

**Bradley Kading**

**Association of Bermuda Insurers and Reinsurers**

*Private Reinsurers:  
Meeting US Catastrophe Needs*

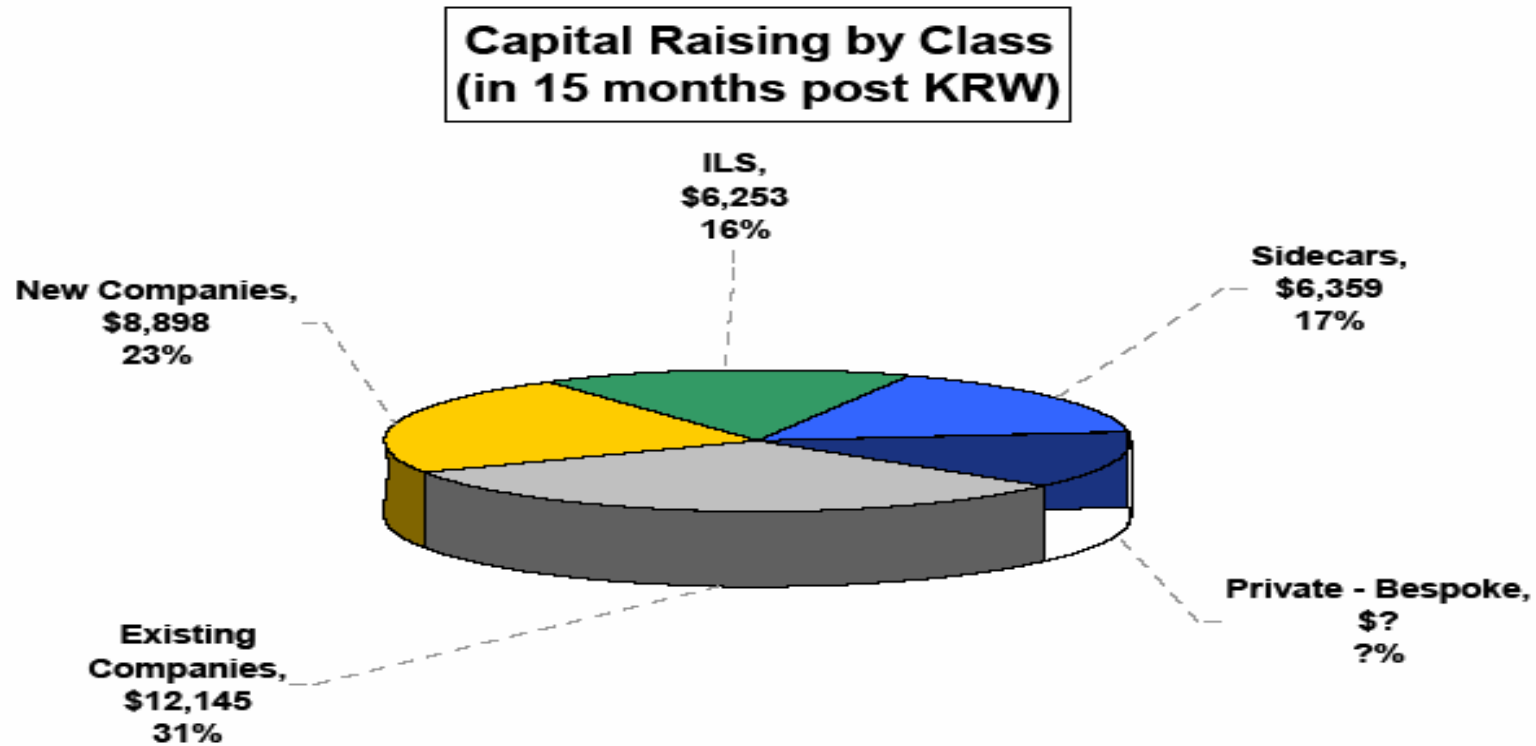
Hurricane Risk Mitigation Leadership Forum  
February 2008



