

Keynote Address

***The view from “Across the Pond”:
How the US and Bermuda view Europe***

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AIDA Europe, Hamburg
Friday 23 May, 2008

US, Bermuda and Europe - a Bermuda triangle?



Markets interconnected – by ownership, by people

Globalisation and regionalisation

- **Capital is fungible; capital is global**
- **Growth of regional centres competing with London and Bermuda for international business (large, complex or volatile risks, typically written on subscription basis)**
 - Zurich
 - Dubai
 - Singapore / Hong Kong / Labuan
- **Bermuda and Lloyd's business opening offices around the world – multi-platform**
 - ◆ Get closer to clients
 - ◆ Diversification

Bermuda and Europe

- **Lloyd's and Bermuda carriers opening operations around the world**
 - ◆ Lloyd's companies domiciled and/or operations in Bermuda
 - Catlin, Hardy, Hiscox, Kiln, Omega, Advent, Amlin, Canopus
 - ◆ Bermuda companies with operations in London
 - ACE, XL Capital, Aspen, Lancashire, Validus Re, Ariel Re, Montpelier Re, AWAC, Argo
 - ◆ Bermuda companies with operations in Dublin
 - PartnerRe, XL Capital, AWAC, Aspen, Axis
 - ◆ Bermuda companies with operations in Zurich
 - PartnerRe, ACE, Axis, Glacier Re, Arch, Montpelier Re, Flagstone Re

Catlin Group - underwriting platforms

Catlin Syndicate at Lloyd's

The Catlin Syndicate is the largest syndicate at Lloyd's for 2007 based on a premium capacity of £1.25 billion. The syndicate is a recognised leader of numerous classes of specialty insurance and reinsurance.

Catlin UK

Catlin UK specialises in underwriting property and casualty insurance for smaller to medium size UK commercial clients through a network of regional offices. It also writes other business classes underwritten by the Catlin Syndicate.

Catlin Bermuda

Catlin Bermuda is a leading participant in the vibrant Bermuda market, underwriting a diversified portfolio of property treaty, casualty treaty, political risk and terrorism, and structured risk coverages.

Catlin US

Catlin US encompasses all of the Group's operations in the United States and underwrites a wide variety of insurance and reinsurance products from a network of offices throughout the United States.

Catlin's International Offices

Catlin has established a network of international offices that allows Catlin to work more closely with local clients and their brokers. In addition to its underwriting platforms, Catlin operates offices in Canada, Brazil, France, Spain, Austria, Switzerland, Belgium, Germany, Italy, Guernsey, Singapore, Malaysia, China, Hong Kong and Australia.

Accounting, Regulation and Transactions

IFRS

- Challenge of 'fair value'
- New global standard – end of US GAAP?

Solvency II

- Not just European – de facto international regime
- Impact: more M&A? more securitisation?

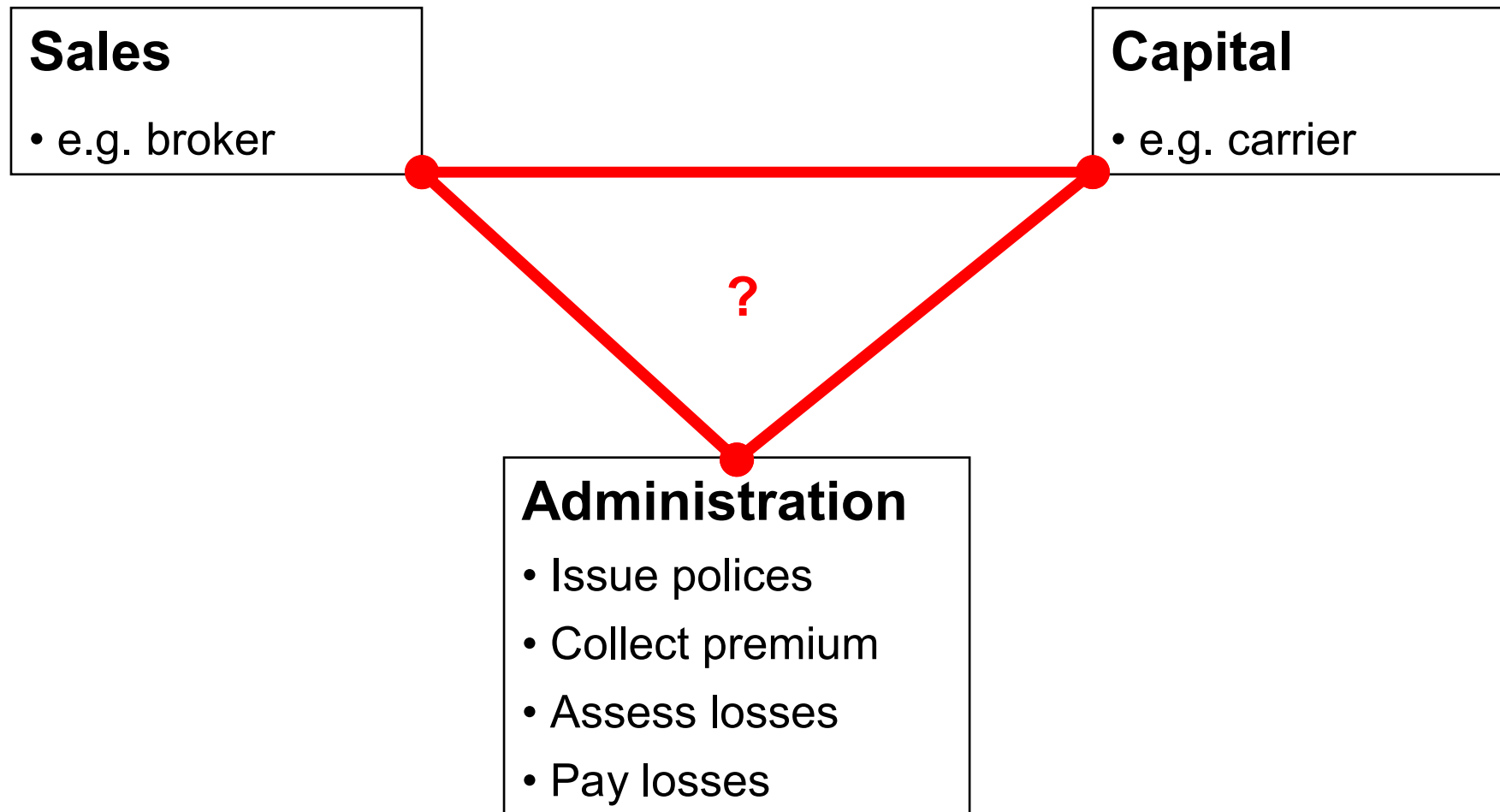
?

