

Bermuda

Insurance Update

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First casualty bond launched

Oil Casualty Insurance, Ltd. (OCIL), the energy industry-owned excess liability insurer, has launched an innovative casualty bond that could be a leading item in the convergence of reinsurance and capital markets.

Similar to a catastrophe bond, it covers casualty risk instead, and may be one of the largest risk-linked securitizations at \$405 million.

The bond has three tranches. Class C notes pay out when OCIL's total losses exceed \$300 million in a three year period, class B notes pay out for losses exceeding \$450 million over three years, and class A notes pay out for losses exceeding \$600 million up to \$700 million during the three year period. Each class of notes is worth \$135 million and OCIL retains 10 percent or \$15 million of the risk of each class.

As OCIL's policies generally kick in once losses exceed \$200 million, with policies limiting a single client's coverage to \$150 million, at least two big events which fully trigger the underlying policies would have to occur before the class C bonds pay out. The bond will work in conjunction with OCIL's traditional reinsurance policies which cover losses above and below those covered by the bond.

OCIL Senior Vice President and Chief Operating Officer George Hutchings said there were two reasons why the bond was created, including the fact that it offered available capacity over several years.

"We don't believe that we could have gotten that term capacity in the reinsurance area," said Mr. Hutchings. "Secondly, we were looking to improve our rating with the rating agencies. So we viewed the additional capacity that is effectively there to support our business as a positive, and we are hoping that that actually turns out to be the case."

Mr. Hutchings explained the mechanics of the securitization: "OCIL writes excess liability coverage for their members. The general characteristics of that general liability excess are that the minimum attachment point is \$50 million, and the maximum limit is \$150 million.

"In reality, the average attachment point is significantly higher than \$50 million, and somewhere in the region of \$240 million, and the average limit extended is somewhere in the region of \$126 million.



George Hutchings



First Bermuda Captive Conference

September 12, 13 & 14, 2005 The Fairmont Southampton Hotel, Bermuda

Captive Conference

With more than 100 risk managers, captive owners and other professionals expected to fly in to Bermuda to join almost as many locals from across the spectrum of captive-related disciplines, the schedule for the first Bermuda Captive Conference has



Judy Hart

been finalized. The event is being held at the Fairmont Southampton Hotel, Bermuda's biggest conference facility, from September 12 to 14.

The main focus of the first day of the conference will be healthcare, courtesy of the American Society for Healthcare Risk Management (ASHRM). Pamela Popp, President of ASHRM and Judy Hart, President of the Bermuda Society for Healthcare Risk Management (BSHRM), will open the event.

Keynote speaker Craig Sammitt, of the Fallon Clinic, will address the need for

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Managing rising retentions



Alan Waring

As insurers seek to avoid swapping dollars with insureds, and apply higher deductibles due to changing views on the risks within certain industries (e.g. healthcare), corporate risk buyers are left with potentially unacceptable risks of volatility in their retained layers.

Some retentions have been increased on a pure per occurrence basis, while others have had aggregate retentions applied to help insureds know their maximum downside.

Recognizing that their clients are faced with a situation that at best is not ideal, US retail brokers have been working with their Bermuda brokers and a range of Bermuda carriers to design risk management solutions.

Sometimes these solutions are used to negotiate their main program carriers to a more reasonable position. Other times they are used to obtain the optimum program design for the insureds and allow buyers to strike a balance between their main carriers' attachments and the buyers' ability to cope with their retentions.

Three examples, for different types of situation, show quite clearly how Bermuda has been able to fulfill its recognized role as the World's leading source of creative risk management solutions.

Retention Buy Down

In a case where an insured suffers a significant pure increase in their per occurrence retention, Bermuda has been able to provide a buy down cover to insure against loss in the layer. The common features of this solution are that the buyer tends to have little or no loss activity in the layer between their old and new retentions and the limit provided is over multiple years.

Usually the increase is applied by the carrier due to a perceived probability of loss, due to the 'normal' loss experience within that industry. An example was a trucking company who had their retention increased from \$1 million to \$3

million. Bermuda was able to provide them with protection against loss in the \$2 million xs \$1 million layer with a single \$2 million xs \$1 million limit over 3 years. An annual premium was charged but there will be a profit share return of premium in the event of no losses.

