

## Bermuda Market Update

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Property/Casualty Ratings

## Review of 2006

- Record profits posted
- US property capacity tight
- Other diversifying lines competitive
- Cedants retained bigger shares
- Risk management enhanced
- Hedge fund's gamble paid off

## Review of 2006

- Start-ups slow out of gate
- Directs became more aggressive
- Legacy issues under control
- Capital continued its migration to Bermuda

## Sidecars

\$ in millions

Sidecar Transactions in 2006

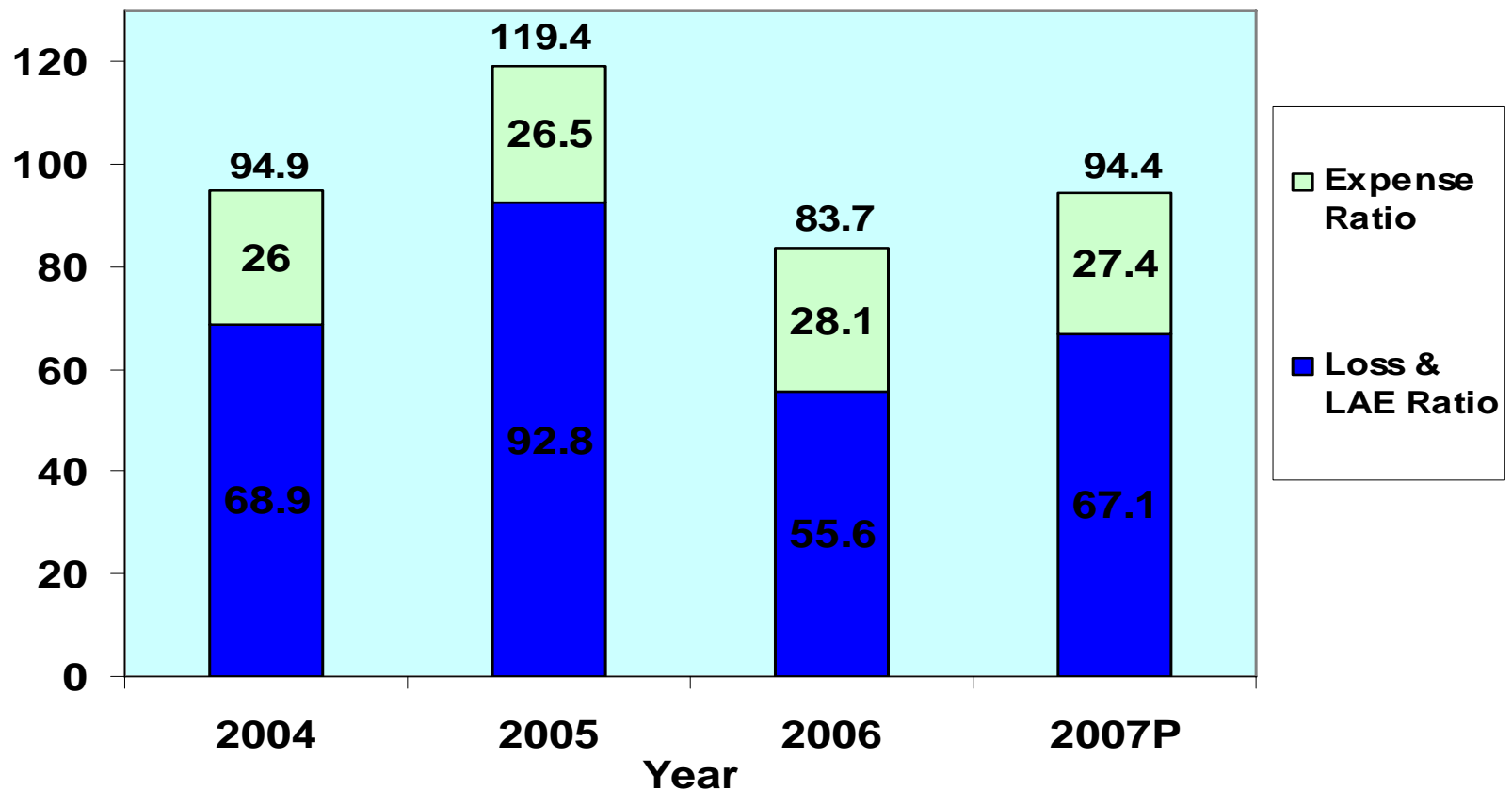
<u>Month</u>	<u>Sidecar</u>	<u>Sponsor</u>	<u>Initial Capital</u>	
			<u>Equity</u>	<u>Debt</u>
Jan	Kaith RE(a)	Hannover Re	414	
Jan	Helicon Re	Folksamerica	145	
Jan	Olympus Re (b)	Folksamerica	156	
Jan	Timicuan ©	Renaissance Re	70	
May	Petrel Re	Validus Re	200	
May	Starbound Re	Renaissance Re	125	374
May	Monte Fort	Flagstone Re	60	
May	Sirocco Re	Lancashire	95	
May	Syndicate 6103	MAP Syndicate 2791	87	
Jun	Bay Point Re	Harbor Point	75	75
Jul	Castlepoint Re	Tower Group	265	
Aug	Concord Re	Lexington Re	365	365
Nov	Blue Ocean	Montpelier Re	100	(d)
Nov	Cyrus Re	XL Capital	100	(d)
Nov	Panther Re	Lloyd's (Syndicate 33)	144	216
Nov	Triomphe Re	Paris Re/Axa Re	121	64
Nov	Stoneheath Re	XL Capital	350	
Dec	Norton Re	Brit Insurance Ltd.	108	
Dec	Maxwell Re	Ace	175	
Dec	New Point Re	Harbor Point	125	125
	<b>Total</b>		<b>3,280</b>	<b>1,219</b>

