Bermuda in the wake of huge market losses (and the corresponding anticipated improvements in pricing and terms) appears to point to the island's strengthening position in global insurance markets."

Investors are backing startup reinsurers because of the opportunities presented by the rate increases, perhaps as much as 50%, expected when policies are renewed in January, in response to the \$60+ billion in capital lost in the hurricanes. By comparison, 9/11 sucked \$35 billion from the industry.

Amlin CEO Charles Philipps



"My new business model is to ride on the coattails of somebody else's new business model"

said: "This is an opportune time to make this move."

The Dow Jones *MarketWatch* website commented: "Unlike established rivals, these startups aren't burdened with huge catastrophe losses, a big advantage when vying for 2006 business which is being negotiated now. If some of these firms end up with profitable books of business next year they could quickly sell shares in initial public offerings, generating handsome returns for their original backers."

At the same time, the new com-

panies are good news for brokers seeking to keep price increases under control. With many established reinsurers hoping for 40 to 50% rate hikes to rebuild capital, loss-free newcomers have the chance to offer highly competitive rates. They will also benefit because established reinsurers are cutting back on storm exposures and rating agencies are calling for companies to put aside more capital to back catastrophe risks.

As one analyst put it: "The new entrants will probably help make sure that prices don't get ridiculous."

Bermuda's \$10b class of 2005

Amlin Bermuda: formed by Amlin, a major UK-listed Lloyds insurer, with initial capitalisation around \$1 billion. Headed by John Andrews.

Ariel Reinsurance: \$1 billion venture formed by ACE and Tempest veteran Don Kramer. Has taken over infrastructure but not the legacy business of Rosemont Re.

Arrow Capital: owned by Goldman Sachs Group, which also owns Arrow Re, a Bermuda-based property casualty captive insurer.

Flagstone Reinsurance: \$1 billion company set up by Bermuda-based hedge fund West End Capital Management. CEO is former Centre Re head David Brown with Guy Swayne, ex-Lloyds underwriter from ACE Tempest Re, as CUO.

Harbor Point Re: just after Chubb Re closed its Bermuda offices, many key staff, including CEO John Berger, are back to head up \$1.5 billion Harbor Point, formed by an investment group led by private equity firm Trident III and Chubb.

Hiscox Insurance (Bermuda): \$500 million venture by Hiscox, one of the largest listed insurance firms at Lloyds. Robert Childs will be CEO.

Lancashire (Bermuda): former Lloyds underwriter Richard Brindle and Capital Z Financial Services Partners are behind \$1 billion Lancashire, which will write aviation, marine and energy, property catastrophe and direct property business, as well as retrocessional reinsurance risks.

New Castle Reinsurance: the second Bermuda reinsurer formed by hedge fund manager Citadel, which started CIG Re in 2004. New Castle Re will be capitalised with \$500 million and plans to provide property-per-risk, workers' comp catastrophe and terrorism coverage in addition to its core property catastrophe line of business. CEO will be CIG Re boss and former ACE Tempest Re President and CEO Chris McKeown. Best has already given New Castle Re an A- (Excellent) rating.

Omega Specialty Insurance: London-based Omega Underwriting Holdings plc has set up a Bermuda insurance and reinsurance arm to underwrite predominantly short-tail lines. Due to begin operations in Q1, 2006.

Validus Reinsurance: former Marsh & McLennan CEO Jeffrey Greenberg has formed Validus to sell short-tail cat coverage, with the backing of private equity firms Venturion and Greenberg's own Aquiline. Ed Noonan, former CEO at American Re, will head the new venture. Initial capitalisation: up to \$1.5 billion.

Cyrus Reinsurance: property catastrophe unit formed by XL Capital and backed by up to \$1 billion provided by a group led by Highfields, a Boston-based hedge fund manager in which XL Capital has a stake. XL is expected to transfer some of its property catastrophe risks and retrocessional business to the new firm.

Star wars as startups lure talent

With Bermuda's office space and human resources already at a premium, the influx of companies is likely to send the stratospheric rents in Hamilton even higher while competition for talent is getting fierce.

Even the well-heeled post-9/11 startups have been complaining about aggressive hiring tactics as new companies scramble to be in business by January. Morgan Stanley noted: "The only market hotter than property reinsurance is the market for knowledgeable property underwriters. The phones in Bermuda are ringing off the hook [with] new ventures apparently making generous offers to employees of incumbents." But the challenges in getting going here probably mean most startups will have little impact on January 1 renewals. "They represent a competitive threat some six to 12 months away," said Morgan Stanley.

DEFIANT XL SEEKS A STEADIER COURSE

Smarting from a series of heavy losses and an “extremely disappointing” decision in its long-running dispute with Winterthur, XL Capital has set up a Bermuda sidecar venture, and President & CEO Brian O’Hara has announced new capital-raising plans to reduce volatility and “restore the strength of our balance sheet”.

XL, which lost \$1.05 billion in Q3 and expects to post a \$830 million loss for Q4 as a result of the Winterthur decision, has established Cyrus Re, a Class 4 startup property catastrophe reinsurance retrocessionaire, with initial capital of \$500 million.



Brian O’Hara: trying to restore calm after a stormy time

Mr O’Hara said that XL’s previously announced property catastrophe quota-share strategic initiative “is on track”. Under a quota-share counterparty agreement, Cyrus Re will act as a reinsurer of XL property catastrophe and retrocessional business. Lead investor in Cyrus is Boston-based Highfields Capital Management, in which XL has held a stake since 1999. XL said it is not taking any direct ownership in Cyrus (named after the sixth century emperor who founded Persia) and has initially funded a collateral trust of \$500 million to support its reinsurance activities. Industry analysts said the venture will reduce XL’s risk exposure while releasing capital to sell more policies.

Cyrus Re will be based in the IAS Building on Church Street, Hamilton where IAS is providing management services to a number of start-ups including Validus, Amlin, Hiscox and Lancashire.

In a statement on the draft report of the independent actuary (IA) appointed in connection with XL’s acquisition of Winterthur International (WI) from Winterthur Swiss Insurance in 2001, Mr O’Hara said: “While extremely disappointing, [it]

removes the uncertainty that has existed since the IA review process began.

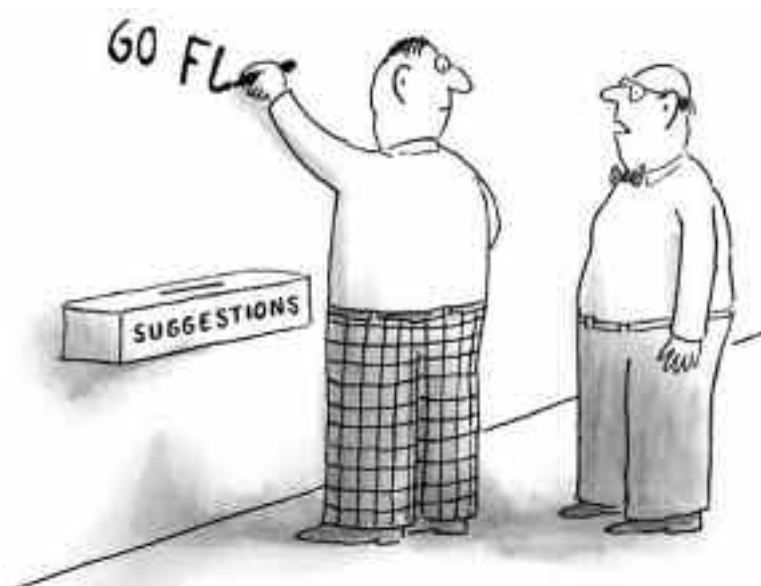
“The IA draft report, which we are still reviewing for manifest errors, requires Winterthur Swiss to pay XL \$575 million (including interest) for the net losses and unearned premium balances relating to the acquired business and is expected to result in XL recording

a net charge of approximately \$830 million in the fourth quarter of 2005. I do believe, however, that this draft report reinforces the soundness of XL’s reserving policies and practices on this book.”

