



Reinsurance Market and Possible Impact?



Summary

- Changing Landscape of the Reinsurance Market
- Likely Impact on Insurers
- Likely Impact for Buyers
- Other Issues
- What Can You Do?

2008 Catastrophe Losses

- 2008 third worst in terms of natural catastrophe losses
- Economic losses from catastrophes US\$269B
- 20% (US\$52.5B) insured
- US\$44.7B from natural catastrophes
- US\$7.8B from man-made disasters

Australian Perspective

- Weather events accounted for 31.5% of all Australian non-life insurance claims in 2007
- Compares with 12.3% in 2000
- Australian non-life insurers reported an aggregate U/W loss of A\$1.065B in 2008
- Compares with a profit of A\$2.168B in 2000

Australian Perspective

- In the past 40 years, 19 of the 20 largest property losses are weather related
- Also seeing increasing number of small natural events claims = increased “attritional losses”
- Increased concentration of economic and insured values in exposed areas, particularly in coastal regions
- Coupled with increasing frequency of natural events

Australian Perspective

- Therefore, increasing attritional losses and increasing severity losses
- Driving a re-pricing of risks by insurance companies
- Re-pricing likely to trend upwards
- However, relatively, Australian Cat losses compared with Europe and US is “pretty low”

Double Whammy - GFC

- In the past, Underwriting losses have been offset by investment income
- Global Financial Crisis has changed this landscape
- Reinsurer capital reduced by 14% in 2008
- Investment income factored into reinsurance pricing has now reduced (some are not factoring this at all)
- Recent Cat losses + GFC = reduced equity
- New Capital is scarce and cost of capital increased

Reinsurance Market outlook

- Japanese Cat Renewals (1/4) experiencing tightening capacity and hardening (strong Yen)
- Continued hardening expected for Cat renewal in June/July where Florida risk is dominant
- Increased interest in capital relief transactions expected globally
- Increased cost of capital + reduced investment income (or none at all) factored into pricing = increased rate on line
- Reduction in capital base likely to lead to reduced capacity

Expectations for Coming Property Catastrophe Renewals

United States: April through July 2009 Renewals

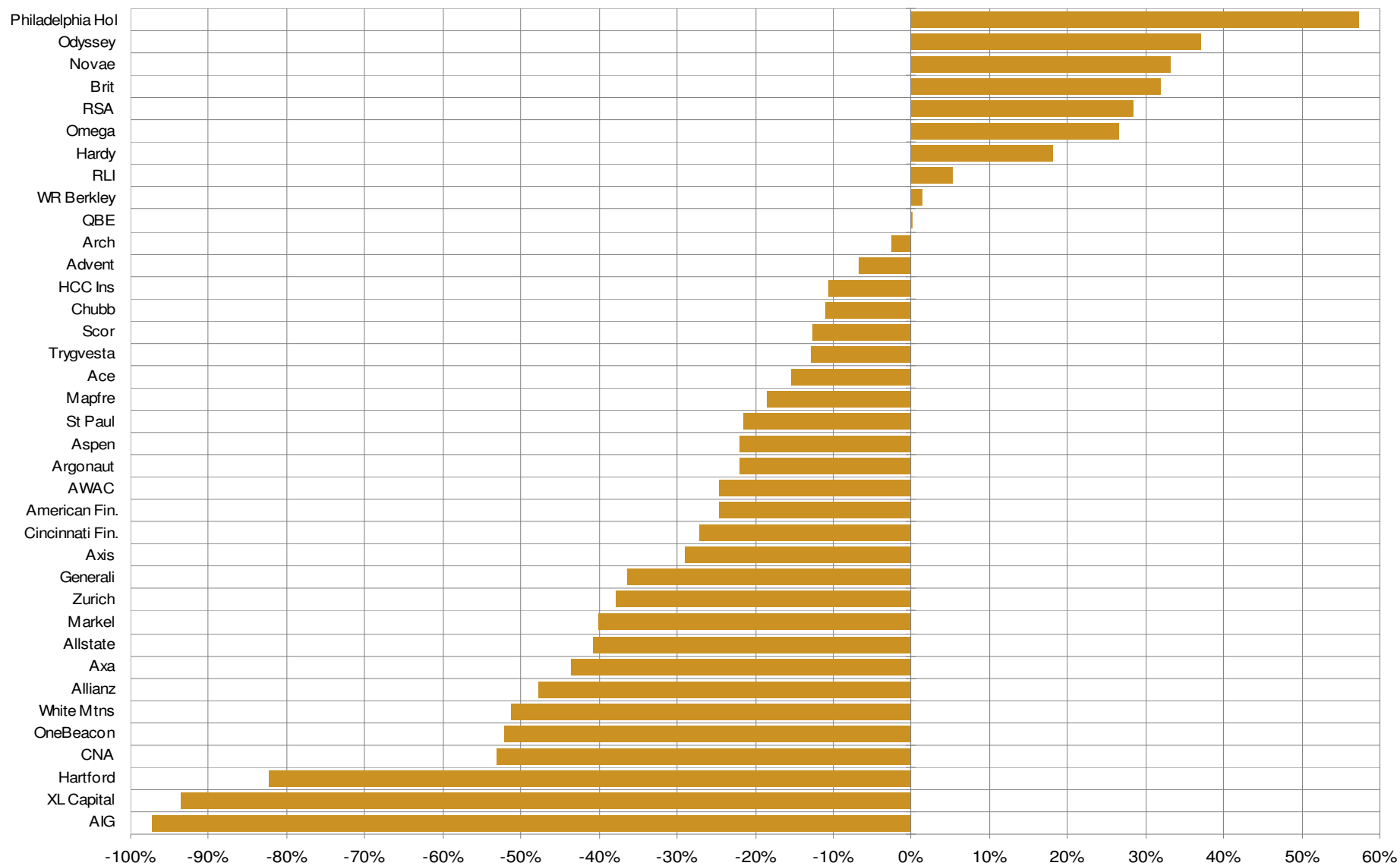
	ROL CHANGES	CAPACITY CHANGES	RETENTION CHANGES
Personal lines national	+5 to +20%	Stable to -10%	+10 to +15%
Personal lines regional	-5 to +20%	Stable	+5 to +15%
Standard commercial lines	+5 to +20%	Stable to -10%	+10 to +25%
Complex commercial lines	+10 to +25%	Stable to -10%	+10 to +25%