(a) Additional capital injection of \$106 mil in Jan. 2007. (b) Olympus was recapitalized in Jan. 2006. © Timicuan was dormant from 2003 through May 2006, when it was capitalized as a sidecar. (d) Incremental funding on existing sidecar.

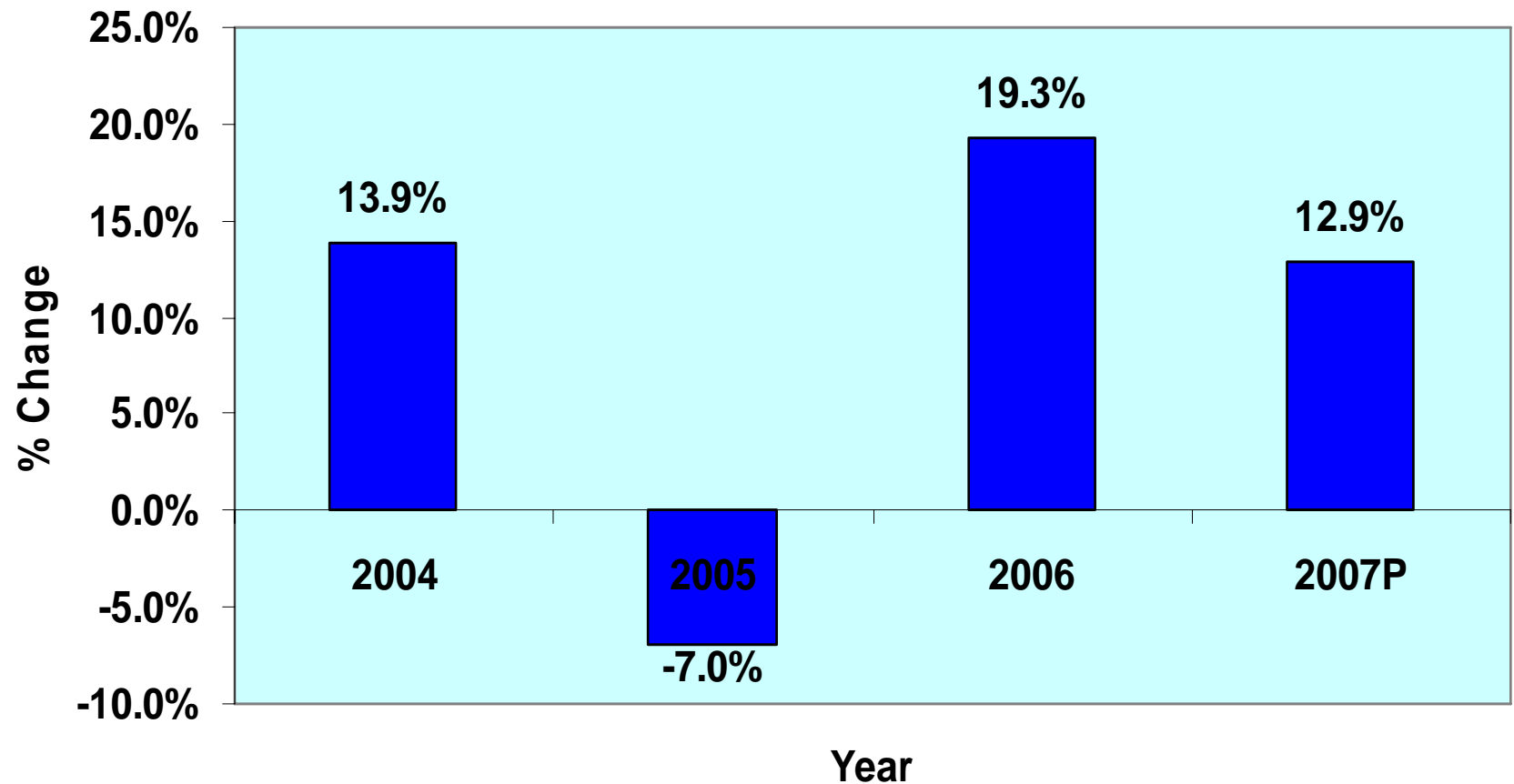
## Impact of Florida House Bill 1A

- Recent Florida state law:
  - Freezes rates and repeals all 2007 rate increases
  - Allows state insurer, Citizens Property Ins. Corp. to offer below market rates
  - Expands FL Hurricane Cat Fund (FHCF), allowing insurers to purchase less expensive reinsurance and pass savings on to consumers
    - FHCF is expected to grow from \$7 billion to \$28 billion
- Will diminish the viability of sidecars and other securitizations
- FHCF may be undercapitalized for covered exposure

## Bermuda Reported Combined Ratio



## Bermuda Return on Equity



## Re-domestication

- Growing trend
- Possible benefits
  - Tax issues
  - Seeing more business
  - Attracting capital
- Does not change the need for Lloyd's licensing

## Bermuda Start Ups

	Initial Rating	Company	Capital Raised (\$ Billions)
2005	A-	Ariel Re	\$1.00
	A-	Flagstone Re	\$0.50
	A	Harbor Point	\$1.30
	A-	Lancashire	\$1.00
	A-	Validus	\$1.00
	A-	Amlin Bermuda Ltd	\$1.00
	A-	New Castle Re	\$0.50
	A-	Hiscox Ins. Co.	\$0.50
	A-	Omega Specialty	\$0.17
2006	A-	Castle Point	\$0.26
2007	A-	Iron Shores	\$1.00
			<hr/> \$8.23 <hr/>

## Rating Startups

- Key management are in place
- Infrastructure and controls are reviewed
- Business plan stress tested in multiple ways
- Capital requirements more stringent to reflect execution risk
- Overall track record and experience of management
- Ratings are prospective