It means XL must now fund millions of dollars in reserves to cover claims from prior-year policies acquired under the Winterthur deal. The report prompted Standard & Poor’s to downgrade XL Capital to “A+” from “AA-”. S&P also lowered its counterparty credit and financial strength ratings on XL’s core operating companies. Outlook on all the companies is stable.

Despite the report’s findings, Mr O’Hara maintained the Winterthur deal was a “strategic and a financial success” and that the outcome should be viewed in the context of the final cost of the Winterthur International acquisition. “While XL paid \$330 million for the Winterthur International business in 2001, the company now expects to receive \$575 million (including interest) from Winterthur Swiss as a result of the IA draft report as payment for the seasoning of reserves and unearned premiums for business in force prior to the acquisition date.

“The original transaction was completed just ahead of a major hardening of the market for property and casualty insurance. The acquisition was a critical strategic milestone in XL’s development as a global company. It gave us the valuable competitive advantages of a global network, strong customer



“The suggestions are supposed to go in the box.”

relationships and intellectual capital. The assets, resources and reach of the Winterthur International business allowed us to optimise the growth opportunities we have seen since 2001.

“Winterthur International has been a significant generator of run-rate profitability to XL over the past four years as we have successfully integrated and built upon the business and network we acquired in 2001. Viewing Winterthur International on a stand-alone basis, I believe the net cost to XL of the WI purchase continues to represent an attractive price to earnings multiple.”

Mr O’Hara added the company was working with advisors Goldman Sachs and Citigroup Corporate & Investment Banking

on plans for raising new capital, which “will have significant equity content and will be in an amount sufficient to redress the capital impact of the IA’s draft report and the recent catastrophes, respond to rating agency requirements, and, importantly, support our growth in 2006. We ... are committed to raising the capital we need to restore the strength of our balance sheet.”

Meanwhile, Moody’s downgraded the financial strength rating of XL Capital’s principal insurance subsidiaries to “Aa3” from “Aa2”. It also lowered XL Capital’s senior debt rating to “A3” from “A2”, saying they reflected XL’s “relatively weak operating earnings” and its “relatively higher operating leverage compared to its peers”.

Thiele plans for a good 2006

PartnerRe chief Patrick Thiele says the firm’s total losses from the Q3 hurricanes and European floods could be \$62 million more than the original \$615 million estimate. He also anticipates claims in the region of \$200 million for Hurricane Wilma, with approximately 30% of the loss coming from Mexico. Nevertheless, Mr Thiele’s financial plan for 2006 anticipates a mid-teens operating return on year-end 2005 shareholders’ equity and fully diluted book value per share growth above 10% after dividends.



PXRE boosts its renewal hopes

PXRE Group, which posted a \$317.3 million Q3 loss, has entered into a \$300 million collateralised reinsurance agreement with Atlantic & Western Re, a Cayman-based reinsurance company. The new reinsurance coverage is designed to protect PXRE “from extreme catastrophe losses arising from hurricanes in the Eastern and Gulf coasts of the US, windstorms in Northern Europe and earthquakes in California over the next five years”.

Jeffrey Radke, President & CEO of PXRE, commented: “With the completion of this transaction, we are supplementing our risk management programme to provide further insulation for our equity from large but remote catastrophe events. Combined with our existing capital, [it] provides us with significant additional resources to meet our obligations to our clients in even the most extreme loss scenarios.

“I fully expect our ability to execute this transaction so quickly fol-

lowing hurricanes Katrina, Rita and Wilma at an 8.7% annual cost of capital will prove a competitive advantage in the coming renewal season.”

Meanwhile, Standard & Poor’s has removed PXRE from credit watch and affirmed its “A-” counterparty credit and financial strength ratings. S&P also removed holding company PXRE Corp and PXRE Group from watch and affirmed its “BBB-” counterparty credit ratings. The outlook on all of the ratings is stable.

WHAT'S ON

JANUARY 22-24

Property Casualty Insurers' Association of America Executive Roundtable Seminar
Ritz-Carlton Golf Resort, Naples, Florida
joanne.orfanos@pciaa.net

FEBRUARY 21-22

World Insurance Forum
Fairmont Southampton Hotel, Bermuda
www.worldinsuranceforum.bm

MARCH 1-3

Reinsurance Executive Roundtable, hosted by ACLI
Mandarin Oriental, Miami
www.acli.com

MARCH 8-10

CICA International Conference
Orlando, Florida
www.cicaworld.com

MARCH (DATE TBC)

Bermuda Insurance Club session on "Economic Capital: Integrating Finance and Risk Management," hosted by PwC
Fairmont Hamilton Princess
fiona.hunter@bm.pwc.com

APRIL 23-27

RIMS annual conference
Honolulu, Hawaii
www.rims.org

APRIL (DATE TBC)

Bermuda Insurance Club session on "Internal Audit Trends," hosted by PwC
Fairmont Hamilton Princess
fiona.hunter@bm.pwc.com

MAY 9-12

RMS client conference
Broadmoor Hotel, Colorado
www.tinyurl.com/d6qq8

MAY (DATE TBC)

Bermuda Insurance Club session on "Enterprise Risk Management," hosted by PwC
Fairmont Hamilton Princess
fiona.hunter@bm.pwc.com

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WHY BERMUDA BEATS BRITAIN

The island's reputation as a tax-neutral jurisdiction got a massive boost when the chairman of one of the largest listed insurance firms at Lloyds of London said a punitive tax policy in Britain was behind his company's decision to start a Bermuda company.

Indeed, the 300-year-old Lloyds market is preparing a plan to fend off growing competition from overseas, stating that it must adapt or die.

Robert Hiscox, Chairman of Hiscox, told *The Times* of London that the UK Government's overzealous attitude towards taxation and regulation is forcing increasing numbers of London insurers to jump ship and set up in more business-friendly jurisdictions. Hiscox is one of three Lloyds-listed firms to incorporate Bermuda companies in recent months, along with Omega and Amlin.

Mr Hiscox said that the regulation and taxation issue had caused the London insurance market to shrink, while the Government propped up "useless" industries such as shipping, mining and agriculture.

"The Government has never made one move to do anything but tax the insurers," Mr Hiscox said. "They'll never back a winner and now the London market is drifting away to better financial and regulatory climates."

And he hinted that even Hiscox's parent company may reincorporate in Bermuda. "We have watched the growing market in Bermuda and for some time



Downtown Hamilton: the rents may be breathtaking but so are the views ... and the business opportunities

considered that we need to underwrite there to increase the spread, balance and distribution of both our global reinsurance and retail accounts. Bermuda is a fast growing reinsurance market, which now sees business not shown in London, and has pricing advantages and a favorable regulatory regime."

In November, Hiscox announced a \$300 million rights issue to help finance the \$500 million operation in Bermuda to exploit strong demand for insurance in the wake of 2005's hurricanes. It has warned that 2005 hurricane losses will cut its profits by £60 million

this year, although it is expecting a brighter outlook because insurance prices surged in the wake of the storms.

Analysts' reaction to Hiscox's move has been mixed. According to *The Times*, Numis Securities has called the new venture "an exciting development" but Bridgewell Securities said that it would not be big enough to compete with other insurers on the island with \$1 billion or more in start-up capital.

Mr Hiscox said he did not intend to compete immediately with the large players for big catastrophe risks. The new company

will build on some £90 million of existing business that he plans to transfer to Bermuda — including kidnap and ransom and fine art risks.

Meanwhile, Lloyds market has said it will unveil a three-year plan early in 2006 to counter overseas competition, claiming that its very survival is at stake.

"Lloyds is operating in a fiercely competitive market in which capital and expertise is mobile," said Julian James, director of worldwide markets for Lloyds. "It is easy for capital to move to other markets in London, elsewhere in Europe or further afield."