SWIFT

- Swiss Re-led initiative
- Insurance e-commerce at last?

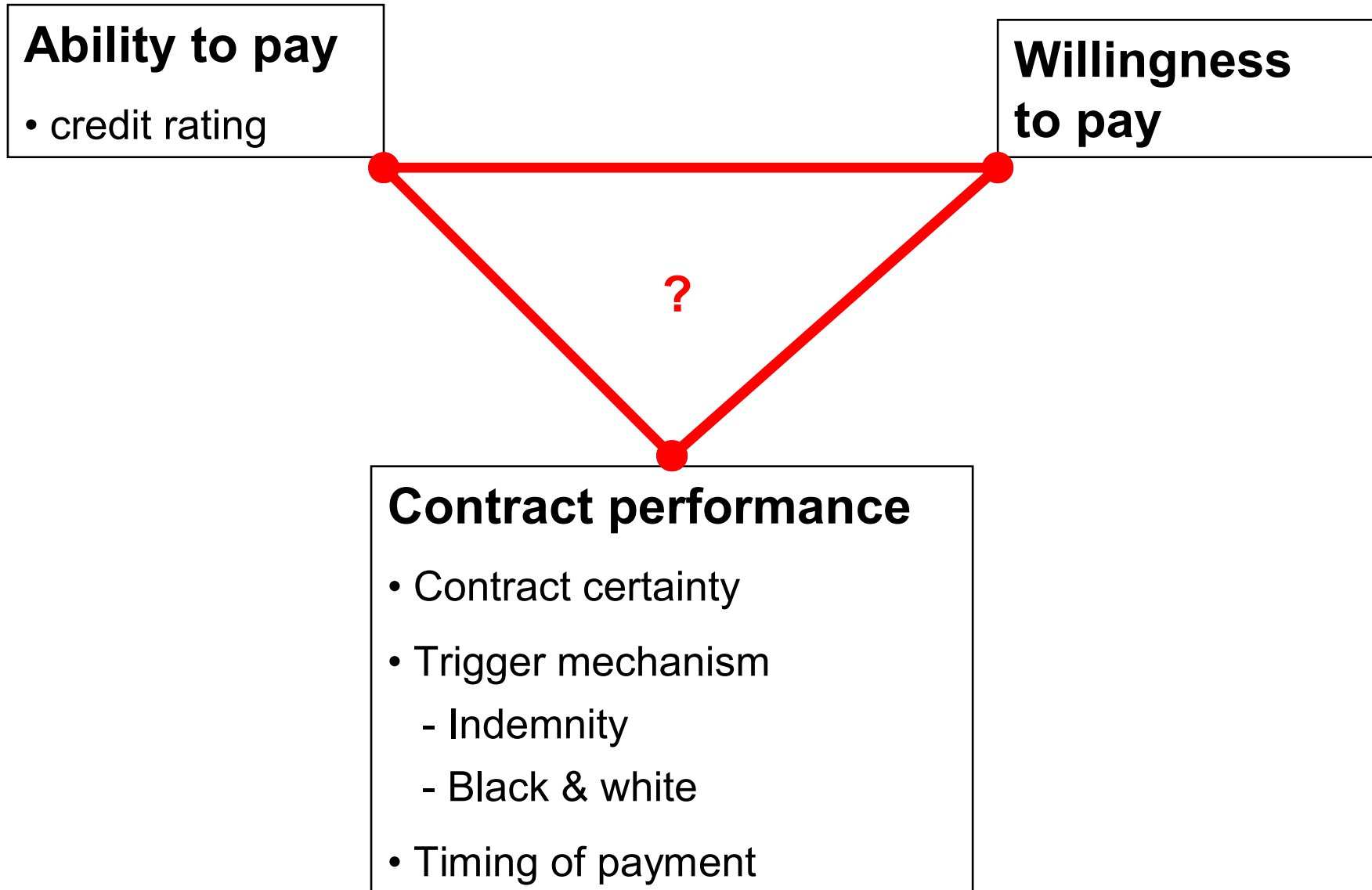
*Solvency II is the "new beating heart" of the European Commission
Karel van Hulle,
director general of internal markets
and services of the European Union*

Sales, Capital and Administration



Who is best placed to provide admin services?

Contract clarity and certainty



Recent jury verdicts

- Less than 1% of claims go to trial, but these verdicts set the floor for settlements
- Fewer claims, more being paid per claim
- Changing composition and bias of a Jury: Is a \$20m verdict in favor of the “little guy” who was harmed by greedy corporate America unreasonable in a society which pays its CEO’s, sports stars hundreds of millions annually?

DATE	PLAINTIFF	JURISDICTION	VERDICT	DEFENDANTS
Mar-08	Mahoney	San Francisco County, CA	\$20M	Georgia-Pacific Corp.
Mar-08	Walton	Los Angeles County, CA	\$21M	The William Powell Co.
Mar-08	Baccus	Philadelphia County, PA	\$25M	John Crane, Crane Co. and Yarway Corp.
Mar-08	Newinski	Ramsey County, MN	\$5M	John Crane, Inc.
Mar-08	Baroni	Indiana County, PA	\$0M	Taylor Industries
Mar-08	Rollin Jr.	Los Angeles County, CA	\$10M	Foster Wheeler Energy Corp., Elliott Co., Yarway Corp.
Feb-08	Shafer	New York County, NY	\$2M	John Crane Inc.
Feb-08	Buttitta	Bergen County, NJ	\$30M	Asbestos Corp. and Borg-Warner Corp.
Jan-08	Linkus	Baltimore City, MD	\$15M	John Crane Inc.
Jan-08	Oxford	San Francisco County, CA	\$2M	Foster Wheeler
Jan-08	Saville	Baltimore City, MD	\$2M	Scapa Dryers Inc., Wallace & Gale
Dec-07	Barlow	Los Angeles County, CA	\$2M	Elliott Co.
Dec-07	Watkins	McLean County, IL	\$3M	Honeywell International
Dec-07	Casale	New York County, NY	\$5M	Johnson Controls Inc. and Spirax Sarco Inc.
Dec-07	Rosenberg	New York County, NY	\$4M	Ericsson Inc.
Nov-07	Smith	Galveston County, TX	\$8M	Hexion Specialty Chemicals Inc., Union Carbide Corp.
Nov-07	Bergquist	Los Angeles County, CA	\$3M	General Motors Corp.
Oct-07	Davis	Los Angeles County, CA	\$35M	Leslie Controls Inc., Warren Pumps Inc.
Sep-07	Franklin	Anderson County, KY	\$6M	R.T. Vanderbilt Co. Inc.
Aug-07	Hill Clark	Morgan County, IL	\$1M	Honeywell International
		AVERAGE	\$10M	

New (parametric) personal insurance policy

New Insurance Policy To Pay Y50,000 Benefit For Large Quakes

20 May 2008

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TOKYO (Nikkei)--Earthquake insurance firm Shinsai Partners Inc. will start selling in July a policy that will pay a 50,000 yen benefit whenever there is a temblor above a certain intensity, regardless of damage.