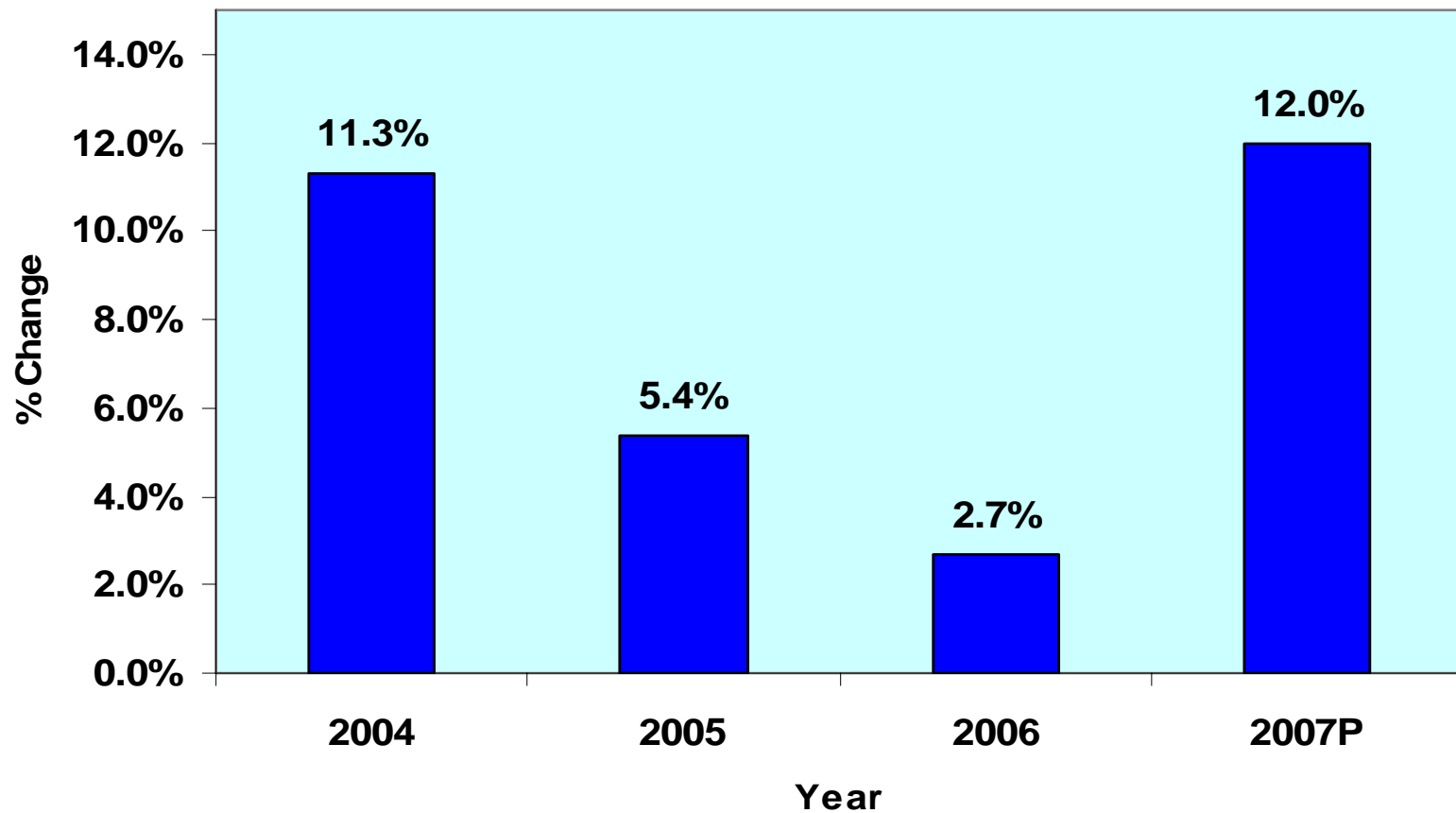
## Preview of 2007

- Global reinsurance outlook - STABLE
- Favorable earnings anticipated for 2007
- Balance sheets in relatively good shape
- ERM fully embraced
- Florida legislation a new wrinkle
- Market softening clearly underway
- Cycle management now being tested