Mr James added that the Lloyds survival plan will focus on delivering "some very real and tangible benefits to market participants". Lloyds needed to change its capital flexibility, costs of doing business and business processing standards.

"Being the platform of choice will require changes in behaviour, resourcing, structure and management, and an effort of will from everyone on the market. I want to leave you in no doubt that the stakes are high."

It's official: Hamilton leaves London behind

Thirteen of the world's top 40 reinsurers are now based in Hamilton, Bermuda, according to Standard & Poor's. S&P added that Bermuda is the fourth largest reinsurance market after Germany, the US and Switzerland and that Bermuda-based reinsurers' total net written reinsurance premiums have overtaken those of London-based reinsurers. Reinsurance net written premiums in 2004 grew 3.3% globally, while Bermuda-based companies

grew by 15.9%. "This demonstrates the growing importance of the market," Lloyds reinsurer Hiscox said in a bulletin to investors. Hiscox, one of several London players now setting up here, added: "In respect of US business, the acquisition costs have historically been significantly lower in Bermuda than in London, which has given Bermudian reinsurers a pricing advantage that Hiscox Bermuda will in future be able to enjoy."

Tax pact wins support

The OECD has hailed an agreement between Australia and Bermuda to share tax information as a step "to counter abuse of the financial system".

Under the pact, the first such accord by Bermuda with any OECD country other than the US, each party may request information from the other on a specific tax matter under investigation or audit. The chairman of the OECD's committee on fiscal affairs, Bill McCloskey, said the Australia-Bermuda agreement reflected a growing trend towards greater transparency and international cooperation in tax matters. "I congratulate both parties for strengthening their bilateral relationship and for joining together to counter abuse of the financial system. I hope others will follow this example.

Three key men quit Quanta

Bermuda insurer Quanta Capital Holdings, already reeling from heavy storm losses in 2004 and 2005 and the departure of its CFO and COO, has lost three more senior executives. Tobey Russ resigned as CEO less than two weeks after David Whiting, President, Quanta Bermuda Reinsurance, and Rick Pagnani, global head of Quanta's reinsurance operations, quit to "pursue other opportunities", according to a company statement. Quanta said independent director Robert Lippincott has assumed the role of interim CEO. The Bermuda office will be run by Mark Cloutier.

Quanta posted a net loss of \$59.1 million, for Q3, 2005 and, following a net loss of \$37.4 million in 2004, had cut back on its catastrophe coverage. It is now concentrating on its specialty lines business.

Platinum's lacklustre performance

A M Best has placed the financial strength rating of "A" and issuer credit ratings of "a" of the reinsurance subsidiaries of Platinum Underwriters Holdings (Platinum Bermuda) under review with negative implications. It has also placed the ICR of "bbb" of Platinum and all of the group's debt ratings under review with negative implications. This follows Platinum's \$135 million net losses stemming from Hurricane Wilma.

Platinum Bermuda, which

assumes a significant amount of business from the group's other operating companies, "has realised a disproportionate reduction in its capital position as a result of Hurricane Wilma," said Best. "Inter-company reinsurance arrangements designed to protect Platinum Bermuda's capital were not sufficient to address the frequency of hurricanes experienced in 2005."

Best said it will meet with Platinum's management to review

Platinum's plan to strengthen the group capital and "to specifically address the capital allocation issues between the group's affiliate companies".

IPCRe downgraded over challenges

Standard & Poor's has lowered its rating for the Bermuda-based property cat reinsurer IPCRe and its Dublin-based affiliate, IPCRe Europe, to A from A+. The downgrades relate to catastrophe losses

recorded in 2005. Parent company IPC Holdings reported a loss of \$548.6 million for the nine months ended September 30 compared with a profit of \$130 million in the prior-year period, largely due to Q3 cat losses.

S&P said it has a negative outlook on the companies, reflecting challenges "in an industry with possible exposures to higher loss frequency and severity events and our concerns [over] the industry's long-term pricing adequacy".



AXIS seeking extra \$250m

Bermuda-based AXIS Capital Holdings plans to raise \$250 million through a share issue. AXIS will use the net proceeds for general corporate purposes, primarily to enhance the funding of its insurance and reinsurance segments. AXIS reported a net loss of \$143.4 million for the first nine months of 2005, largely due to hurricanes Katrina and Rita.

Alea sells rights

Alea Group Holdings (Bermuda) is selling renewal rights to some of its US business to AmTrust Financial Services Group, and expects to receive between \$20 and \$40 million for them over the next five years. The rights are for portions of US programme business written by Alea Alternative Risk. Any remaining AAR business will be placed in runoff.

WGI rating dips

Bermuda-based Western General Insurance has been downgraded to "B++" from "A" by A M Best following WGI's decision to enter runoff.

AWAC staff soars

AWAC has transferred 47 AIG staff to its payroll as the firms' agreement ends and AWAC becomes, as one commentator said, "more of a standalone company". AWAC now has 220 staff worldwide, 144 of them in Bermuda.

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A.M. Best's A- (Excellent) Fitch A (Strong)

Hopes and fears

Katrina, mother of re-invention

Katrina *et al* will affect more than pricing. Willis forecast “dramatic change ... as ceding companies look for more vertical and horizontal protection with enhanced reinsurance security”.

Rating agencies, too, are taking a more critical look, particularly at the difference between pure property cat companies and multi-line reinsurers. After Katrina, many of Bermuda’s biggest names suffered the temporary ignominy of downgrades and credit watches as they tapped new capital, but some analysts predict that pressure from the rating agencies for greater capital support for mono-line reinsurers may result in many of them cutting back their catastrophe exposure. The rating agencies are also concerned at the quality of, and reliance upon catastrophe modeling.

And reinsurance buyers will want greater assurances about reinsurers’ security, whether they have retrocessional protection and whether quota share or other additional resources are available.

DELUGE OF NEW CAPITAL COULD DAMPEN HIGHER PRICE EXPECTATIONS

With more than \$60 billion in losses, Hurricane Katrina was the largest and most complex hit ever suffered by the global property and casualty insurance and reinsurance industry. But as one property cat reinsurance underwriter commented about Katrina and all the other recent losses: “That’s what we’re here for.” The industry, and Bermuda in particular, is far better capitalised than post-Hurricane Andrew or 9/11.

And, while Katrina may have been one blow too many for a few companies, Bermuda’s established players have proved to be fighting fit. Benfield noted that Katrina “has eroded significant capital, although the speed at which some companies have been able to recapitalise suggests that, so far at least, the capital markets retain their appetite for reinsurance investments”. Add to this companies entering Bermuda (11 new Class Four reinsurers had been approved at last count) and it certainly seems as if there’s no shortage of capacity.

By early October, big Bermuda companies like ACE, Montpelier and Endurance had raised some \$3 billion in new capital, about half their Katrina losses. Many of the same companies (especially the post-9/11 startups) had returned “excess capital” to shareholders earlier in the year. Said *The Review*: “These actions, combined with a marked decline in business expansion in 2004, indicate that the management teams were being proactive in managing the re/insurance cycle.”

Established companies expect this extra injection of capital to help them underwrite new business at higher prices. But with the recent influx of companies, reinsurers may end up competing too aggressively for business, thus limiting increases. Benfield concluded: “Pricing will increase substantially in loss-affected classes such as energy and marine, and for US wind cover [but] the knock-on effect on the market overall is unclear.”

In its November *Marketplace Realities* newsletter, Willis Re said: “Most of the large global and national commercial property insurers exhausted their catastrophe reinsurance programmes with Katrina, but since many of those reinsurance programmes do not renew until mid-year 2006, the expected sharp increases in reinsurance pricing may not be fully manifested until we are well into 2006.”