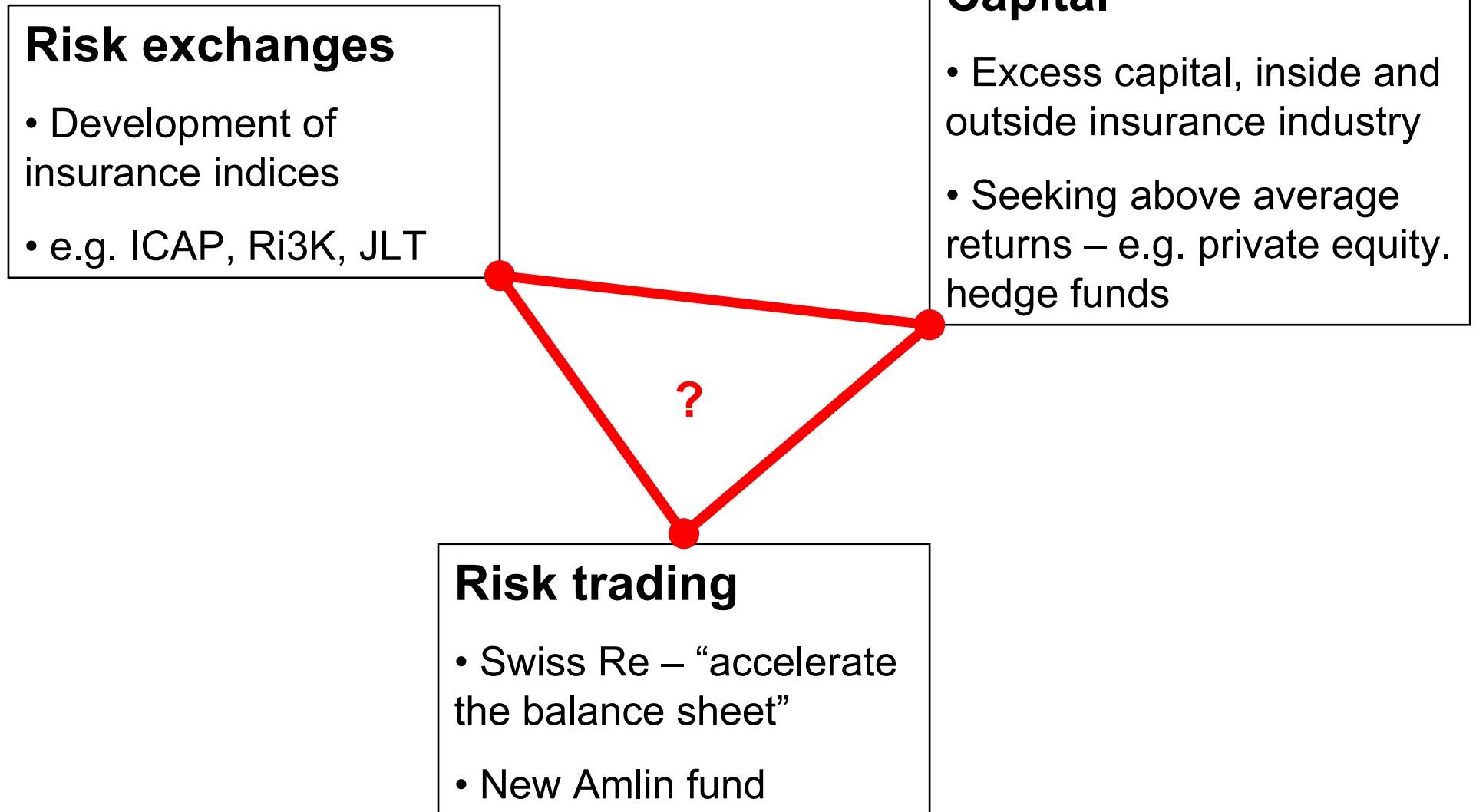
According to the company, this will be the first time a policy that pays benefits based on seismic intensity will be made available to individuals. In conventional earthquake insurance, benefits are paid when policyholders' homes are damaged.

Through its new product, Shinsai Partners will pay 50,000 yen to policyholders that live in a municipality that experiences an "intensity 6 upper" or stronger tremor on the Japanese 10-stage seismic intensity scale, based on announcements by the Japan Meteorological Agency.

And if a municipality certifies that a home is partially or completely destroyed, an additional benefit of 250,000 yen will be paid.

The annual premium is 4,500 yen for the policy that offers the additional benefit for partially destroyed houses and 2,900 yen for the policy that pays the extra benefit only when a home is razed to the ground.

Trading, Risk and Capital



Initiatives for electronic trading of insurance

- Carvill Hurricane Index, single loss index exchange traded on Chicago Mercantile Exchange (CME)
- Gallagher Re-Ex index, aggregate PCS loss indices exchange traded on NYMEX
- Select-Cat collateralised contracts traded through Guy Carpenter
- Deutsche Bank and Insurance Futures Exchange Services plan to trade catastrophe event-linked futures on Chicago Climate Futures Exchange (CCFE) – first trade has now been conducted
- Swiss Re have established catastrophe bond pricing index to facilitate trading of catastrophe price risk
- ICAP (world's largest inter-broker dealer, amongst other financial and commodity risks, currently trades excess of \$1.5 trillion of foreign currency per day) now developing insurance indices for trading

Captives and self-insurance

- **Growth of captives**

- ◆ Global captive figures

- Number of captives ~ 4,900

- Written annual premiums ~ estimate \$60+ billion

- Capital & surplus ~ approx. \$150 billion

- For comparison AIG \$104 bn, Allianz €50 bn, Munich Re €26 bn, Swiss Re \$CHF30 bn, ACE \$14 bn, XL \$10 bn