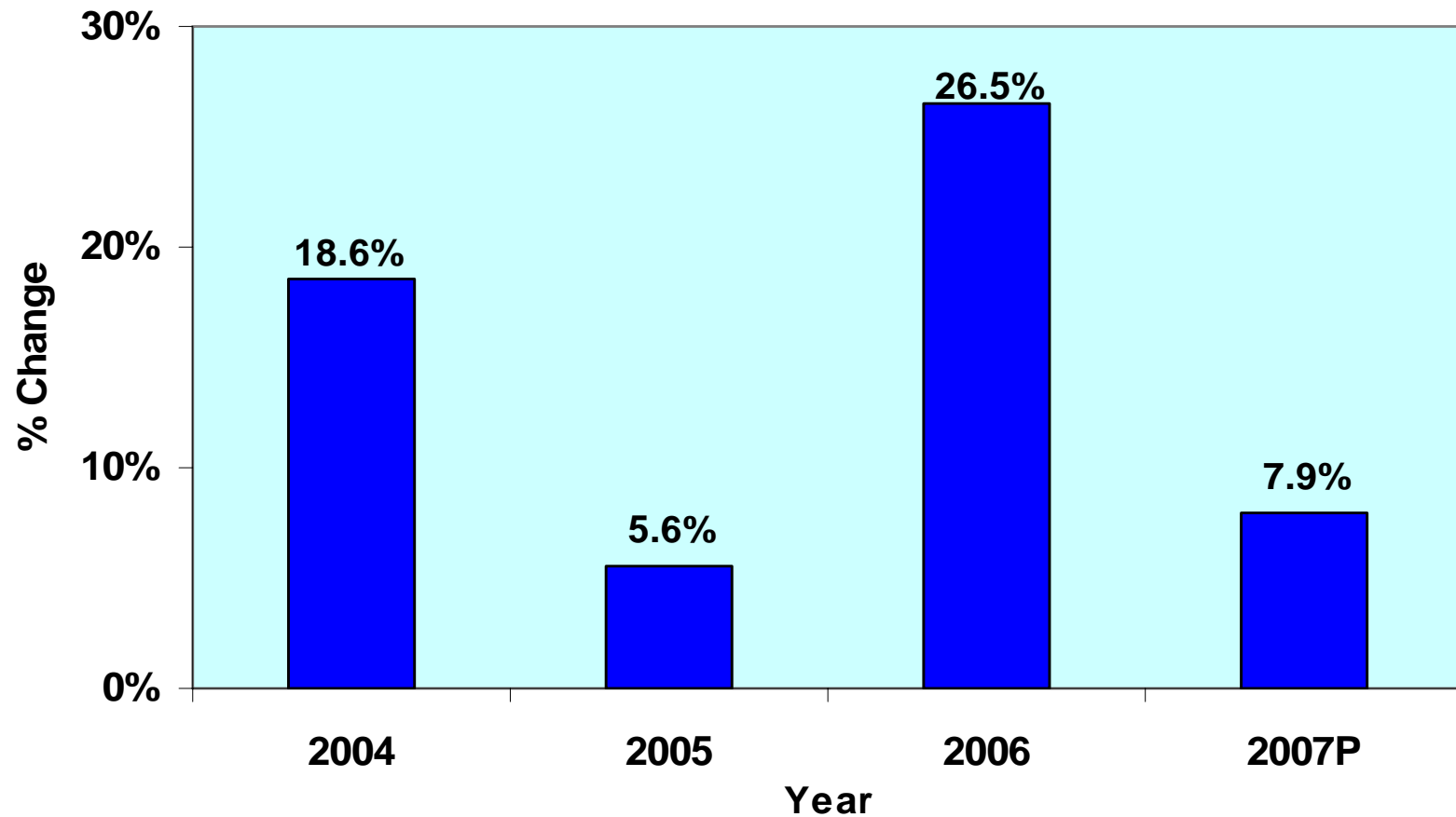
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## Appendix