“We anticipate that the combined effect of reinsurers reducing their property exposures and ceding company clients seeking to increase their reinsurance limits will not be offset completely by new reinsurance

capacity coming into the business. It is likely that loss-affected reinsurance programmes will experience significant increases, although the extent of the increased reinsurance premium outlay may be mitigated by ceding companies taking increased retentions. Also, the implementation of non-concurrent terms (with differing terms applying to new markets that did not incur any losses) could mitigate the increase in ceded premium outlays.”

‘Overall knock-on effect is unclear’



“Really, I’m fine. It was just a fleeting sense of purpose — I’m sure it will pass.”

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OPERATING RATIOS

QUARTERLY LOSS RATIOS

	Q3 2005	Q3 2004	Q3 2003
ACE ¹	92.5%	79.4%	64.6%
Arch	89.9%	76.4%	64.4%
Aspen	180.0%	103.3%	53.5%
AWAC	163.3%	115.0%	67.7%
Axis	167.8%	85.4%	46.3%
Endurance	177.8%	75.3%	59.2%
Everest Re	137.6%	84.4%	70.6%
IPC	412.9%	116.0%	20.3%
Max Re	122.9%	90.4%	78.1%
Montpelier	412.0%	125.5%	21.5%
PartnerRe	127.5%	70.0%	66.9%
Platinum	131.5%	100.4%	57.7%
PXRE	594.3%	174.1%	51.2%
Renaissance Re ¹	190.2%	216.7%	34.9%
White Mtn	94.6%	79.4%	76.2%
XL Capital	154.6%	85.9%	71.3%

QUARTERLY EXPENSE RATIOS

	Q3 2005	Q3 2004	Q3 2003
ACE ¹	24.0%	24.7%	26.8%
Arch	27.8%	27.0%	25.4%
Aspen	27.1%	22.7%	26.7%
AWAC	18.0%	17.5%	18.5%
Axis	17.6%	24.3%	22.9%
Endurance	26.6%	27.7%	29.3%
Everest	24.6%	24.0%	24.4%
IPC	11.3%	15.2%	16.1%
Max Re	12.4%	11.0%	26.6%
Montpelier	10.7%	19.7%	27.7%
PartnerRe	28.8%	32.9%	29.3%
Platinum	24.4%	24.4%	27.7%
PXRE	28.8%	18.7%	18.3%
Renaissance Re ¹	25.5%	24.2%	26.8%
White Mtn	36.1%	43.3%	28.4%
XL Capital	27.6%	30.3%	30.1%

QUARTERLY COMBINED RATIOS

	Q3 2005	Q3 2004	Q3 2003
ACE ¹	116.5%	104.1%	91.4%
Arch	117.7%	103.4%	89.8%
Aspen	207.1%	126.0%	80.2%
AWAC	181.3%	132.5%	86.2%
Axis	185.4%	109.7%	69.2%
Endurance	204.4%	103.0%	88.5%
Everest	162.2%	108.5%	95.0%
IPC	424.2%	131.3%	36.3%
Max Re	135.3%	101.4%	104.8%
Montpelier	422.7%	145.2%	49.2%
PartnerRe	156.3%	103.0%	96.2%
Platinum	155.9%	124.8%	85.4%
PXRE	623.1%	192.8%	69.5%
Renaissance Re ¹	215.7%	240.9%	61.7%
White Mtn	130.7%	122.7%	104.6%
XL Capital	182.2%	116.3%	101.4%

1. Restated quarterly data not available for 2003

INSURANCE RATINGS

A M BEST RATING

July 1, 2005 Nov 30, 2005

S&P RATING

July 1, 2005 Nov 30, 2005

ACE	A+	A+	A+	A+
Arch	A-	A-	NR	NR
Aspen	A	A-	A	A
AWAC	A+	A+	NR	NR
Axis	A	A	A	A
Endurance	A	A-	A-	A-
Everest	A+	A+	AA-	AA-
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
PXRE	A	A-	A	A-
Renaissance Re	A+	A	AA-	A+
White Mtn	NR3	NR3	NR	NR
XL Capital	A+	A+	AA-	A+

Notes: NR3 — Not rated by A M Best; NR — Not rated by S&P

ANALYSIS / PRICEWATERHOUSECOOPERS

Q3, 2005: quite a quarter

Renewals

- It is expected that renewals will progress slowly and end late.
- Most Bermuda reinsurers are predicting a significant increase in pricing for short-tail business.
- Reinsurers are also expressing the view that these price increases need to continue for several years.

Q3 losses and earnings outlook

- Q3 was overshadowed by hurricanes Katrina and Rita, losses which were significantly borne here.
- In addition, there were three Asian typhoons, six airline accidents and Indian and Central European flooding.
- Most companies have had to revise their earnings estimates as a result of these losses, and loss ratios have been significantly higher than in previous Q3s despite Q3 traditionally being the quarter with the most catastrophic losses.

Ratings

- Short-tail property catastrophe reinsurers have seen their ratings

cut, particularly by A M Best.

- It will be interesting to learn the ratings assigned to the new entrants to the market. Several existing reinsurers consider themselves well placed to compete with the new companies.
- The shortcomings of existing catastrophe models were exposed by Katrina, and it is expected that revised models will be available in the spring.

Capital raising

- Several companies are planning to raise additional capital to replenish after the hit taken from Q3.
- Also, several companies will use various "side vehicles" to provide access to extra capital and improve exposure and volatility management.

New ventures and capital

- There are 12 new entrants to the market with total anticipated capital over \$8 billion.
- Several new ventures are being set up by hedge funds rather than through more traditional channels.

QUARTERLY GROSS PREMIUMS WRITTEN \$M

	Q3 2005	Q3 2004	Q3 2003
ACE ¹	4,261	3,988	3,451
Arch	1,048	928	928
Aspen	494	349	332
AWAC	322	403	417
Axis	795	688	634
Endurance	371	368	325
Everest	1,081	1,217	1,240
IPC	166	61	46
Max Re	288	281	189
Montpelier	290	184	146
PartnerRe	780	805	750
Platinum ²	425	442	-
PXRE	236	126	95
Renaissance Re ¹	383	273	313
White Mtn	1,256	1,403	1,000
XL Capital	2,381	2,172	2,289

QUARTERLY NET PREMIUMS EARNED \$M

	Q3 2005	Q3 2004	Q3 2003
ACE ¹	3,091	2,859	2,398
Arch	748	735	609
Aspen	379	293	207
AWAC	313	326	323
Axis	617	522	397
Endurance	441	409	336
Everest	959	1,140	1,046
IPC	207	100	78
Max Re	282	331	179
Montpelier	281	210	163
PartnerRe	915	944	888
Platinum	429	383	272
PXRE	69	90	69
Renaissance Re ¹	348	350	278
White Mtn	982	992	788
XL Capital	1,800	2,026	1,785

1. Restated quarterly data not available for 2003 2. Quarterly premium written analysis not available

QUARTERLY EARNINGS (LOSS) DATA

	Net income (loss) attributable to common shareholders (\$m)			Fully diluted earnings (loss) per share (\$)		
	Q3 2005	Q3 2004	Q3 2003	Q3 2005	Q3 2004	Q3 2003
ACE ¹	(112)	2,269	355	(0.43)	(0.03)	1.22
Arch	(86)	562	83	(2.48)	0.25	1.22
Aspen	(362)	303	33	(5.22)	(0.62)	–
AWAC ²	(204)	375	72	(1.35)	(0.43)	0.48
Axis	(468)	446	147	(3.32)	0.04	0.90
Endurance	(377)	308	57	(6.26)	0.40	0.83
Everest	(418)	963	100	(7.41)	0.20	1.77
IPC	(657)	116	62	(13.57)	(0.37)	1.29
Max Re	(41)	299	39	(0.89)	(0.20)	0.89
Montpelier	(875)	263	91	(12.16)	(1.26)	1.34
PartnerRe	(297)	661	112	(5.48)	1.46	2.08
Platinum	(176)	385	38	(4.02)	(1.62)	0.81
PXRE	(319)	156	20	(11.17)	(5.48)	1.01
Renaissance Re ¹	(287)	739	113	(4.07)	(4.97)	1.59
White Mtn	(66)	788	(52)	(6.16)	(0.94)	(5.33)
XL Capital	(1,049)	1,758	99	(7.53)	0.16	0.71