- **Impact of growth in self-insurance**

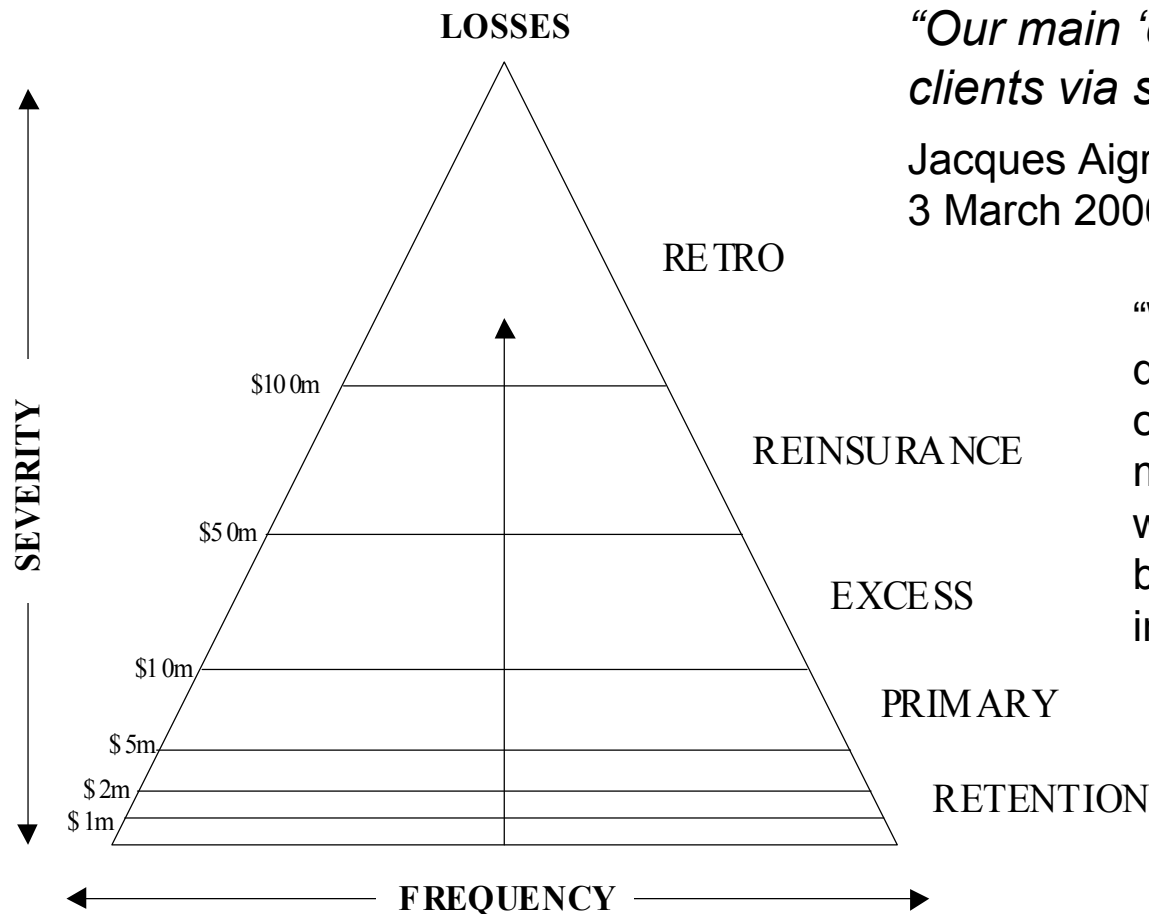
- ◆ “One-way ratchet”

- Self-insurance increases during hard market, but does not decrease to same extent in soft market

- ◆ “Self-selection”

- Tends to be the “better accounts” that self-insure the most

Growth in risk retention leads to increased volatility



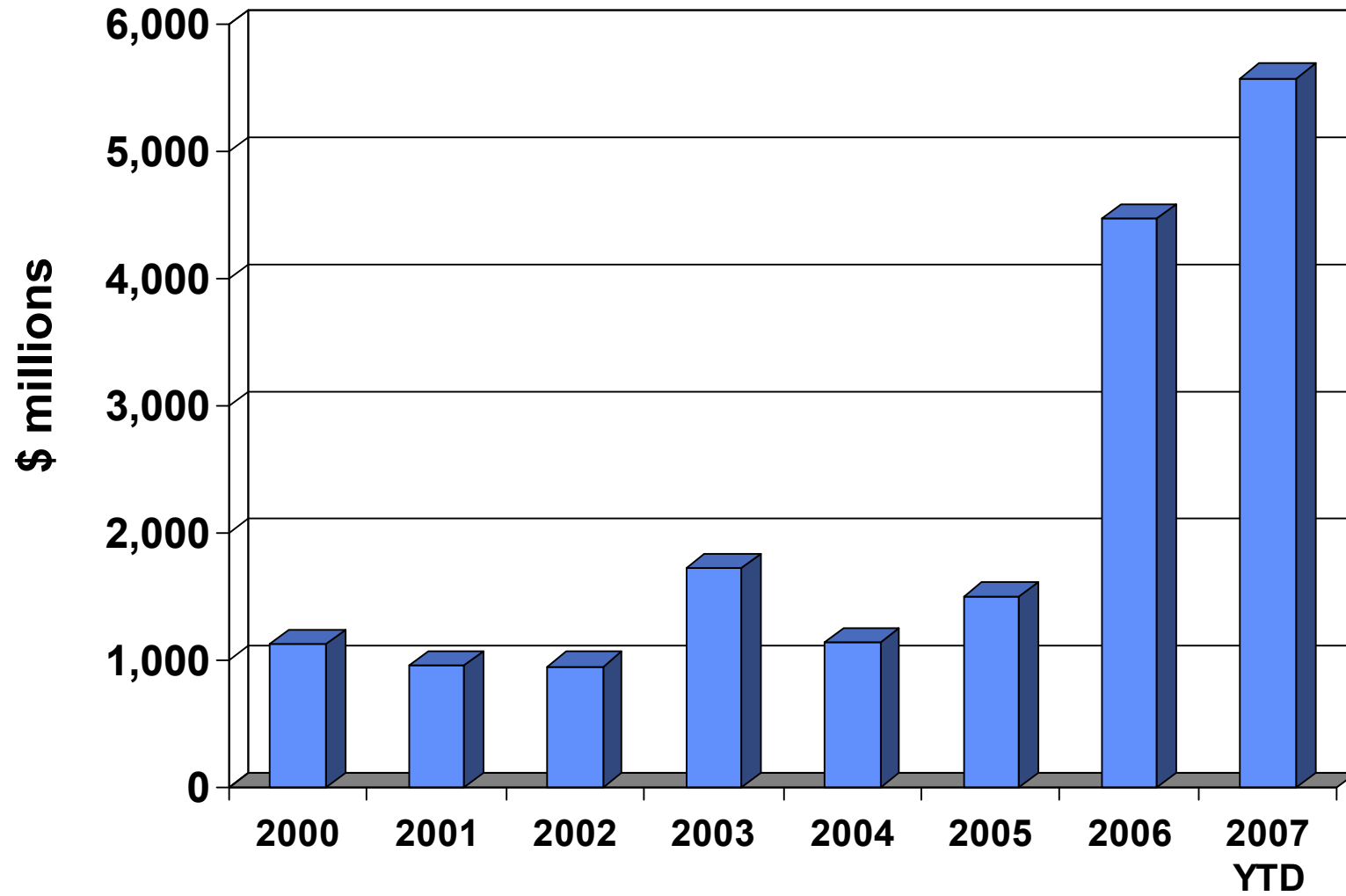
“Our main ‘competitors’ are our clients via self-reinsurance”