Rest of World: April through July 2009 Renewals

	ROL CHANGES	CAPACITY CHANGES	RETENTION CHANGES
Europe			
Northern (wind dominating)	Stable to +5%	Stable to -5%	Stable
Southern (quake dominating)	Stable to -5%	Stable	Stable
United Kingdom	Stable to +5%	Stable	Stable
Asia Pacific (excluding Japan)	Stable to -10%	Stable to +10%	Stable
Japan	Stable	Stable	Stable
Australia / New Zealand	Stable to +10%	Stable	Stable
Canada	Stable to +5%	Stable	Stable
South America	Stable to +5%	Stable	Stable
Mexico	Stable to +5%	Stable	Stable
Caribbean	Stable to +5%	Stable	Stable

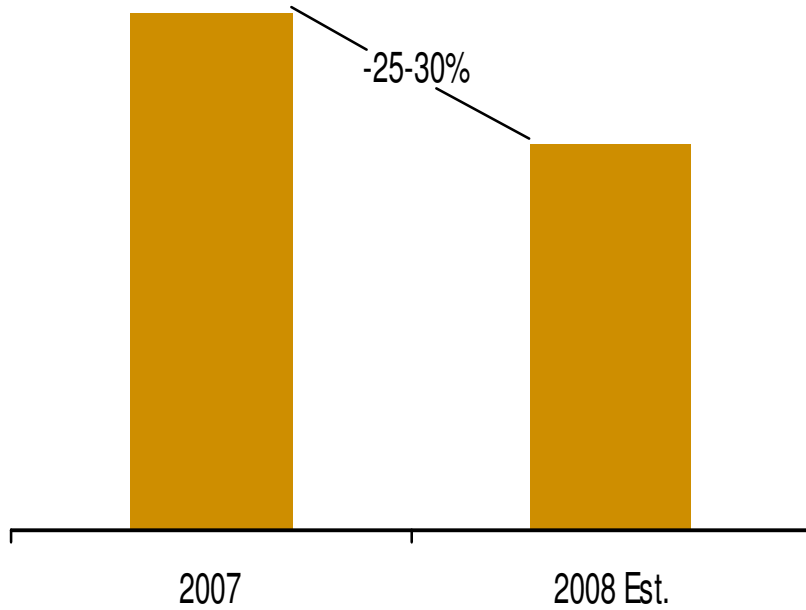
Assumptions: No changes in insured catastrophe exposures. No significant catastrophe model changes. No significant catastrophe losses occur before negotiations are completed. Rate of change measured from the expiring April through July, 2008 terms.