1. Restated quarterly data not publicly available for 2003 2. Basic EPS data only available

CUMULATIVE YEAR TO DATE EARNINGS DATA

	Net income (loss) attributable to common shareholders (\$m)			Fully diluted earnings (loss) per share (\$)		
	9 months 2005	9 months 2004	9 months 2003	9 months 2005	9 months 2004	9 months 2003
ACE ¹	792	875	973	2.63	2.95	3.46
Arch	156	210	197	2.09	2.91	2.91
Aspen	(208)	123	98	(3.00)	1.71	–
AWAC ²	(68)	94	201	(0.45)	0.63	1.34
Axis	(143)	314	372	(1.01)	1.89	2.46
Endurance	(171)	242	175	(2.81)	3.58	2.68
Everest	(56)	402	304	(1.00)	7.07	5.59
IPC	(549)	130	195	(11.34)	2.69	4.04
Max Re	18	47	84	0.36	0.96	2.08
Montpelier	(692)	138	307	(10.49)	2.03	4.58
PartnerRe	(43)	334	339	(0.79)	6.17	6.30
Platinum	(35)	35	95	(0.80)	0.78	2.04
PXRE	(257)	(20)	59	(10.02)	(1.49)	2.97
Renaissance Re ¹	(71)	(58)	445	(1.01)	(0.84)	6.27
White Mtn	257	254	85	23.73	24.44	18.08
XL Capital	(470)	838	686	(3.39)	6.05	4.97

1. Restated quarterly data not publicly available for 2003 2. Basic EPS data only available

COMPARISON OF BOOK VALUE & MARKET VALUE PER SHARE (\$)

	Q3 2005		Q3 2004		Q3 2003	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
ACE	35.68	47.07	33.37	40.06	29.97	33.08
Arch	66.23	49.59	61.27	38.94	58.15	33.07
Aspen	17.65	29.55	20.49	23.01	–	–
AWAC	10.06	n/a	13.64	n/a	12.67	n/a
Axis	20.29	28.51	20.22	26.00	17.37	24.95
Endurance	26.00	34.11	28.71	32.15	24.85	29.20
Everest	63.62	97.90	62.99	0.00	54.44	75.16
IPC	22.30	32.65	34.01	38.01	31.07	35.04
Max Re	20.69	29.55	18.54	20.00	17.46	17.02
Montpelier	12.69	24.85	26.89	36.68	24.76	30.15
PartnerRe	57.07	64.05	53.18	54.69	46.18	50.67
Platinum	24.75	29.89	25.30	29.28	23.87	28.10
PXRE	14.96	13.46	39.53	23.41	42.63	17.95
Renaissance Re	35.26	43.73	35.05	51.58	30.97	45.63
White Mtn	360.40	604.00	337.61	526.00	310.43	397.03
XL Capital	50.09	68.03	53.18	73.99	53.92	77.44

1. Book value has been calculated by dividing shareholders' equity at Sept 30, 2005 by shares outstanding at Sept 30, 2005

2005 NEW VENTURES & EXPECTED CAPITALISATION

Company name	Key investors	Expected capital base (\$US)
Amlin Bermuda Ltd	Amlin plc	1 billion
Ariel Re	Consortium led by Don Kramer	0.75 billion – 1 billion
Arrow Capital Reinsurance Co Ltd	Goldman Sachs	n/a
Flagstone Re	West End Capital	1 billion
Harbor Point Re Ltd	Chubb Inc and Stone Point Capital LLC	1.3 billion – 1.5 billion
Hiscox Insurance Company (Bermuda) Ltd	Hiscox plc	n/a
Lancashire Insurance Co Ltd	Cypress/Capital Z	1 billion – 1.5 billion
New Castle Re	Citadel Investment Group plc	0.5 billion
Omega Specialty Insurance	Omega Underwriting Holdings plc	0.16+ billion
Rockridge Re Ltd	Montpelier Re Holdings Ltd and West End Capital	0.091 billion
Blue Ocean Re	Montpelier sponsored vehicle	0.5 billion
Validus Reinsurance Ltd	Aquiline Capital Partners (with Jeff Greenberg)	1 billion – 1.5 billion
Cyrus Re	Highfield Capital will provide quota share reinsurance to XL Capital	0.5 billion – 1 billion

TRIA and error?

BACKSTOP IS EXTENDED BUT MAJOR CONCERNS PERSIST. CHRIS GIBBONS REPORTS



The Bermuda market has generally welcomed the decision by the US Congress to extend the Terrorism Risk Insurance Act for another two years. Renewal of TRIA was considered vital to American business and the insurance industry.

TRIA was originally enacted in the wake of 9/11 as a federal backstop of temporary reinsurance relief to stabilise the market and help insurers manage ongoing terrorism risk. Under the Act, insurers were required to cover terrorism claims up to a certain point, based on their annual earned premiums in certain commercial lines. The US Government acted as a reinsurer, paying 90% of claim costs up to \$100 billion.

The Terrorism Risk Insurance Extension Act 2005 contains new provisions that give the private sector insurance industry more responsibility. It significantly reduces the backstop, increasing the “trigger point” for TRIA protection from \$5 million to \$50 million in 2006 and \$100 million in 2007.

The Senate bill also removes certain lines of insurance, such as commercial automobile and professional liability, from TRIA protection and does not add group life insurance to the lines covered. Meanwhile, the House Financial Services Committee passed the Terrorism Risk Insurance Revision Act, which would also create “silos” to segregate coverages such as workers’ compensation and group life and subject them to different deductibles before an individual insurer could tap the backstop. Both bills call for a special commission drawn from all areas of the insurance business to come up with long-term solutions.

One of TRIA’s original goals was to give the insurance industry



time to build the capital necessary to handle major terrorism losses. But that hasn’t happened and analysts say if TRIA had not been extended, the lack of market capacity would have meant a critical loss of reinsurance coverage.

The estimated \$1.8 billion capacity currently available in the standalone terrorism insurance market (companies offering terrorism cover separate from all risks placements and regardless of TRIA protection) doesn’t come close to replacing the \$100 billion federal programme, which of course is free for insurers. Indeed, some industry figures, like John Charman, CEO of Bermuda-based terrorism-risk specialist AXIS Capital, think TRIA inhibits the growth of the private market and he had forecast “an explosion of activity” if it was not extended.

Others believe the extension was necessary to give the market



Henry Keeling: lack of spread is yet another significant problem



Jon Hughes: certain risks are beyond the scope of the market

more time to mature. At present, Bermuda alone provides \$250 million in terrorism capacity in addition to the \$225 million provided globally by ACE and AIG. Lloyds provides around \$350 million with Berkshire Hathaway supporting policies up to \$1 billion.

Jon Hughes, a terrorism underwriter and VP at Bermuda-based Montpelier Re, which has around \$50 million available to underwrite terrorism risks, said: “Capacity has grown since 2001 but it is unlikely that the standalone terrorism insurance market will have suffi-

cient capacity to satisfy the increase in expected demand [without TRIA].

“In addition, certain risks are still beyond the scope of the commercial market. Nuclear, biological and chemical terrorism can represent a virtually limitless exposure, which insurers are rightly averse to cover; however, it is illegal to exclude these or any other perils under workers’ compensa-

tion. Following on from this, some WCA insurers may feel they have little choice but to non-renew some policies because they would not have sufficient reinsurance protection given the unlimited statutory nature of the original policies. As others have commented with regard to WCA, ‘a market solution can’t work when you don’t have a free market. Insurance is a regulated business.’”