Retention Stop Loss

In a situation where a retention is pushed up due to frequency of loss activity in the layer, the client may wish to have some protection against the frequency of loss being higher than what they can/have funded for. The common feature here that there is frequency of loss that drives the carrier's increase in retention but there is also consistency in the loss performance and good historical data.

One buyer who took advantage of Bermuda's ability in this area was an energy company that had their retention increased from \$2 million to \$5 million. The client was provided with a \$3 million xs \$2 million per occurrence limit, subject to \$10 million in the aggregate and also subject to a \$10 million corridor deductible. In other words, due to the frequency of loss, the client was going to have to incur \$10 million of losses in the \$3 million xs \$2 million layer before the risk transfer cover applied.

Multi-Year Averaging

With the lack of availability of stop loss covers and recognizing that unexpected frequency of loss in a client's retained layer is the biggest concern, a Bermuda company designed a very creative approach to the problem. The common factors in this solution are that the client has historical good loss and exposure data, has a sound understanding of actuarial analysis and confidence levels and is prepared to retain losses in the pure attritional loss area e.g. under \$100,000.

The solution provides risk transfer limit for the client should their average loss activity in the retained layer rise in any one year over the average experienced during a period of years. The attachment is based more on the actuarial confidence level than a pure dollar number. In addition, the attachment varies due to the actual

From the Market

Opinions, insight and commentary from the Bermuda Market

by Alan Waring
President, Price Forbes (Bermuda) Ltd.
(alan.waring@priceforbes.bm)

average loss experience during the term. For example, a client could obtain risk transfer for losses that on average in any one year exceed the 65 percent confidence level for losses.

One client that needed such a solution was a healthcare facility that experienced an increase in their retention from \$1 million per claim/\$5 million in the aggregate, to \$3 million per claim/\$12 million in the aggregate. As their expected (50 percent confidence level) losses in the \$3 million retention (losses excess of \$50,000) were only \$5 million, they wanted to have protection between about \$6.5 million and \$12 million. Given the projected confidence levels that the \$6.5 million to \$12 million layer represented, the cover was available.

Finally

While writing such an article as this, it would be remiss not to mention the solutions that have provided the back bone to the Bermuda Market. Captive and Rent-a-Captive solutions have historically been used by many buyers to manage volatility within their retentions and they continue to be considered by most clients every time such a problem arises. However, for a variety of reasons clients may prefer to buy a pure insurance solution instead of going the Captive or Rent a Captive route. In addition, the insurance solutions are sometimes actually purchased as a reinsurance protection by captives where the clients' retentions are funded.



Bermuda issues guidance notes



David Doyle

In 2003 the International Monetary Fund (IMF) performed an in-depth on-site review of Bermuda's financial services legislation which was carried out as part of its Offshore Financial Centre Assessment program. The assessment covered the financial services sector as well as anti-money laundering legislation and controls in Bermuda.

The report issued by the IMF confirmed the high quality of Bermuda's international business and recognized the Bermuda Monetary Authority's (BMA) commitment to ensuring that Bermuda's financial services business is subject to regulation that is fully consistent with international standards.

It also highlighted the effectiveness with which the BMA has been able to develop, implement and enforce the regulatory framework, based on new and updated financial services legislation for its different sectors. The IMF also made a number of recommendations for changes to current legislation or to aspects of the BMA's supervisory arrangements some of which changes were already in hand, including the issue of codes of conduct or guidance notes.

The Insurance Amendment Act 2004 authorized the BMA to issue "guidance" on the application of the Insurance Act 1978 and the regulations made in respect of the duties, requirements and standards to be complied with by persons registered under the Act or otherwise regulated under it and the procedures and sound principles to be observed by such persons and by auditors, principal representatives and loss reserve specialists.

In the development of the Guidance Notes, the BMA took into account, amongst other things, the revised Insurance Core Principles adopted by the International Association of Insurance Supervisors in 2003. The Notes were also reviewed by the insurance industry in Bermuda and the Insurance Advisory Committee which is a statutory body appointed by the Minister of Finance.

The BMA's guidance or policies articulated in its recently published Notes are of general application and seek to take account of the wide diversity of institutions that may be licensed under the Act. There may be a need for revision of the Notes from time to time and material changes in the Notes will be published, generally through the issue of a revised version.

The BMA has always sought to ensure that companies licensed under the Act, and service providers to such companies, have a good working understanding of the nature of the Act's requirements and of the BMA's approach in implementing the Act. The Notes are intended to provide information on the application of the Act and constitute one of a series of steps that the BMA is taking to develop and enhance its supervisory approach in the Bermuda insurance sector.