Insurer Valuation Change: December 27, 2007 to December 26, 2008

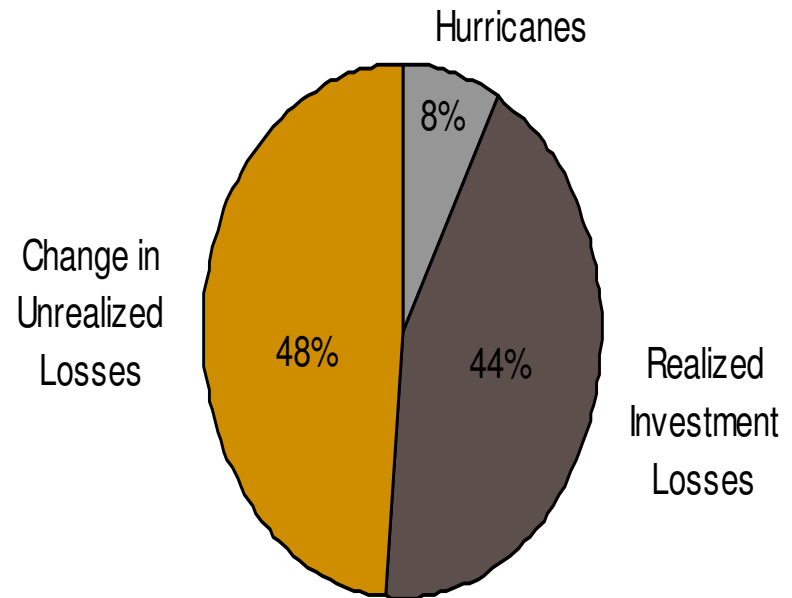


Insurer Capital Erosion

Change in Insurer Capital



Insurer Loss Drivers



GAAP Equity Change and Invested Asset Ratio - Reinsurers

Company	Ticker	GAAP equity 30/09/2008	GAAP equity 31/12/2007	9 month Change in GAAP equity	Total Investments 30/09/2008	Invested Assets Leverage 30/09/2008	Invested Assets Leverage 31/12/2007
Allied World Assurance Company	AWH	2,272.8	2,239.8	1.5%	5,720	2.5	2.7
Arch Capital Group	ACGL	3,516.7	4,035.8	-12.9%	10,873	3.1	2.8
Aspen Insurance Holdings	AHL	2,637.6	2,817.6	-6.4%	5,150	2.0	1.9
Axis Capital Holdings	AXS	4,601.2	5,158.6	-10.8%	9,215	2.0	1.7
Berkshire Hathaway, Inc	BRK.A	120,155.0	120,733.0	-0.5%	110,301	0.9	0.9
Endurance Specialty	ENH	2,268.7	2,512.3	-9.7%	4,874	2.1	2.0
Everest Reinsurance Co	RE	5,036.6	5,684.8	-11.4%	13,896	2.8	2.6
Flagstone Reinsurance Holdings	FSR	1,084.4	1,210.5	-10.4%	1,229	1.1	1.2
Hannover Re	HNR1.F	3,747.4	4,928.5	-24.0%	43,224	11.5	8.7
IPC Holdings	IPCR	1,818.1	2,125.7	-14.5%	2,109	1.2	1.1
Max Capital Group Ltd	MXGL	1,274.5	1,583.9	-19.5%	4,341	3.4	3.0
Montpelier Re	MRH	1,413.5	1,653.1	-14.5%	1,983	1.4	1.4
Munich Re Group	MUV2.F	30,159.9	36,726.7	-17.9%	241,529	8.0	7.0
Odyssey Re Holdings	ORH	2,608.3	2,654.7	-1.7%	6,074	2.3	2.6
Partner Re Ltd	PRE	4,084.7	4,321.6	-5.5%	10,860	2.7	2.5
Platinum Underwriters Holdings	PTP	1,772.4	1,998.4	-11.3%	3,658	2.1	1.7
RenaissanceRe Holdings	RNR	3,041.2	3,477.5	-12.5%	6,104	2.0	1.9
SCOR	SCR.FP	5,027.6	5,288.9	-4.9%	23,651	4.7	4.7
Swiss Re	SWCEY	21,519.4	28,128.7	-23.5%	162,988	7.6	7.1
Transatlantic Holdings	TRH	3,024.4	3,349.0	-9.7%	11,224	3.7	3.7
Vaildus Holdings	VR	1,916.6	1,934.8	-0.9%	2,921	1.5	1.4
White Mountains Insurance Group	WTM	4,061.9	4,713.4	-13.8%	10,942	2.7	2.6
Total		227,042.9	247,277.4	-8.2%	692,863.8	3.1	3.0