Henry Keeling, CEO of XL Capital’s Reinsurance Operations, agrees. “Since we do not know the bounds of terrorism ... this risk

will continue to evolve and probably stay one step ahead of what we think will happen next.”

ACE CEO Evan Greenberg, writing in the *Financial Times*, stated bluntly: “Catastrophic terrorism risk is uninsurable because its true dimensions are incalculable, whether you live in London, Madrid or New York. Insurance companies such as my own are willing to do their part but that is a fraction of what is needed. This presents the US federal government with a stark choice: continue TRIA, or something like it, or let it lapse, compel the private sector to go it alone on terrorism and watch as one insurer after another reduces exposure in the largest US cities and curtails coverage, leaving America’s workers and property exposed to financial loss.”

Ultimately, he wrote, “TRIA is not an insurance issue — it is an economic and national security issue. Under the current US Government programme, terrorism insurance is a risk shared by the public and private sectors. TRIA protects the insurance industry from the risk of ruin over a catastrophic terrorist event. Even with its backstop protection, however, the industry assumes more than \$30 billion in terrorism exposure.”

Without TRIA, according to Mr Keeling, the market “would be unable to determine a price for this uncertainty. All we can do is determine a level of exposure that we are prepared to bear, and charge for assuming this risk. The result is that the few commercial insurers prepared to risk funds are only prepared to do so at prohibitively high levels.

“Until terrorism cover becomes mandatory and clear limits are set on (re)insurer exposure, I believe there will be no chance of a broad commercial market developing. Even if steps such as public/private schemes for terrorism were introduced, the reinsurance market could never provide 100% of the necessary capacity due to the magnitude of a terrorist attack.”

Given that Bermuda has made its name by plugging catastrophe capacity shortfalls, why has it not been able to do so for terrorism?

“The market has grown to a level where this new trigger point would be practical,” said Montpelier Re’s Mr Hughes. “Anticipated required capacity

would be in excess of \$100 billion. Not all reinsurers are comfortable offering significant terrorism capacity due to the difficulty in assessing and pricing the exposure represented by terrorism with the modelling of this unique exposure still in its infancy.

“Capital markets generally do not like dynamic, volatile exposures like terrorism where the peril changes very quickly, often within a year’s policy. The current estimated capacity of \$6 billion is a reflection of this. [However] I would expect Bermuda to show increasing capacity in 2006 and beyond, especially with the introduction of alternative capital providers such as hedge funds.”

Mr Keeling said the lack of spread is also inhibiting the market. “What we have is a situation where few businesses are taking out cover against terrorism, but a massive majority of those that do are situated within a few miles of each other in New York, Washington and Boston. With a lack of spread, it is almost impossible for the insurers to mitigate their exposures: if one of these centres is attacked, the insurers will face disproportional pay-outs.

“Furthermore, with take-up so low, there has been a very limited demand for TRIA, so the argument becomes circular: commercial insurance has failed to develop because of TRIA, thus limiting demand for TRIA.”

Meanwhile, a recent report by the Rand Corporation said failure to extend TRIA would have contributed to the problem of uninsured losses instead of reducing it. It claims that US Government concerns about its financial liability under TRIA are unwarranted and projected that only the most devastating terrorist attacks would trigger the federal backstop.

Rand added that TRIA is not the taxpayer bailout of the insurance industry some critics have claimed and that reducing uninsured losses may ultimately reduce taxpayer liability. “As demonstrated most recently with Hurricane Katrina, governments often feel compelled to compensate uninsured victims after a disaster. As such, the expectation of post-disaster assistance can actually undermine the demand for insurance against future catastrophes. Thus, facilitating the purchase of insurance may decrease the ultimate taxpayer burden.”

Perfect time, perfect place

SO DON KRAMER RETURNS FROM RETIREMENT, HUNGRIER THAN EVER BEFORE

He’d already made more comebacks than Frank Sinatra, and when reinsurance veteran Don Kramer announced his retirement from ACE last May, just about everyone in the industry took it with a pinch of salt. Even he jokes: “I failed retirement 101.”

So it was no surprise when the 67-year-old revealed in October that he was to form a new Class 4 reinsurer, Ariel Reinsurance Company, the first of the “class of 2005” startups keen to fill the capacity vacuum created by the severe hurricane losses of Katrina, Rita and Wilma. Fittingly, his email moniker is “fastcat”.



Don Kramer:
“We’re not taking market share from anybody”

Mr Kramer had been doing some consulting since retiring from ACE but it was not enough, he says, “to sap my energy, so when this opportunity came along, I couldn’t resist.

“The storms created a massive supply/demand imbalance and the existing companies don’t have the appetite for increased exposure. The really good companies took a loss and went on about their business. The not-so-good ones took losses, got themselves downgraded and found themselves up against some serious pressure from the rating agencies. It was clear they weren’t going to have any appetite for additional catastrophe exposure in the new year so there was room for myself and, it seems, up to a dozen other players to come in. We’re not taking market share from anybody; all we’re doing is filling the increased demand.”

The last time Mr Kramer “retired”, he formed Tempest Re the day after leaving NAC Re, which he had founded and which was later bought by Bermuda-based XL Capital. Tempest, which had been formed in 1993 in the wake of Hurricane Andrew, in turn was bought by ACE. In 2001, he was a key figure in helping ACE raise more than \$1 billion in new capital to meet the demand for reinsurance after 9/11. This time round he raised a billion relatively easily: by mid-November, Mr Kramer revealed that Ariel was over-subscribed.

“The amount of capital coming into the Bermuda market and the number of Lloyds syndicates getting Bermuda affiliates is a testament to how important Bermuda is now,” he says. “It is currently the most important market for anyone placing large risk.”

Inevitably, the company name has Mr Kramer’s personal stamp on it. A keen supporter of the arts (he counts movie star Elliott Gould among his long-time friends and is chairman of the Bermuda Dance Foundation), Mr Kramer named Tempest Re after *The Tempest*, Shakespeare’s play inspired by a 1609 Bermuda shipwreck. Ariel, named after the sprite in the same play, continues the Shakespearean theme.

Ariel is being built from the remnants of Rosemont Re, which Mr Kramer

IN DEPTH

and a major private equity group (unnamed at press time) bought from troubled parent company Goshawk Insurance Holdings for a reported \$2.5 million in October. Rosemont had gone into runoff after a ratings downgrade when it failed to replace capital drained by heavy Q3 hurricane losses.

Ariel is to take over Rosemont's renewal options and much of the infrastructure at its offices in Queen Street, Hamilton, but not its outstanding claims. "Rosemont's problems stemmed more from lack of size after the hurricanes," Mr Kramer says. "The problems of their parent weighed against them in terms of the ability to raise capital."

'The amount of capital coming into the market ... is a testament to how important Bermuda is now. It is currently the most important market for anyone placing large risk'

By buying Rosemont's infrastructure, Ariel has the best of both worlds. As Mr Kramer points out: "Bermuda is resource strained already. Space is at a premium, people are at a premium, plus there are a whole lot of technical issues. Here we have all of the computer

facilities, accounting facilities, data processing capabilities and all the people to function as a going concern. Setting up new is daunting. I've done it once and I know how difficult it is. Having this already in place just allows us to catch the 2006 season. The ability to hit the

decks running becomes exceedingly valuable.

"We brought enough capital to get financial credibility, a management team that has an outstanding record and we put that over an existing infrastructure that is very competent."

Former Rosemont CEO Russell Brooke and CFO Jonathan Beck will be employed as COO and CFO respectively at Ariel. Also on board are "special advisor" George Rivas, who founded Tempest with Mr Kramer, and former ACE Bermuda President Mark Herman, who will be President of the new company. Mr Kramer will be Chairman and CEO.