## ***Bermuda Market Impact***

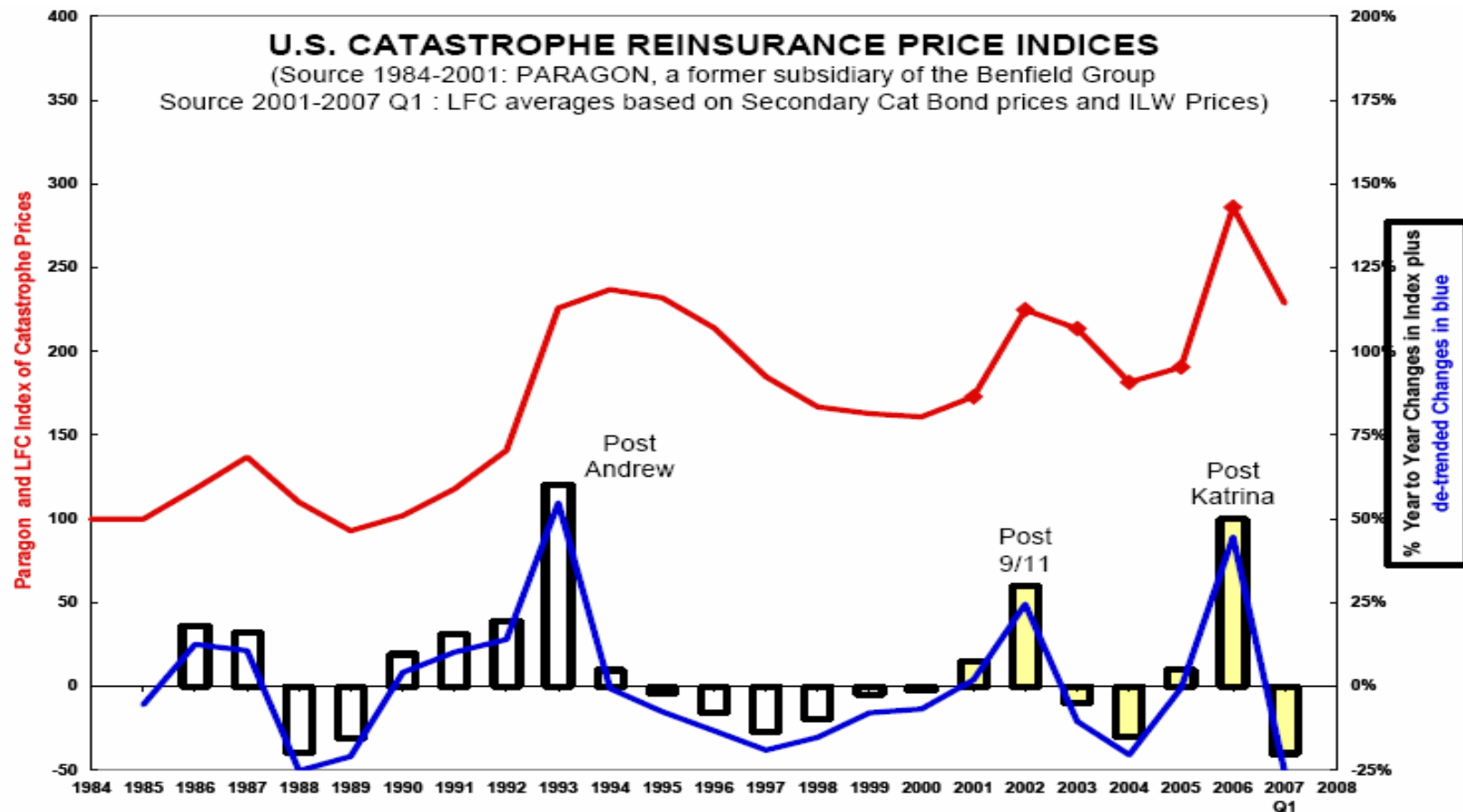
- **Largest property cat reinsurance market**
  - **Supply 40% of the US market**
  - **Supply 50% of FL capacity**
    - **18 of top 30 FL reinsurers**
- **Supply 61% of Texas wind pool reinsurance**
- **Supply 27% of California Earthquake Authority reinsurance**

# Capital Raising



Source: Lane, 2007

# Sidecars and the Reinsurance Cycle



Source: Lane and Beckwith, 2007

## *Private Sector Capacity*

- **Following record setting 2004/2005 loss years, cat supply and demand equation now in equilibrium**
- **Benfield estimates 15-20% rate reductions 2008**
- **Estimates vary, but in addition to private insurer retentions, reinsurers and capital markets provide protection for events in excess of \$100 B**
- **Losses excess of \$100 B may cause significant loss of surplus**

## *Reinsurers Did Their Job*

- **Paid record losses**
- **Increased capacity in spite of losses**
- **Developed new products**
- **Sidecars provided QUICKEST additional capacity**
- **Capital markets products growing (now about 20% of risk capital)**
- **Why wasn't that enough?**

## *Increased Demand*

- **Two thirds of FL premium increase since 2003 came from INCREASED value growth!**
- **Development/exposure growing, 10 to 15% per year**
- **North Atlantic hurricane cycle**
- **Climate change**
- **Revised cat models**
  - **Cat modeling changes, RMS reports 1/250 year event test increased \$55 billion**
    - **Capital to support that amount \$82 billion**
- **Revised rating agency demands**
- **DEMAND increase enormous – 100% in 4 years**

## *60% --Florida is Unique*

- **Florida has 60% of the US wind risk**
- **50% of most expensive hurricanes (demographic adjustments) have hit FL**
- **40% of major hurricanes (category) have hit FL**
- **40% of worst hurricanes (intensity) have hit FL**
- **Dade and Broward counties overdue for landfall, major hurricane**
- **\$2 trillion in insured property values; 80% coastal**
- **Florida has a hurricane risk problem**