The Notes should be understood as reflecting the minimum standard that the BMA expects insurers and other relevant parties to observe at all times.

With respect to the regulatory changes brought about by the Amendment Act and which are referenced in the Notes, parties must take immediate steps to ensure they are in compliance with the same.

In relation to other matters contained in the Notes, the BMA encourages insurers and other relevant parties to come into compliance as soon as possible and, in any event, not later than 31st December 2005 or a later date as may be agreed with the BMA in a particular case.

The Notes issued by the BMA, through its web site at www.bma.bm in March 2005, include guidance on, amongst other things, the roles of the principal representative approved auditor, approved actuary and corporate governance for Bermuda insurers.

From the Market

Opinions, insight and commentary from the Bermuda Market

by David J. Doyle
Partner, in the insurance practice
of Conyers Dill & Pearman
(djdoyle@cdp.bm)

BMA restructures

The regulator of Bermuda's burgeoning insurance industry has had to deal with its own growth issues.

The Insurance Division of the Bermuda Monetary Authority now has 24 employees. And by next year, that number may rise to 32. Projections have the unit growing to as many as 50 people by 2008.

The division, led by Supervisor Jeremy Cox, has sustained a recruitment drive that has recently also brought on board a second Deputy Director, Shanna Lespere, who has responsibility for licensing and authorizations.

She joins Shelby Weldon who will be responsible for compliance issues. Mr. Weldon will lead a team of regulators with on-site inspections of Bermuda insurers to check on compliance - especially at the offices of the high profile, professional insurance companies.

The BMA has let it be known that there will be more on-site inspections than in the past, as a result of increased man-power.

The increase in staffing is as a direct result of the meteoric rise of the Bermuda industry in the global marketplace. Since 2001, a number of large, highly-capitalized insurers and reinsurers have been formed on the Island.

Changes at the Insurance division of the BMA represent a virtual splitting of the office under the leadership of Mr. Weldon and Ms Lespere.

These changes come after the International Monetary Fund and KPMG were both commissioned in recent years to review the regulatory make-up of the BMA's Insurance Division.



Jeremy Cox



Scottish Re grows Bermuda base



Scott Willkomm

This year has been a busy time for Bermuda's Scottish Re Group Limited, one of the leading global life reinsurance specialists. The company is less than seven years old, and in that time has accumulated more than \$10 billion dollars in assets; \$1.4 billion dollars of capital; \$1 trillion of reinsurance in-force, and clients in 45 countries around the world.

In Bermuda, a market primarily noted for its dominance of the global property/casualty reinsurance and captive sectors, Scottish Re is the largest company exclusively focused on global life reinsurance. Scottish Re is also a leader in sponsoring innovative life insurance backed securitization transactions. Scottish Re has operating companies in Bermuda; Charlotte, North Carolina; Dublin, Ireland; Grand Cayman; and Windsor, England.

Since April alone:

- the company's shareholders have approved amendments to its Articles of Association that allowed certain affiliates of The Cypress Group LLC to become a major shareholder of Scottish Re, with just over 20 percent of the company's issued shares.
- the company has issued \$125 million of non-cumulative perpetual preferred stock, with a fixed rate dividend of 7.25 percent for an initial five-year period, callable at par thereafter. Following the initial period, the dividends on the securities may become floating.
- the company has entered into a \$200 million credit agreement with a syndicate of lenders. This agreement is an unsecured, three-year facility that allows Scottish Re to issue letters of credit and borrow for working capital, capital expenditures and general corporate purposes. The credit facility may be increased, at Scottish Re's option, to an aggregate principal amount of \$300 million.

Of the company's recent moves in the capital markets, Scott E. Willkomm, President and Chief Executive Officer of Scottish Re, said: "Capital is a critical area for us, and anticipating our needs in a timely fashion is central to what we do. Raise capital too soon, and it sits there and undercuts your earnings; raise it too late and you miss opportunities. Planning is everything in our business, because reacting won't cut it."

Scottish Re has been painstakingly built in the past seven years by a balanced combination of organic growth followed by acquisition. "We believe that's the right order of play," Mr. Willkomm said. "You don't buy a business just for the sake of it,

but only where it makes economic sense, and meets your strategic ambitions. We hear a lot about the 'art of the deal', which is shorthand for not over-paying for an opportunity. Acquisitions only make sense if the price is right; otherwise, you're buying future profits with future profits."

