

The Next Catastrophe Risk/Excess Reinsurance Market Cycle

**Research Round Table, Annual Seminar, International
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An Informal Survey

- Senior executives with many years of market experience
- From leading reinsurance and related organizations:

Ace Ltd.

Alea

Allianz

Allied World Assurance

Arch Re

Axis Specialty

Chubb Re

Converium

Endurance Re

Everest Re

Fairfax/Odyssey Re

General Re

Goshawk Re

Max Re

Montpelier Re

Munich Re

Platinum Re

Partner Re

PXRE

Renaissance Re

Select Re

Swiss Re

Tokio Millennium Re

Towers Perrin Re

XL Capital

Willis

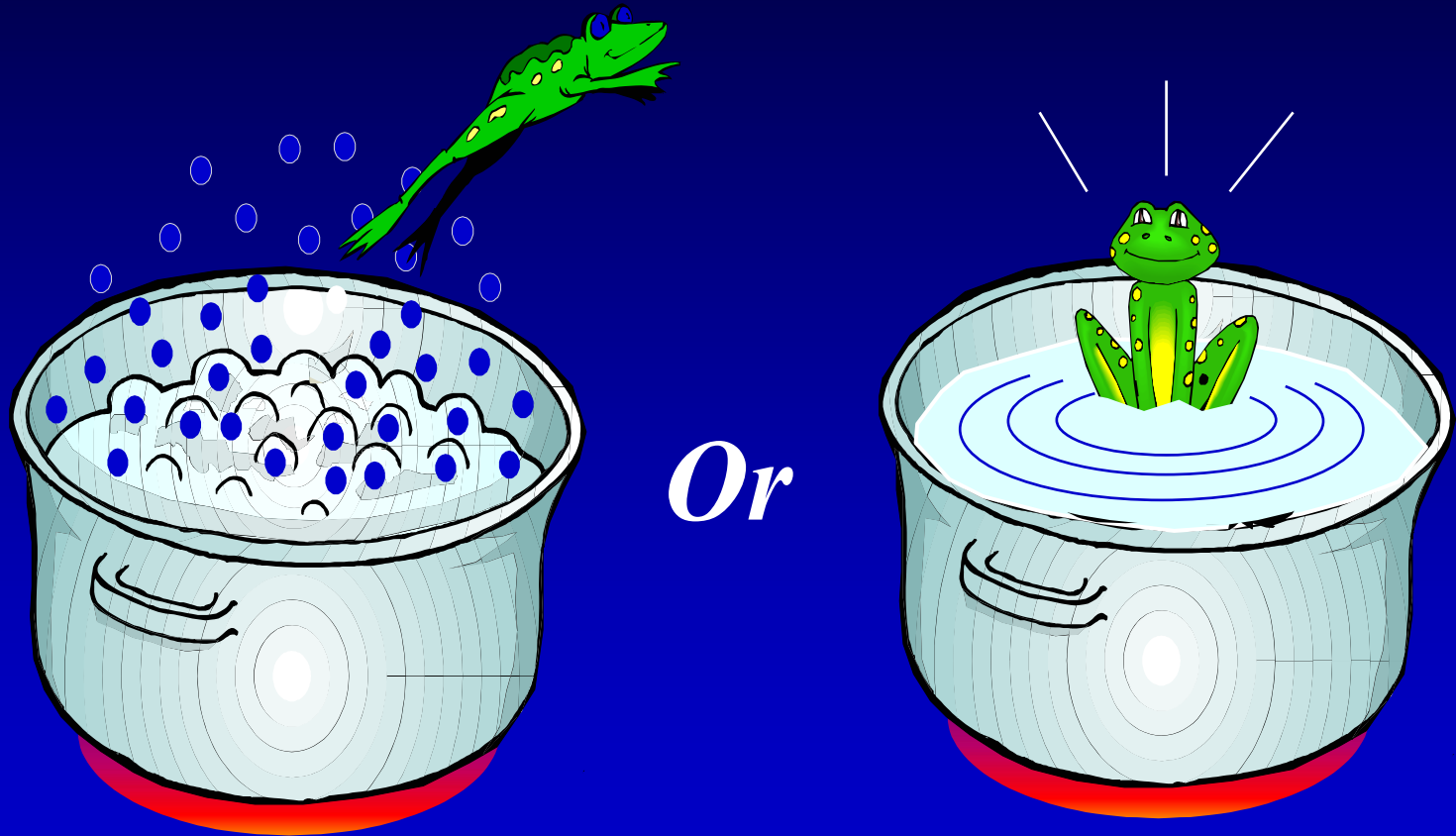
Just Another Cycle?