Jacques Aigrain, CEO Swiss Re
3 March 2006

“We used to operate on quite a low deductible, but now it’s quite high in order to keep our premiums to a minimum and to be affordable. Also, we believe we’re managing our risks better so we can afford to keep more in-house.”

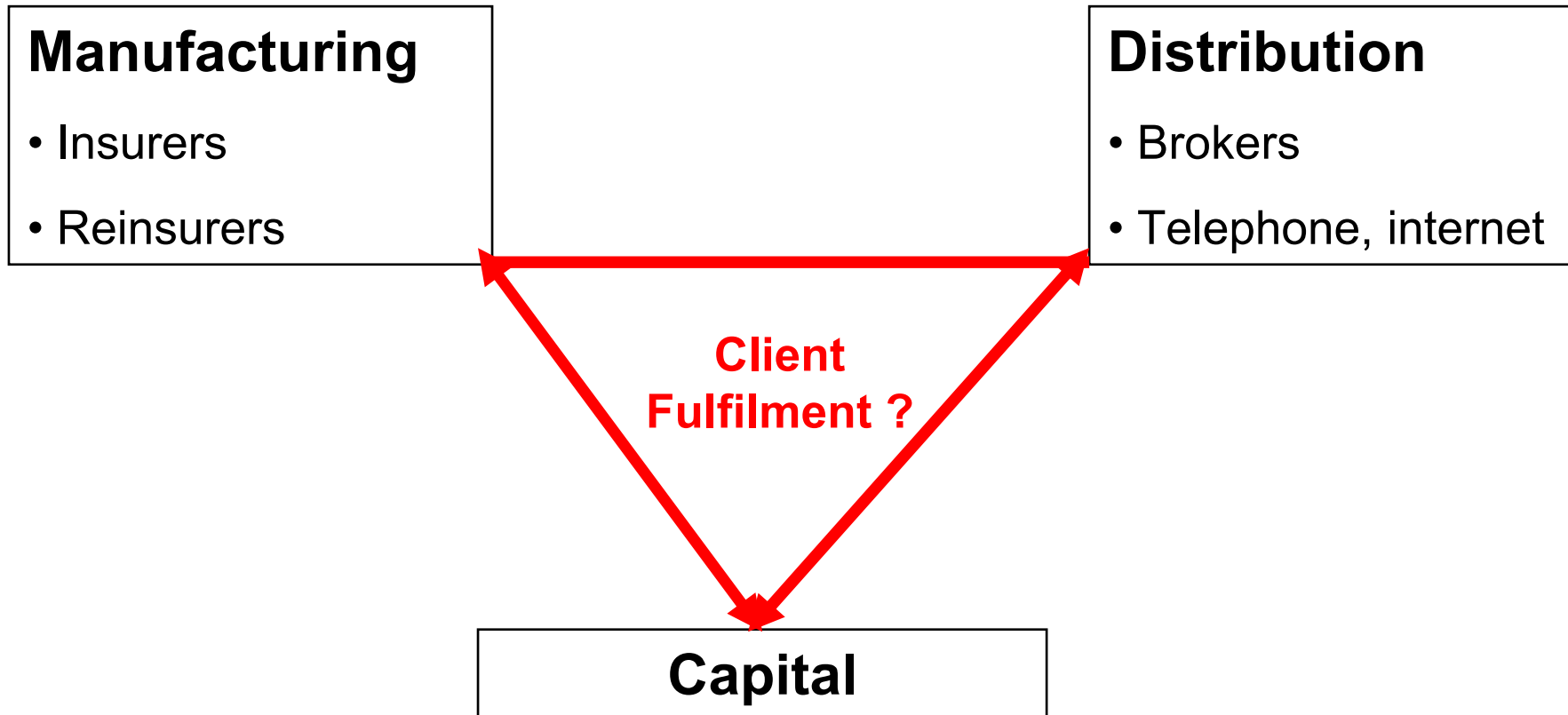
UK Biennial Risk Management and Risk Financing Survey 2003