The 1999 acquisition of Harbourton Reassurance, a Delaware-domiciled life reinsurer, bolstered Scottish Re as a major presence in the North American Life market, while the purchase of World-Wide Reassurance Company Limited at the end of 2001 was an important step in executing a key strategy plank in the business plan. The purchase of World-Wide enabled Scottish Re to add experienced international management and staff and the resources of a company well known in many markets around the globe.

Late in 2003, Scottish Re purchased 95 per cent of the outstanding capital stock of ERC Life Reinsurance, a subsidiary of GE's Employers Reinsurance, for \$151 million in cash.

The business of ERC Life consisted of a closed block of mostly traditional life reinsurance written in North America. ERC Life had approximately \$800 million in total assets and approximately \$100 million of statutory capital and surplus. The gross face amount of the in force business acquired was approximately \$170 billion.

Near the end of 2004, Scottish Re acquired the individual life reinsurance business of ING Re. Scottish Re and ING Re had complementary, broadly diversified books of traditional life reinsurance business, with minimal overlap. The transaction allowed Scottish Re to further increase its new business production, while also offering the opportunity to further enhance its operational infrastructure and achieve economies of scale.

The acquisition expanded Scottish Re's North American platform, making it the third largest life reinsurer by volume of US life reinsurance in-force.

Scottish Re's growth in the Bermuda market is part of a larger series of developments in life reinsurance, which the Bermuda market's focus on property/casualty business has somewhat overshadowed. The growing breadth of the Bermuda market is nowhere better evidenced, however, than in the sparkling story of Scottish Re Group.

Company Profile

\$10 billion **Assets**
\$1.4 billion **Capital**
\$1 trillion **Reinsurance in force**

Captive conference update continued from front page

leadership and trustee commitment in creating a strong alternative risk program for a health care entity Sheila Hagg-Rickert will focus on enterprise risk and the risk manager's role.

Jeff Driver, Executive Vice President and Chief Risk Officer at Stanford University Medical Center and Roy Santarella, Chief Financial Officer of Stanford University Clinic will discuss what it takes to create a hybrid self-insured model in the spirit of enterprise risk.

Ethan Crain, Associate Director of the National Healthcare Alternative Risk Practice of Aon Risk Services and John F. Rogers, Vice President & General Counsel of Berkshire Health Systems, will review broker and client perspectives on the journey to post-program development, and the role of the captive management team in partnership with the broker.

Rounding out the day will be a panel discussion on identifying and surviving growing pains with a healthcare captive and a reinsurance perspective that will address the identification and evaluation of options.

In the afternoon, a Captive 101 presentation will be given for risk management professionals who are evaluating the pros and cons of establishing a captive in Bermuda and for those professionals new to captive insurance companies in Bermuda. Topics will include understanding the captive concept; captive feasibility and Implementation; operational issues; captive governance and Bermuda regulatory issues.

The Premier of Bermuda, W. Alexander Scott, will open Day Two. The island's Minister of Finance, Paula Cox, and Supervisor of Insurance, Jeremy Cox, will join Cheryl-Ann Lister, the Chairman of the Bermuda Monetary Authority, in a discussion of current issues and a regulatory update.

Catherine Sheridan-Moore, a Partner at KPMG, and Tom Jones, a Partner in McDermott Will & Emery, will provide a captives tax update, and a panel discussion will follow on the challenges of fronting.

Following lunch with keynote speaker Neal Petersen, attendees will have a choice of concurrent sessions. First, seminars will be held on employee benefits and actuarial issues affecting captives, and then attendees will choose between panel discussions focussed on rent-a-captives and group or association captives.

The final day will feature a panel discussion on the key steps to take once a captive has been established, a discussion on corporate governance issues, including Sarbanes-Oxley, and consideration of investment alternatives for captive owners and managers.

The Bermuda Club of captive owners will then hold its inaugural lunch, to be followed by a panel discussion on captive reinsurance and then a team of Bermuda captive experts will assemble to answer questions on any subject from attendees.

The ambitious program was designed to provide subjects of interest to risk managers and captive owners, from neophytes to the most experienced hands.