## *Tillinghast Study for AIF*

- **Post event Florida bond issues could range up to \$50 B for major hurricane**
- **Per household assessments could range from \$1,700 for moderate storm to \$14,000 for major storm, spread over 10-30 years**
- **These assessments compare with average premium savings in of \$265 per household**
- **Even a series of smaller storms leads to assessments that exceed savings**

## *Florida, Who Benefits?*

- **Effect of law is to have lower risk areas of state subsidize higher risk areas of the state**
- **Statewide, assessments exceed by factor of 10 the average savings**
- **Tallahassee cost is 100 times average savings**
- **Orlando cost is 69 times average savings**
- **Tampa cost is 23 times average savings**
- **Miami cost is 3 times average savings**

Tillinghast AIF study

# *Policymakers*

- **What can you do?**
  - **Provide insurers with rating freedom – prices must be based on hurricane risk!**
  - **Promote and fund loss reduction measures**
  - **Don't use tax dollars to put people and property in harm's way**
  - **Assist targeted consumers with financial aid to pay risk based premiums**

## *Florida House Speaker*

**"Basically, if people can afford to, you make them do it (storm proof homes)," Rubio said in a recent interview. "If they can't afford it, you give them a low-interest or a no-interest loan. And if they can't pay back the loan because they're so poor, then in some cases we're better off paying for this mitigation than funding or subsidizing Citizens in the long run."**

**Speaker Marco Rubio, 2/8/08,  
Palm Beach Post**

## *FL Senate Chair*

**"Mitigation is the surest, more positive, unequivocal, unarguable solution," Posey said. "When everybody in this state does this, the insurance crisis is over."**

- » **Sen. Bill Posey, FL Senate Banking and Insurance Committee Chair, 2/08/08, Palm Beach Post**

## *Florida CFO Alex Sink*

**“Reducing the risk Floridians face – and reducing exorbitant assessments – makes good business sense . . . Floridians should not bear a weighty tax burden when we have the opportunity to spread the risk among worldwide investors.”**

**» Miami Herald, 2/18/08**

## *CFO Sink . . .*

- **Category 3 hurricane could easily force \$28 B in bonds to be issued**
- **Could lead to insurance policy tax of \$1.8 B each year for 30 years**
- **Reducing the Cat Fund by \$3 B would save Floridians yearly assessments of at least \$111 M for 30 years -- \$3.3 B cumulative savings**

## *Consumer Subsidies*

- **64% oppose home insurance cross subsidies**
- **Insurance isn't about subsidization--it is about pooling of like risks**
- **US House bills will encourage additional cross-subsidies:**
  - **Encourage badly designed state funds**
  - **Continue subsidies in Flood Program**
- ***USA Today, Washington Post, Wall St. Journal;* papers in CO, IA, MD, ND, NY, PA and TX oppose**



## *Environment at Risk*

**“Artificially reducing . . . insurance rates would encourage disregard for the public and private costs of unwise land use decision making and cannot be justified by considerations of fairness.”**

**“These subsidies would be unfair because they would force those who have chosen to live in relatively safe locations, like rural homeowners in Michigan, to pay for the risky decisions of those who have elected to live in or operate businesses in more hazard-prone areas, like beachfront property owners in Florida. ”**

John Echeverria, Georgetown University (ELPI)

## *Association of Bermuda Insurers and Reinsurers*

- **22 Class 4 Companies**
- **Highly capitalized, distinct regulation**
- **\$56 B GWP, \$64 B Surplus (YE 2006)**
- **Headquarters in Bermuda with operations in Bermuda, the US and Europe**
- **Worldwide business enterprises**
- **1,700 employees Bermuda; 17,000 worldwide**

## ***ABIR Members***

- **ACE**
- **Allied World**
- **Ariel Re**
- **Arch**
- **Aspen**
- **Axis**
- **Catlin**
- **Endurance**
- **Flagstone Re**
- **Harbor Point**
- **Hiscox**
- **IPC Re**
- **Lancashire**
- **Max Capital Group**
- **Montpelier Re**
- **New Castle Re**
- **Partner Re**
- **Platinum Re**
- **PXRe/Argonaut**
- **Renaissance Re**
- **Validus Re**
- **XL Capital**



# *ABIR Contacts*

**Bradley Kading**  
**President and Executive Director**  
**202-783-2434**  
[Bradley.Kading@ABIR.bm](mailto:Bradley.Kading@ABIR.bm)  
**Washington, DC**

**Leila Madeiros**  
**Assistant Director and Corporate Secretary**  
**441-294-7221**  
[Leila.Madeiros@ABIR.bm](mailto:Leila.Madeiros@ABIR.bm)  
**Hamilton, Bermuda**

[www.ABIR.bm](http://www.ABIR.bm)  
[www.ReinsuranceBermuda.com](http://www.ReinsuranceBermuda.com)

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