Catastrophe note/loan issuance



Source: Aon Capital Markets

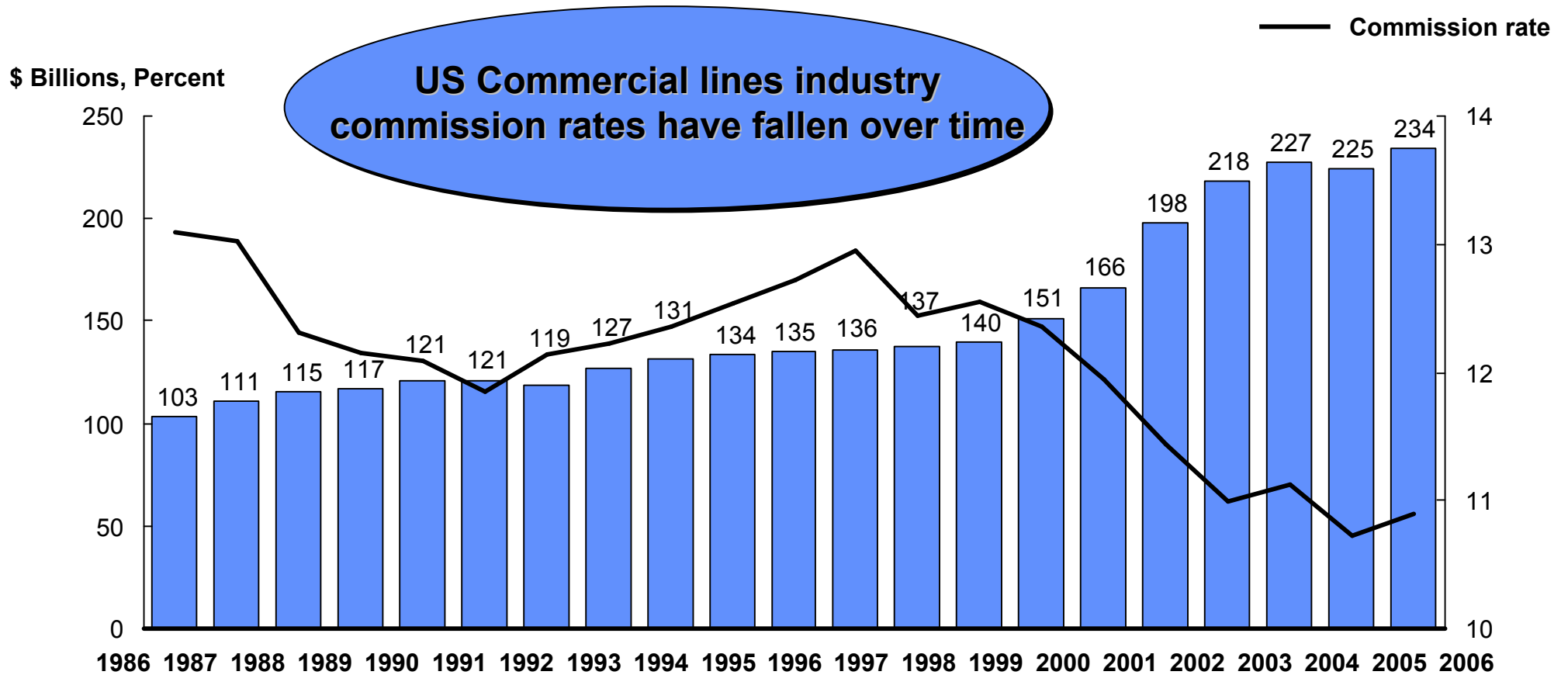
Manufacturing and Distribution



Who is best placed to aggregate supply and demand?

NB: European insurers now buying UK brokers

US Total Commercial Lines Net Premiums Written and Commission Rates*



Contingent commissions** %

0.7 0.7 0.8 0.8 0.7 0.7 0.7 0.9 1.1 1.0 1.0

* Excluding contingent commissions.

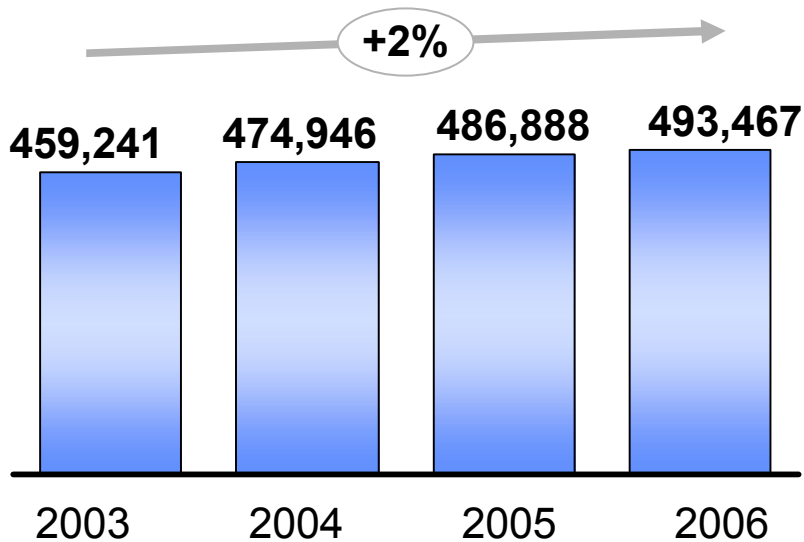
** Contingent commission calculated as a percent of NPW and not available before 1996. Contingent commission for commercial lines calculated based on premium split between commercial and other lines for each carrier.

Source: AM Best

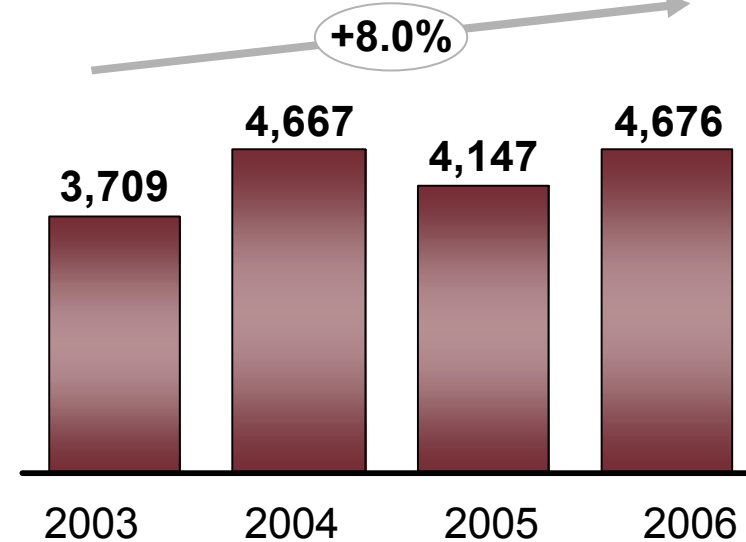
Growth of US P&C Premium and Contingent Commissions