HSBC captive moves to Bermuda



Phillip Butterfield

Global banker, HSBC, has moved its group captive from Guernsey to Bermuda, and placed it under the ownership of its significant subsidiary, the Bank of Bermuda Limited.

The bank announced the transfer of ownership of the HSBC Group Captive from HSBC Insurance (International) Holdings Limited to the Bank of Bermuda this summer.

The HSBC Group Captive has been renamed HSBC Insurance (Bermuda) Limited and has been re-domiciled from Guernsey to Bermuda through a process of continuation.

The HSBC Group Captive, as a subsidiary of the Bank of Bermuda operating in this jurisdiction, will be regulated by the Bermuda Monetary Authority. Ongoing management services will be provided locally by HSBC Insurance Solutions (Bermuda) Limited to the HSBC Group Captive.

The HSBC Group Captive has been domiciled in Guernsey since its incorporation in 1987, and performs a pivotal role in helping to reduce the cost of insurable risk, by retaining risk at a Group level.

HSBC said it maintained an excellent relationship with the Guernsey Financial Services Commission (GFSC) during the last 18 years, and the decision to change ownership and re-domicile to Bermuda was made for strategic reasons and in no way reflects upon Guernsey in general or specifically the GFSC.

Bank of Bermuda CEO Philip Butterfield has become Chairman of HSBC Insurance (Bermuda) Limited. Mr. Butterfield said, "I'm delighted to have been asked to become the Chairman and a director of the HSBC Group Captive, which has contributed £280 million of economic profit to the group, since its formation.

"Together with my fellow directors I'm determined that the group captive will continue to serve the insurable risk retention needs of the HSBC Group and contribute to the economy and reputation of Bermuda."

HSBC Group Insurance operations include insurance companies, bank assurance, insurance broking, insurance management and actuarial services. HSBC offers insurance in over 40 countries and handles premiums in excess of \$15 billion.

HSBC employs more than 11,000 staff engaged in insurance worldwide.

HSBC Insurance Solutions (Bermuda) Limited is a licensed insurance manager, located in Hamilton, Bermuda. It operates under the umbrella of HSBC Insurance Management which has over 110 captive clients and more than 30 segregated cell clients in Bermuda, Cayman, Guernsey and North America. HSBC is ranked the fifth largest captive manager in the world according to a 2005 Business Insurance article.

Founded in 1889, the Bank of Bermuda is the leading provider of fund administration, trust, custody, asset management and banking services in Bermuda. Since 2004 it has been a wholly owned indirect subsidiary of HSBC Holdings plc.



Reinsurers post earnings



The second quarter of 2005, and with it the first half of the year, have proved to be a stable period for the financial affairs of the majority of Bermudian insurance and reinsurance companies.

The property/casualty sector is at mid-cycle, with downward pressure on prices being experienced among many lines, as would be expected.

The emphasis on underwriting quality is apparent in the quantity of business written. Although demand remains high, Bermuda's major companies have chosen, with one or two exceptions, to write a few percentage points more or less than they did a year ago, when the market began to show signs of softening.

With interest rates increasing, and stock markets showing guarded optimism in the face of continuing US economic expansion, investment results were also strong in the first half of 2005 at the Bermuda companies.

Add to that a relatively low level of property/catastrophe claims in the second quarter, and the great majority of the Bermuda majors can be said to have performed in the first half of 2005 much as the textbooks would require them to. Solid results might be described as unexciting, but insurance is an industry in which, historically, many companies have focused their energies on the top line and hoped for the best further down the income statement. Many of the Bermuda companies claim - and on this evidence are living up to that promise - to be managing their capital, rather than their earnings.

Near the close of 2004, several Bermuda companies returned capital considered in excess of market requirements to their shareholders, which has dampened earnings a little in the first half of 2005. Such behavior might once have been considered courageous. In Bermuda in the 21st century, however, a new understanding is at work, in which sensible capital management is business as usual.