\$ in millions

Sources: Company Reports, Company Earnings Guidance, SNL Financial

Impact on Insurers (in theory)

- Likely increase in Reinsurance costs
- Increased reinsurance rate impact (on non-proportional treaties) likely to be lower for insurers demonstrating original rate and deductible increases and underwriting discipline
- Downward pressure on exchange commissions for proportional treaties
- Higher cost of capital and scarce capital

Impact on Insurers (in theory)

- Some insurers will purchase additional reinsurance rather than seek other forms of additional capital (QS, LPT, ADC, etc.)
- Limited signs of reinstatement imposed on previously unlimited reinstatement treaties
- Possible other tightening of treaty coverage
- APRA capital charges
- APRA capital charges may lead to reduced panel of reinsurers (by choice) for local insurers
- Reduction the counterparty concentration risk

Impact on Buyers (in theory)

- Increased premiums
- Increased deductibles
- Reduced breadth of coverage?
- Market Segment
 - Personal Lines
 - SME
 - Large Commercial/Corporate

Other Issues

- Reliance on Rating agencies?
- Concentration of counterparty risk
- Broad based rate adjustment Vs Risk specific
- New Capital is scarce and cost of capital increased
- Flow on effects from corporate collapses
(particularly for financial lines – PI / D&O) likely
for some years to come

APRA Capital Charges

Claims Recovery Monies Due from Reinsurers

Contract Inception Date	Time Elapsed Since "Due and Payable"	Balance Sheet Date	<u>APRA Authorised</u>		<u>Non Authorised*</u>	
			Grade	Inv Cap Factor	S+P	Inv Cap Factor
All	<6mths	on or after 1 Jan 09	1	2%	AAA's	3%
			2	2%	AA's	3%
			3	4%	A's	6%
			4	6%	BBB's and non rated	9%
			5	8%	BB's or lower	12%
All	>6mths	on or after 1 Jan 09	1	2%	AAA's	100%
			2	2%	AA's	100%
			3	4%	A's	100%
			4	6%	BBB's and non rated	100%
			5	8%	BB's or lower	100%
All	>6mths and disputed	on or after 1 Jan 09	1	2%	AAA's	3%
			2	2%	AA's	3%
			3	4%	A's	6%
			4	6%	BBB's and non rated	9%
			5	8%	BB's or lower	12%

* Assuming appropriate security is not in place.

APRA Capital Charges

Reserves only

Contract Inception Date	Balance Sheet Date	<u>APRA Authorised</u>		<u>Non Authorised*</u>	
		Grade	Inv Cap Factor	S+P	Inv Cap Factor
Pre 31 Dec 2008	on or after 1 Jan 09	1	2%	AAA's	3%
		2	2%	AA's	3%
		3	4%	A's	6%
		4	6%	BBB's and non rated	9%
		5	8%	BB's or lower	12%
On or after 31 Dec 2008	>1st - <2nd bal date from date of loss	1	2%	AAA's	3%
		2	2%	AA's	3%
		3	4%	A's	6%
		4	6%	BBB's and non rated	9%
		5	8%	BB's or lower	12%
On or after 31 Dec 2008	>=2nd bal date from date of loss	1	2%	AAA's	20%
		2	2%	AA's	40%
		3	4%	A's	60%
		4	6%	BBB's and non rated	100%
		5	8%	BB's or lower	100%

* Assuming appropriate security is not in place.

What Can You Do?

- Risk Management (both property and casualty)
- Prepare a written summary of risk management systems and procedures in place and planned
- As part of the above, have a clear contract management policy and procedures in place
- Having comfort in your Risk Management, your institution may be happier to retain more risk to offset any rate increases

What Can You Do?

- Implement a better data/information (about your institution's business and activities) gathering now in anticipation of more information requirement from insurers down the track
- In theory, you would need to have proper data/information to manage your risks in any case
- Be in a position to be able to demonstrate the superior quality of your risks
- Discuss with your broker/mutual

Unrelated Tips

- Ensure gaps are identified and “plugged” when changing liability covers from one year to the next (especially when changing carriers)
- CT definition
- Reinstatement of LOI