"My real strength has always been on the strategic end," says Mr Kramer. "I seem fortunate to find myself in a good spot at opportune times and this opportunity was so large. But I believe that property catastrophe as a sole business is not really a great strategy. You've got to diversify and I've managed to recruit a team willing to go out and do both."

Mr Kramer expects Ariel to broaden into some of the liability classes as well as direct insurance under a team led by Mr Herman. "Beyond that we'll look to try to get access to both US and UK markets on a direct basis," he says.

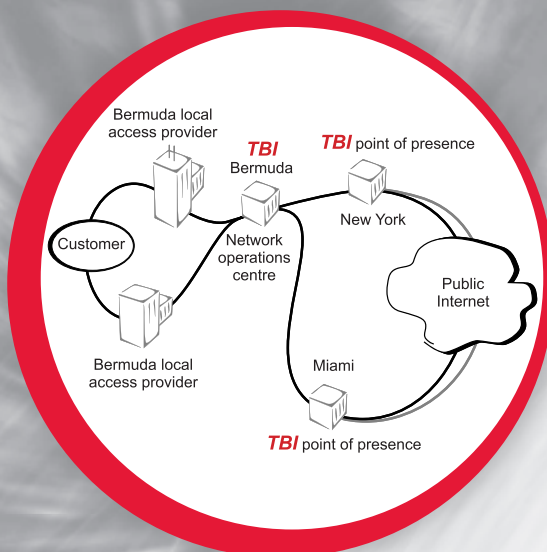
Surveying the current influx of startups, Mr Kramer sees inevitable comparisons with the class of '93. "Then there were eight companies formed within a few weeks of each other with almost identical sponsors and the same mission in the same market. And yet, with the benefit of 12 years of hindsight, we've had eight different outcomes and the range between the best and the worst is absolutely amazing.

"The difference was management strategy. One company was focused on financial returns so they pulled as much money off the table as they could. Another was highly leveraged, took risk but managed that risk very effectively so they had the best ROE. Tempest was focused on diversification and the result was we couldn't do it on our own and we merged with ACE.

"Given the number starting up today, I think we'll see the same difference in outcomes and I'd like to think, being highly competitive, we'll be at the top of the range."

— Chris Gibbons

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Without a trace

MANY PRE-KATRINA CONCEPTS NO LONGER HOLD WATER

As the largest and most complex insured loss ever experienced by the global property casualty industry, Hurricane Katrina's repercussions will go much deeper than just company balance sheets.

Many observers say the lessons learned from Katrina will affect everything from modelling to risk management to ratings. It was, as one analyst called it, "a market-moving event" that virtually paralysed some of its biggest players as their sophisticated computer models failed to accurately predict losses.

In a recent interview with *Reinsurance*, Kenneth LeStrange, Chairman & CEO of Bermuda-based Endurance Specialty Insurance, said he believed there would now be an "extremely dynamic" change in market conditions as companies reassessed their models. The industry is under increasing pressure from rating agencies to ensure both more accurate and efficient modelling and increased capital to cover big catastrophe losses.

He said: "[It] revealed some severe deficiencies in the models themselves and also the way they are used. The models are tools. They do some things very well. And it is well known there are other things they don't do very well. Some organisations did not pay attention to the fact that the models are only limited in their utility for certain exposures, like flood or business interruption. But apart from that, even organisations that compensated for those gaps ... found that whatever they did was insufficient.

"No company performed as expected in this event and that is really the bracing part of Katrina, even more than the size of the financial loss. What implications do we draw from the fact that we

had a much larger loss as an industry from this kind of an event than we expected? That realisation, and the reaction to it by the different companies in our industry, is going to create an extremely dynamic picture in terms of insurance and reinsurance market conditions as we move into 2006."

Leading modelling firm RMS, which recently established an office in Bermuda, said Katrina had raised some fundamental issues about hurricane coverage, including whether hurricanes can even be covered by the private market alone.

Katrina's complexity insurance-wise was that, aside from the hurricane damage itself, much more devastation was due to storm surges and floods, claims that may not have been built into models.

In a post-Katrina report, RMS said the industry needed to examine closely how it considers storm surge and flood losses in its hurricane loss scenarios. "The ambiguity of what is intended to be covered relative to what actually gets paid reflects the weaknesses of a system in which coverage is provided for only certain agents of the hurricane peril. In this environment, claims payment depends heavily upon trying to determine the agent of damage.

"What happened in Hurricane Katrina has helped define a new paradigm for understanding Super Cat losses, suggesting a new overarching methodology to connect processes that were previously included as 'exceptions' within catastrophe models. Instead of see-



"We've done a computer simulation of your projected performance in five years. You're fired."

ing fire following earthquake and demand surge as add-ons to standard models, these can be integrated as core components of a holistic Super Cat risk assessment methodology."

RMS said Katrina, and the catastrophic flooding that occurred as a result of the storm surges, had underlined the potential for technological failures triggered by natural disasters, such as oil and chemical spills, nuclear power station failures or collapses.

The flooding of New Orleans also showed how events that had previously been considered independent become closely correlated in the case of a Super Cat. In RMS's US Hurricane Model, extreme surges were modelled extending into New Orleans (for Category 3 storms and above) but these assumed that there would be no significant breaching of the city's levees and that flooding would be limited by the city's pumps.

However, in Katrina, the pumping capacity was non-existent because the personnel that operated the pumps had been evacuated and then the storm knocked out the electrical power. And when the city flooded after the evacuation, the pump operators could not

return to their stations.

"Therefore," said RMS, "all those factors that led to the failure of the pumps turned out to be highly correlated with the catastrophe event and its flood consequences. This has important lessons for risk assessment at other active flood defence systems protecting major cities, such as the Thames Barrier protecting central London from catastrophic wind driven storm surge floods. Given these lessons, Hurricane Katrina will expand the scale of risk management for Cat following Cat events in the future."

The report added that Katrina would certainly lead companies to address issues such as the management of multi-line accumulation, already an industry priority after 9/11; improved accuracy of data on insured exposures; more differentiated analysis and underwriting of individual risks; taking a more scientific and strategic view of hurricane activity; and building a more holistic assessment of their portfolio exposure to extreme Super Cat events into their risk management processes.

RMS said the hazard and loss experience of Katrina and other recent hurricanes would be incorporated into future catastrophe risk models of "increased precision and differentiation. The unprecedented amount and quality of loss data from these events provides a wealth of information for detailed model calibration and expansion."

'No company performed as expected in this event and that is really the bracing part of Katrina'

Now it's super-vision

BERMUDA IS INVESTING HEAVILY IN HIGHER QUALITY REGULATION. JEREMY COX EXPLAINS



According to Jeremy Cox, the recent overhaul of his insurance department at the Bermuda Monetary Authority (BMA) shows the island is serious about maintaining international standards and sharpening its supervision.

With post-Katrina startups set to add to the existing 1,300-plus companies and \$235 billion in assets it already regulates, the BMA's insurance wing has bolstered

staff, revamped its structure and revised and strengthened its regulatory framework.

It now includes a unit, led by Deputy Director Shelby Weldon, dedicated to onsite inspections, and another, headed by co-Deputy Director Shanna Lespere, concentrating on licensing and authorisation. By 2008, Mr Cox will have an insurance team of 40, up from four in 1992.

Mr Cox said these measures are necessary due to tougher international standards and the more complex company structures now seen at the licensing stage. Amendments to the Insurance Act and the issuing of guidance notes on corporate governance and market conduct were prompted by reviews of Bermuda's financial services industry by the IMF and KPMG.

"International regulatory stan-

dards have changed significantly," he explained, citing in particular the International Association of Insurance Supervisors' standards for supervision of reinsurers in 2003. Monitoring such events and adjusting supervision of the Bermuda market based on industry changes are essential for credibility, Mr Cox said.