## Bermuda Net Written Premium

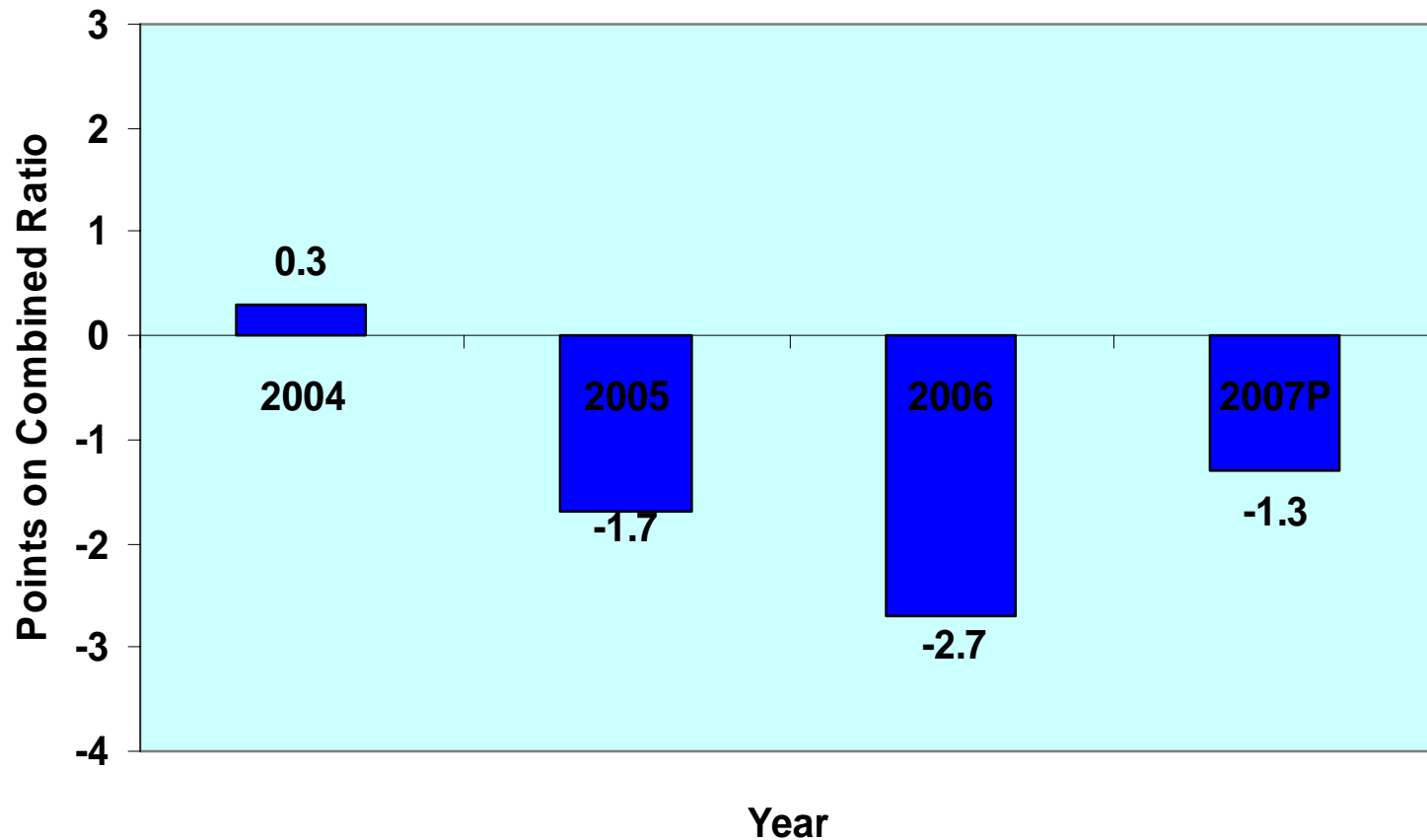


## Bermuda Change in Equity

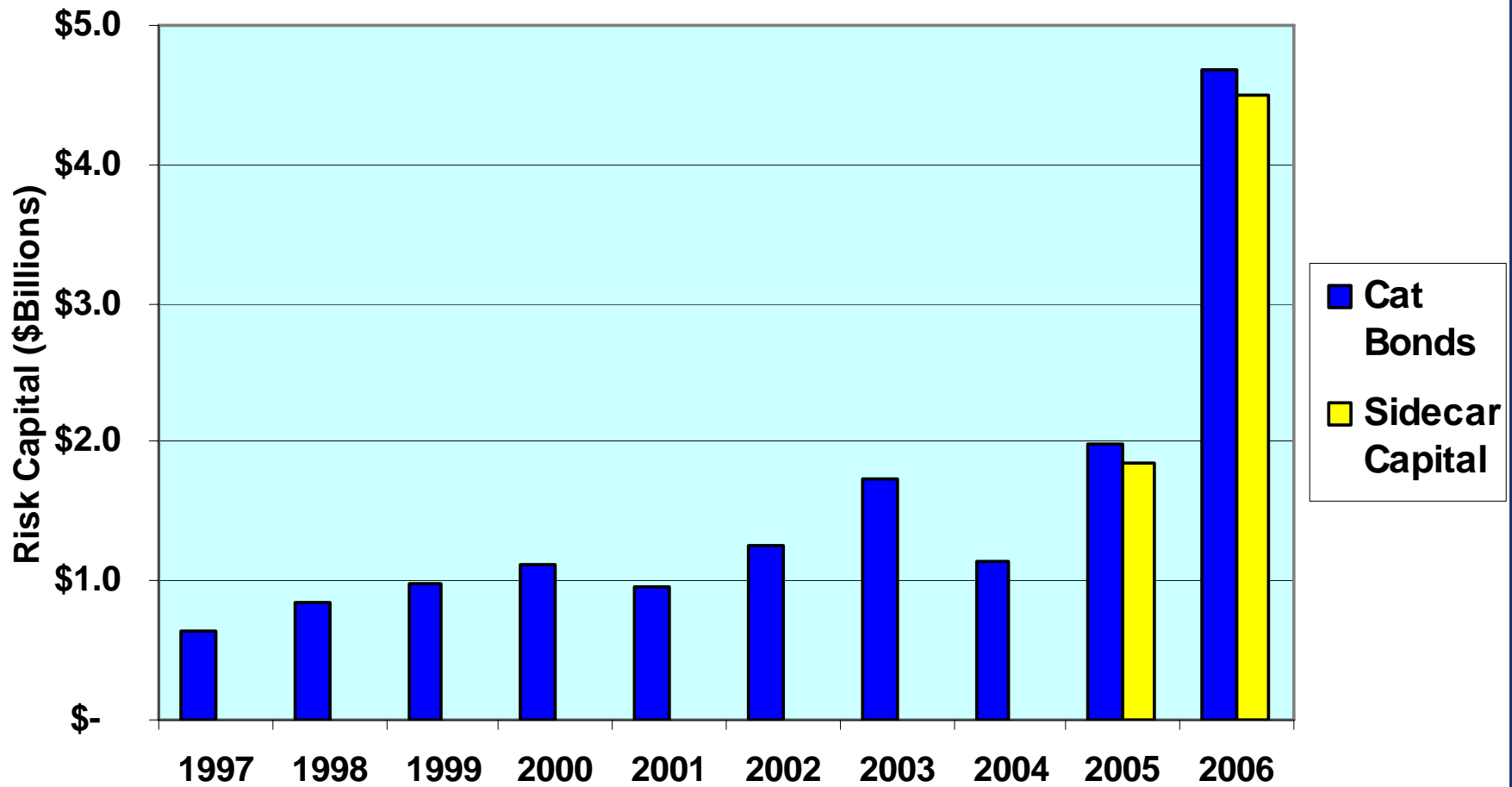


## Bermuda

### Loss Reserve Development



## Capital Markets Growth



## Catastrophe Bonds - FSR Perspective

A.M. Best's objective in measuring basis risk is to determine how much reinsurance credit should be given to certain types of parametric\* Cat Bonds in the BCAR analysis.

\*For the purpose of this document and discussion, AMB considers non-indemnity catastrophe bonds as parametric catastrophe bonds.

## Catastrophe Bonds - FSR Perspective

- Indemnity Based
  - 100% credit for modeled impact
- Parametric/Indexed/Modeled
  - Reduced credit due to basis risk