- Post-Hurricane Andrew 1992
 - Property cat panic
 - New capital, Bermuda II
 - Price decline to late 90s
 - Investment driven

- Post-9-11-01 - a “Perfect Storm”
 - Unprecedented loss
 - Both P&C
 - Low returns
 - Reserve strengthening

- Where next?

Survive the cycle - or - “cooked”?



Where are we? Status of the “Hard” Market

- Property Cat - stable
- Casualty - continuing to strengthen
- Aviation - sharp rise, now softening
- Marine - still inadequate pricing
- Terrorism - demand and pricing uncertain

Hard market holding for now

Rise of the “Bermuda” Technocrats

- Property cat exposure modeling standard
- Developing underwriting, pricing, capital allocation tools
- Focused strategies
- Challenge to broad market players
- Others - legacy exposures, long traditions
- Tax advantages
- Limited resources
- Not a geographical exclusive

Better model or just as vulnerable?

Reconsider the Fundamentals

- Marketing
 - Brokered portfolios? Close customers?
 - More information
 - Fewer, larger accounts
 - Specialization
- Risk Management
 - Reinsurance = higher volatility
 - Robust tools
 - Underwriting, pricing, capital allocation
 - High underwriting skill
 - Danger in over-reliance

Reconsider the Fundamentals

- Investment
 - Post-2000 - low returns
 - Still a need for ALM
 - Risk of discipline slip
- Administration
 - Historic informality, incompatibility
 - Layering and retrocessions
 - Coordination rebuffed
 - Fewer hands today

Silos to Integrated Teams

- History of separate functions
- Hard to compare trends
- Integrated teams on the rise
- Bermuda requirement

Product Trends

- Less proportional reinsurance
- Creative structures shelved
- New solutions to long-term catastrophe cycles?
- Mix of “insurance” and “finance”?

Brokers in New Roles

- Help ceding companies
- Help reinsurers
- Trend toward specialization
- Some adapting well; some not there yet
- Future as integrating facilitators or outmoded

Investors not a Major Spur to Capital Efficiency

- Some capital - quick hit and out
- Some “smart money” - seek well-priced accounts
- Some capital is involuntary
- Investors attracted to high tech, experience
- Transparency trends add investor information
- Companies report little change in investor interest

Consolidation Continues; Minimum Scale Up

- Major players scale back or exit
- Large companies add capital
- Minimum scale up
- Lloyd's increases capacity; underwriters diversify
- Flight to quality
- Winners - clear strategies; narrow or clear line links.

Market Stabilization or Just Another Cycle

Stabilization?

- Understand exposures
- Underwriting information
- Risk portfolio, capital allocation analysis
- Larger scale
- Deep legacy exposure for some
- Ingredients for market discipline in place

Market Stabilization or Just Another Cycle

Or just another cycle?

- Underlying risk volatility
- If 2003 is low cat year?
- Keep capital in play
- Capacity in the wings
- New risks
- All use same three property cat models
- Bad underwriting judgement
- Increase in investment returns
- How much real discipline under pressure??

A Scenario

- E.g., High attachment point reinsurance layer, \$500,000 premium
- Low loss year - \$300,000 premium makes profit
- Under-priced market
- Consider averages, **and** high loss potential
- Focus on portfolio, not individual risk

Lessons

Need to:

- Build on tools
- Improve exposure data
- Focused strategy
- Identify best risks
- Creativity for new solutions
- Overcome structural inefficiencies
- Discipline

Survive the cycle - or - “cooked”?