SIX MONTHS ENDED JUNE 30, 2005

Financial Results for selected Bermuda insurance entities

RESULTS

	Gross premiums written \$m	vs 2004	Net premiums written \$m	vs 2004	Net income \$m	vs 2004	Shareholders' equity at June 30 \$m
ACE Ltd.	8,756	+ 3%	6,275	+ 3%	904	+ 3%	10,496
Arch Capital Group Ltd.	1,921	+ 5%	1,524	- 2%	242	+ 26%	2,503
Aspen Insurance Holdings Ltd.	1,354	+ 33%	1,119	+ 28%	154	- 7%	1,608
Endurance Specialty Holdings Ltd.	1,106	+ 3%	1,094	+ 2%	206	- 4%	1,987
Everest Re Group, Ltd.	2,160	- 7%	2,098 (b)	+ 2%	361	- 7%	4,082
IPC Holdings, Ltd.	293	+ 3%	274	+ 3%	108	- 27%	1,743
Max Re Capital Ltd.	701	+ 12%	604	+ 13%	59	+ 6%	1,025
Montpelier Re Holdings Ltd.	582	+ 7%	511	+ 7%	183	- 15%	1,463
PartnerRe Ltd.	2,213	- 8%	2,179	- 8%	271	+ 2%	3,482
Platinum Underwriters Holdings, Ltd.	* (a)	* (a)	843 (b)	+ 33%	141	+ 35%	1,273
RenaissanceRe Holdings Ltd.	1,138	+ 3%	1,004	+ 2%	234	- 23%	2,823
XL Capital Ltd	7,490	+ 10%	6,475	+ 12%	599	- 28%	8,372

(a) Not reported

(b) Net premiums earned

Teachers learn from market leaders

Teachers from a leading insurance college have concluded a four-day site visit of the Bermuda Insurance Market, where they were given a rare opportunity to pick the brains of leading market practitioners.

The group of professors conducted a series of sessions with executives at ACE Limited, PricewaterhouseCoopers LLP, XL Capital Limited and the Bermuda Insurance Development Council (IDC).

The academicians were faculty members from The School of Risk Management Insurance and Actuarial Science (SRM) at the New York City-based St. John's University. They participated in a "Faculty Knowledge Visit" to the Bermuda insurance market.



Dr. Ellen Thrower

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RIMS meet in Bermuda

A leading risk management organization will provide a great opportunity later this year for Risk Managers to get up close and personal with the Bermuda Market.

The Risk and Insurance Management Society, Inc. (RIMS) will hold a three-day Bermuda Market Symposium, November 16-18, 2005, near the city of Hamilton in the Atlantic Island.

Scheduled to be held at the offices of XL Capital Ltd and ACE Ltd.,

this event presents networking opportunities and an extensive spectrum of education, from the basics of entering the market through more complex topics of captives, casualty, liability, property, and reinsurance.

Director of Risk Management,
Alberto-Culver



Company and the Chair of the Symposium's Program Advisory Committee, Karl Zimmel said, "Bermuda is one of the largest, fastest-growing, and most divergent markets for insurance and reinsurance."

"This extraordinary opportunity to meet with key players and learn about current issues is too valuable to miss."

Some of the sessions include: "How Industry is Regulated"; "In a Current Soft Property Market...What Can Bermuda Do for YOU?"; "General Liability: Not Just a CAT Player"; "D&O - Plenty of Capacity in Bermuda"; "Executive Risk Exposures: Bermuda Has it Covered"; "Reinsurance: Capacity and Capabilities"; and, "Unique Coverages."

Invited to attend are Bermuda Premier Alex Scott and Finance Minister Paula Cox. The event is being opened by insurance industry leader, Brian M. O'Hara, President and Chief Executive Officer of XL Capital Ltd and Chairman of XL Insurance (Bermuda) Ltd.

Speakers include: Representatives from financial services regulator, the Bermuda Monetary Authority; Daniel H. Kugler, Assistant Treasurer, Snap-On Inc.; Joseph A. Restoule, Senior Risk Consultant, NOVA Chemicals Corporation; Sherron Williams, Senior Vice President and Manager, XL Insurance (Bermuda) Ltd; Patrick Tannock, Senior Vice President and Professional Lines Manager, ACE Bermuda Insurance Ltd. and Deputy Chairman and Chief Underwriting Officer, Corporate Officers and Directors Assurance Ltd. (CODA); David A. Bell, Senior Vice President, Global Professional Lines Manager, Allied World Assurance Company, Ltd.

Last year's RIMS symposium was held in London.

The third and final day of the symposium, titled "Risk Management and the Bermuda Market: Explore the Possibilities," is an Open Market Day for participants to meet one-on-one and conduct business with key players in the Bermuda Market. Open Market Day is a forum to create a network of marketplace contacts, discuss specific issues, and ask questions pertaining to particular organizations.