## Catastrophe Bonds - Rating Analysis

- Structured Finance Group
  - Rates cat bond; and
  - Calculates basis risk
- Ratings Division
  - Uses basis risk calculation for FSR; and
  - Reduces credit for bonds with basis risk
  - Catastrophe Section of SRQ
    - Net PML excluding cat bonds; and
    - Cat bond benefit separate

## Sidecars - Structured Finance Group

- Rating the Debt/ Issuing ICR (where appropriate)
- Calculating the “Tail Risk”

## Sidecars - Determining Tail Risk

- Defining Tail Risk – Risk borne by the sponsor if the sidecar is insufficiently capitalized
- Determination of Tail Risk – “What capital level is required in order to maintain a sidecar’s assumed FSR?”
- “Shadow Rating” of Sidecar – Assumed to be rating of the sidecar’s sponsor

## Sidecars - Determining Tail Risk

- Modeling of AEP curves extremely important
- Tail Risk - Direct impact on the balance sheet strength & FSR of the sponsor

## US Statutory Industry Underwriting Details

	2005	2006	2007P
Net Premiums Written Growth (%)	-0.2	1.6	0.1
Pure Loss Ratio	61.6	53.2	56.7
Loss Adjustment Expense Ratio	13.2	12.1	13.0
Underwriting Expense Ratio	25.5	26.4	26.5
Policyholder Dividend Ratio	0.5	0.8	0.5
Combined Ratio (Reported)	100.8	92.4	96.8
Less: Catastrophe Losses(%)	7.9	2.0	4.0
Less: A&E Losses (%)	0.9	1.2	1.2
CY Combined Ratio (Normalized)	92.0	89.2	91.5
Less: Core Loss Reserve Dev. (%)	-0.4	-1.8	-2.3
AY Combined Ratio (Normalized)	92.4	92.0	93.8