\$1 B increase from '03 to '06

Direct Premiums Written (US P&C) \$M

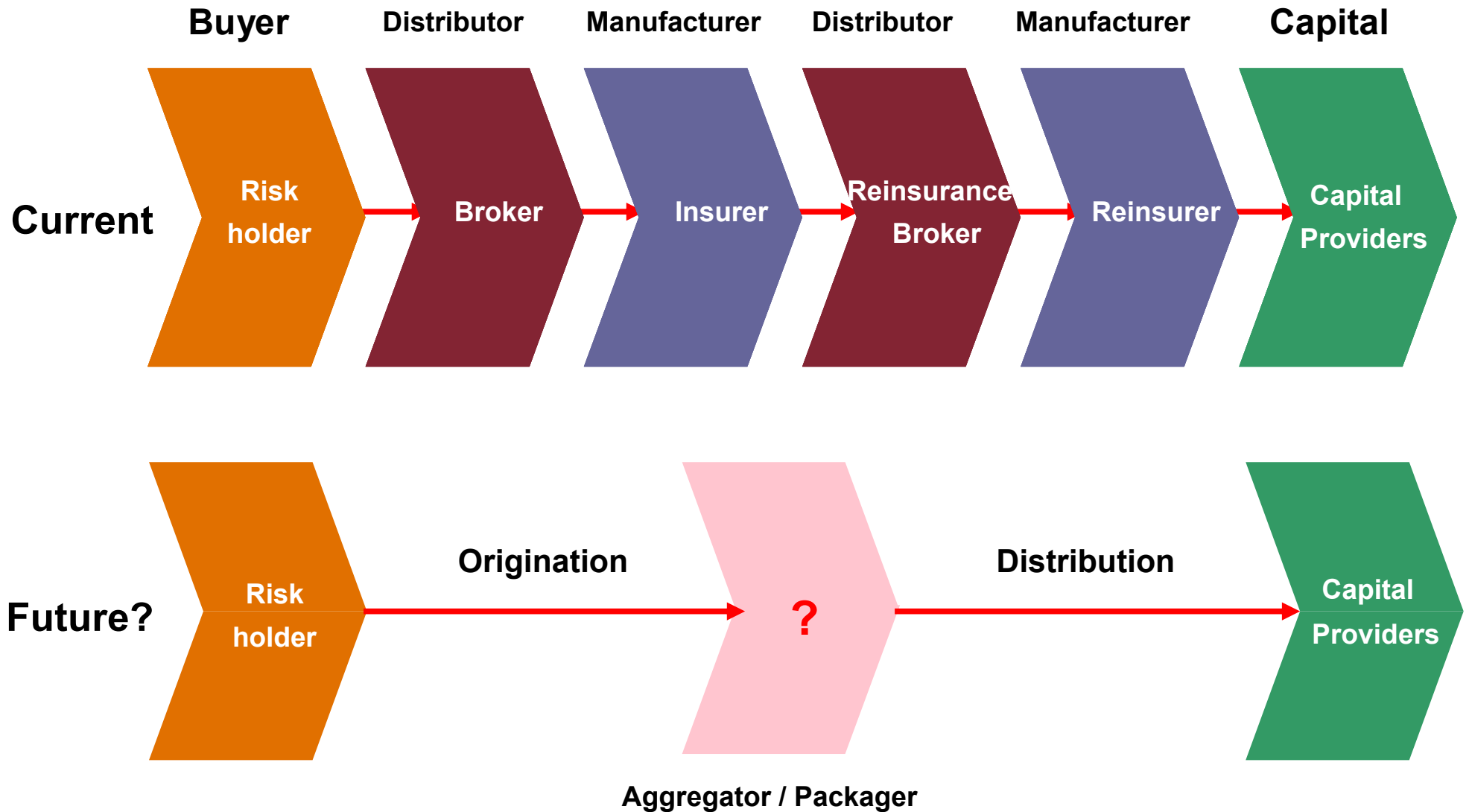


Contingent Direct (US P&C) \$M

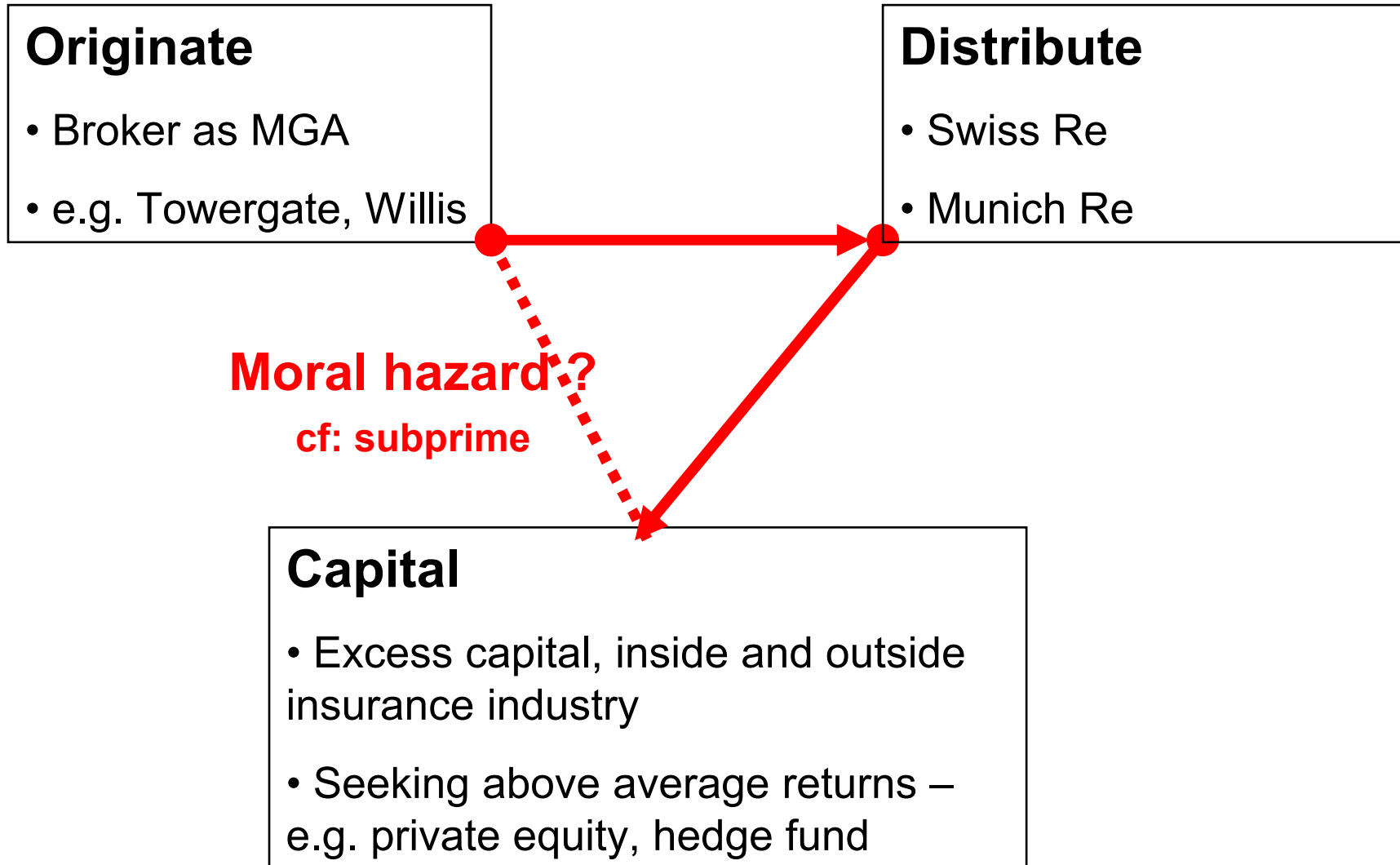


* Preliminary analysis suggest that US Commercial Contingent Commissions in 2003 were \$1,961M increasing to \$2,432 by the year 2006. CAGR = 7.4%