One example: "Over the last two years, we have added a more enhanced monitoring process that is being implemented by the BMA itself [rather than by approved auditors] for the Class 4 reinsurers we consider higher from a risk impact perspective.

"We've had no problem getting the information needed to do our jobs," added Mr Cox. "And so far so good: we haven't found any issues."

Room for lean, mean startups

With sustainable development high on the Bermuda Government agenda, some outside the insurance industry are concerned that the recent influx of startups will place even greater strain on the island's infrastructure. But Jeremy Cox believes people should not be too concerned.

"Most of the new entities you saw post-9/11 were leaner and meaner. They are much more mobile, and use technology to its full potential. You don't necessarily see companies forming today that are going to have the significant impact that the ACEs and XLs had. [It's] not because they are 'here today and gone tomorrow' but because that's a model that seems to work; they are able to take advantage of opportunities much more quickly.

"I don't see the new group of companies being much different. I think in the early years they will take advantage of a lot of the sophisticated infrastructure that has been built up, such as the back office services of some of the managers that are here. They will take their time building their operations up and that time will allow Bermuda's infrastructure to develop appropriately as opposed to being stretched to the point where it becomes a problem."



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Arch supports its own

Marc Grandisson (above) has been promoted to Chairman & CEO of Arch Worldwide Reinsurance Group. Mr Grandisson, who succeeds Dwight Evans, began as an actuarial assistant with Tillinghast-Towers Perrin before rising to VP for non-traditional underwriting with F&G Reinsurance. At Berkshire Hathaway, he was a VP and actuary until founding Arch Reinsurance, a unit of Arch Capital Group, in 2001 with Mr Evans, Paul Ingrey and John Rathberger.

Dinos Iordanou, President & CEO of Arch Capital, said: "Our ability to promote from within is an indication of the depth and strength of the management team we have built at Arch. Under the guidance of Marc and the other members of the senior team, the strategic direction of the company will not change."

Nicholas Papadopoulo, the current CUO of Arch Re, succeeds Mr Grandisson as President & CEO of Arch Re. **Maamoun Rajeh** becomes CUO and **Matt Dragonetti** Head of US Property.

Bill O'Farrell steps up

RESPONSIBILITY FOR ACE GROUP'S CORPORATE REINSURANCE PROGRAMMES

ACE: The ACE Group of Companies has announced that **Bill O'Farrell**, Senior Vice President, Reinsurance Recoverables, will assume the post of Chief Reinsurance Officer. Reporting to Brian Dowd, Chairman & Chief Executive Officer of ACE USA and Chairman of ACE Westchester Specialty Group, Mr O'Farrell will be responsible for overseeing corporate reinsurance programmes for the ACE Group.

AWAC: The following underwriters have been promoted from Assistant Vice President to Vice President: **Sal Cantarella, Tracey Gibbons, Scott Kreuzer, Paul Manguson** and **Lorene Phillips**. Meanwhile, **Raymond Tannock** is promoted from Assistant Underwriter to Underwriter.

RENAISSANCERE:

Following the resignation of James Stanard, there have been considerable management changes at RenaissanceRe: see page 16 for details of several senior appointments. Meanwhile, the company announced that COO & CFO **John Lummis** has indicated his intention to retire at the end of his contract term on June 30, 2006. In addition, **Marty Merritt**, who was Controller, has left RenRe.

PLATINUM: Platinum Underwriters Holding has appointed **Michael Price** as its President & Chief Executive Officer. Having served most recently as the company's Chief Operating Officer — and before that as President & Chief Underwriting Officer of Platinum Underwriters Reinsurance — Mr Price will succeed **Gregory Morrison**, who has been named Vice Chairman of Platinum's board of directors. Also, Platinum announced that it has extended the term of its Chairman of the Board, **Steven Newman**, until November 2007.

OIL: **Douglas Kline** has retired as Senior Vice

President & Chief Operating Officer of Oil Insurance. He served 12 years at OIL after a long career at Sun Co. Mr Kline will be succeeded as COO by **George Hutchings**, who has also assumed responsibility for sEnergy Insurance, a unit of the OIL Group of Companies. Mr Hutchings previously was SVP and COO of Oil Casualty Insurance. Succeeding him in that post at OCIL will be **Jerry Rivers**, former Executive Vice President and Director of Sales & Marketing at Bermuda-based brokerage the Park Group. **WHITE MOUNTAINS:** **Ray Barrette** has retired as Chief Executive of Bermuda financial services and insurance group White Mountains. He has been replaced by the head of the group's reinsurance units,

Steven Fass. Mr Barrette made a personal decision to retire and had not been asked to leave, White Mountains said in a statement. He also stepped down from the board. Mr Barrette will, however, continue as lead director of Montpelier Re Holdings, a Bermuda reinsurer that White Mountains helped to form in 2001. Meanwhile, White Mountains has elected **Allan Waters**

as a Director of the company. Mr Waters is Founder & Managing Member of Mulherrin Capital Advisors, a financial services consulting firm with primary emphasis on the property and casualty insurance business.

INTEGRO: **Ben Fidlow** has been appointed Principal & Head of the Risk Modelling and Actuarial Practice at Integro (Bermuda). Mr Fidlow was previously Vice President & Senior Actuary for AXIS Capital. Meanwhile, **George Leite** has joined Integro as Principal and Head of the Management Risk Practice for the Bermuda office. He was formerly Senior Vice President of Marsh Global Markets (Bermuda).



"I'd like you to head up the new team of recently let go."

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Launching RenRenRe

CAN RENAISSANCE LIVE UP TO ITS NAME AND COME BACK CONFIDENTLY? CHRIS GIBBONS REPORTS



Neill Currie believes talent, commitment are already in place

RenaissanceRe will surely look back at 2005 as an *annus horribilis*. In November, CEO and founder James Stanard, one of the most respected executives in the Bermuda market, resigned amid finite risk-related probes and possible civil charges from the SEC. Earlier, RenRe had to restate its figures for 2001-2003 due to accounting errors associated with its use of finite insurance contracts with Inter-Ocean, a reinsurer it part-owned.

Following Mr Stanard's resignation, another RenRe founder, Neill Currie, 52, was made CEO with independent actuary and consultant James MacGinnitie, 67, as non-executive Chairman.

"Jim worked tirelessly to build this company into an industry leader, and assembled a first-rate team," said Mr MacGinnitie. "We are fortunate to have in Neill an executive with the industry experience, knowledge of RenaissanceRe and talent to lead this com-

pany into the future. Neil played a central role in founding this company and establishing its business platform, and the board is confident in his ability to lead RenaissanceRe to new levels of growth and success."

Mr Currie added: "This is an important time in our industry; a time when the expertise and industry-leading underwriting and services we offer are in increasing demand among brokers and clients.

"RenaissanceRe has an extraordinary breadth of people, expertise and proprietary systems to meet these needs, together with a proven business model that has led the company to industry-leading results over the past decade. Since I rejoined RenaissanceRe [in mid-2005], I have been extremely impressed with the depth of talent and commitment throughout its ranks."

Already, it seems, the group's luck is improving. In November, RenaissanceRe Holdings revised its previously reported third-quarter results, cutting net loss for the first nine months of 2005 by \$34.8 million to \$71 million.

According to a company statement, the loss was reduced due to "a reinsurance recovery within (RenaissanceRe's) reinsurance segment that was triggered by the publication of a final third-party industry loss estimate".

As a result, the company's net loss attributable to shareholders for the first nine months of the year has been reduced from \$105.8 million to \$71 million, compared with a restated loss of \$58.4 million in the year-earlier period.

Meanwhile, the company has named Kevin O'Donnell as President of Renaissance Reinsurance and Ian Branagan, currently Managing Director of RenRe's European operations in Dublin, as head of the group risk modelling unit in Bermuda.

'Already its luck is starting to change'

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