Collapse of distribution chain



Originate, Distribute and Capital

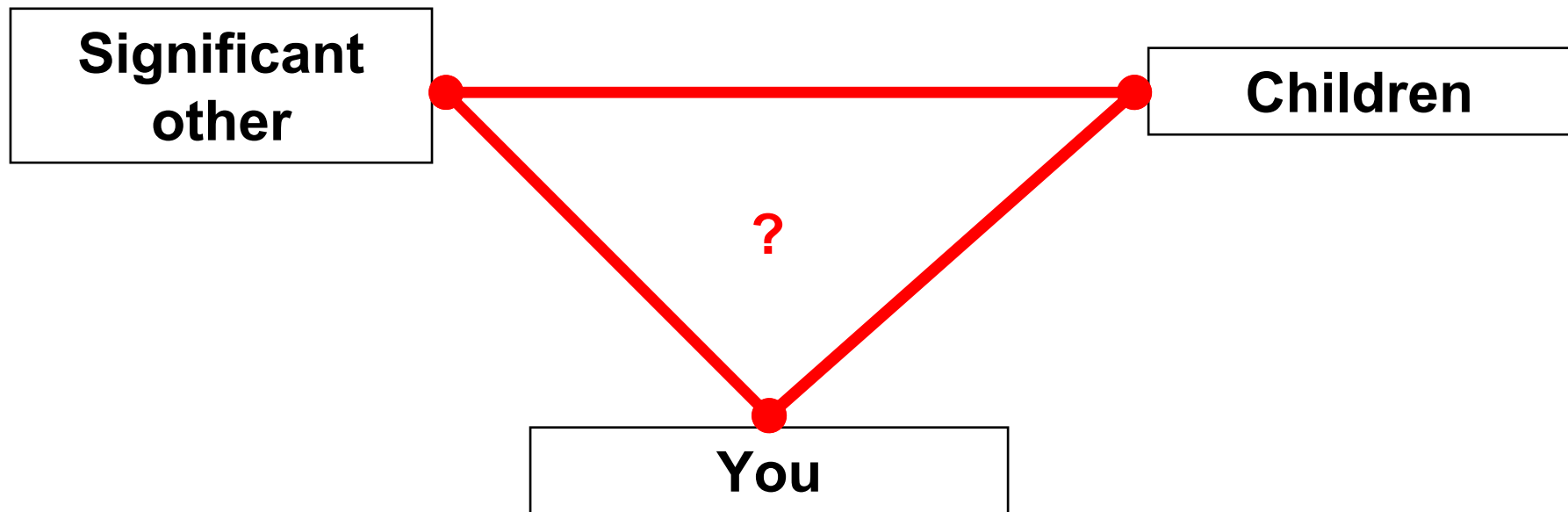


Some final thoughts (for Herbert Fromme)

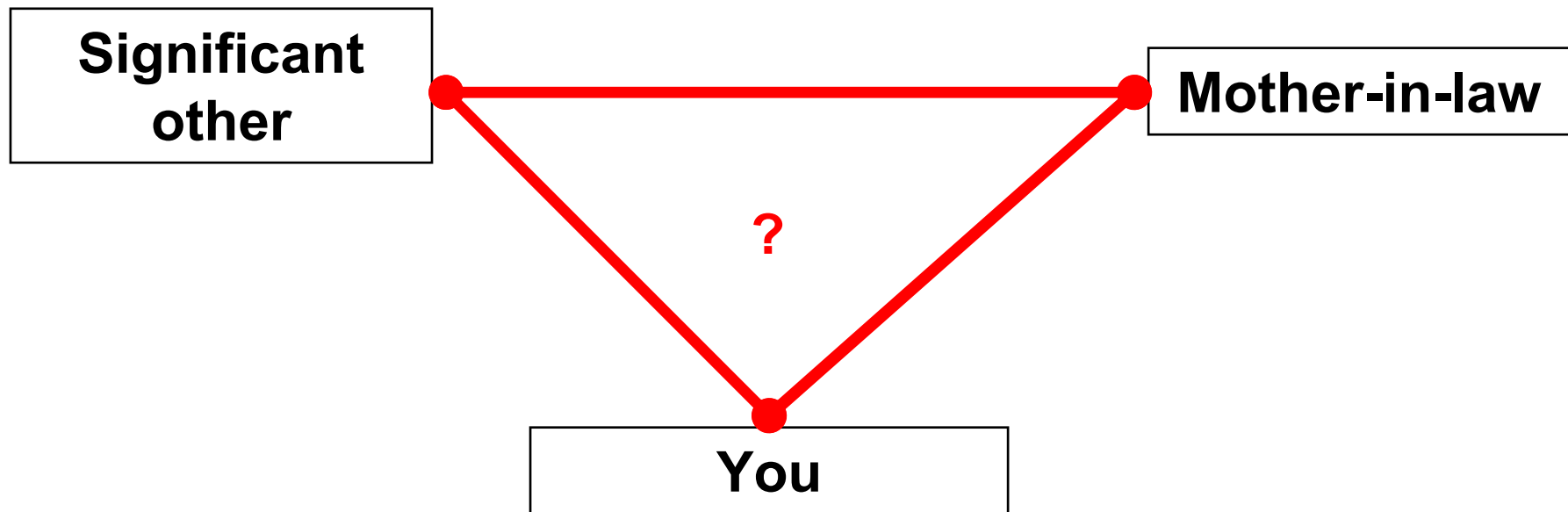
- **What is the carriers' standard response to client risk problems?**
 - ◆ **Exclude it** e.g. seepage & pollution in 70's
 - ◆ **Limit it** e.g. claims occurring to claims made in 80's
 - ◆ **Exit class** e.g. after declining rates in recent months
- **Fact: Since beginning of 2007**
 - ◆ \$28.5 billion of US / Bermuda insurance stock repurchased
 - Nearly 10% of shareholders' equity
 - ◆ \$27 billion of insurance stock authorised for future repurchase

Would it be better for clients if surplus capital was used to expand risk covers?

Something to think about for the weekend ...



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Any questions?

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