An "early bird discount" is being offered through September 2 of \$495 for RIMS members and \$795 for non-members. To register, go to www.RIMS.org/symposiums.

For more information contact: Bermuda@rims.org or 212-655-6031.

First casualty bond launches

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So that is the business which fundamentally gets reinsured excess of various traditional reinsurance into Avalon Re." Avalon Re Ltd. is a special purpose vehicle formed this year.

Mr. Hutchings added, "Avalon Re has a group of investors and they all invest in these variable rate notes, and the pay-back of those notes is contingent upon the performance of the reinsurance contract that exists between OCIL and Avalon Re. So let's say over three years there are no losses ceded to Avalon Re, the bond holders get all their money back plus interest."

Given industry concerns over issues such as solvency and reinsurance recoveries, Mr. Hutchings said the reinsurance capacity OCIL is purchasing is perhaps the best available.

He said: "The investors put up cash at the time they invested, so there is \$405 million worth of cash sitting in Avalon Re. It is invested and that is what collateralizes the capacity. So the reinsurance capacity which we are purchasing is 100 percent collateralized until the term of the reinsurance agreement expires. So it is the highest grade reinsurance you can probably get because it is all collateralized with high quality Government bonds."

Offered through Goldman, Sachs & Co., the 26 initial investors include banks, insurers, hedge funds, mutual funds, reinsurance companies and Cat funds. The class A notes are rated A- by S&P and BBB+ by Fitch and are priced at 212.5 basis points (bp) over LIBOR with an annualized expected loss of 6bp. The class B notes are rated BB+ by both rating agencies and are priced at 360bp over LIBOR with an expected loss of 40bp. And the class C notes, rated B by S&P and B- by Fitch are priced at 775bp over LIBOR with an expected loss of 221bp.

Mr. Hutchings said that while the OCIL securitization has yet to prove itself, the concept has been grasped by financial engineers eager to enter the capital market foray, outside of simplistic deals with hedge funds and other investment vehicles offering capacity. The key may be to have investors understand and quantify the risk.

He said: "The casualty risk which Oil Casualty has is very pure. It's excess. It's catastrophic."

He speculated that the ability for other companies to do such transactions will be determined by: "how pure that risk is, and how readily you can measure it. That will dictate weather or not people will be successful in doing these or not."



Bermuda Shorts



The wave of companies that formed in Bermuda in response to severe global shortages of capacity after the events of September 11, 2001 reached a new level of maturity this spring, when a tranche of investors who helped form the companies sold their shareholdings, thus enabling a broader public shareholding in the Bermuda market.

Venture capital - some \$9 billion was deployed in major start-up insurance and reinsurance companies in the Bermuda market within three months of 9/11 - is highly mobile. It facilitates the implementation of new ideas, earns a risk-based return for its owners, and is reallocated to the next opportunity. This has proved to be true with the eight major post-9/11 Bermuda companies, each of which is now solidly established.

Marsh & McLennan has reduced its stake in **AXIS Capital Holdings Ltd.** by 50 percent. Marsh's Risk Capital Holdings unit sold 3.7 million AXIS shares in a block trade to Merrill Lynch, which in turn sold those shares to investors. The sale equated to half of Marsh's stake in AXIS.

Morgan Stanley has bought about 11.6 million shares of AXIS Capital Holdings Ltd. from Thomas H. Lee Partners LP and subsequently sold the shares to public investors. Thomas H. Lee, which became an investor in AXIS when the insurer was founded in 2001, sold its entire stake in the company.

Thomas H. Lee also sold some of its holding in **Endurance Specialty Holdings Ltd.** when Goldman Sachs Group Inc. bought 8 million ordinary shares in Endurance from Texas Pacific Group and Thomas H. Lee and also subsequently sold the shares to public investors. Texas Pacific and Lee each retained about 3.9 million Endurance shares.

After the completion of the sale, all of the initial investors in Endurance retained a total of about 32 percent of the company's ordinary shares.

Other new investors have also joined the Bermuda market recently.

For the year to May, The Bermuda Monetary Authority reported that 24

new insurers had started business in Bermuda. Six new companies were added in May: **PCCW Risk Financing Limited** and **Strand Insurance Company Limited** (Class 1 companies); **Cookham Insurance Group Ltd.** (Class 2), and **Evansville Insurance Ltd.** (Class 2); **Home Re Limited** (Class 3), and **Bermuda International Insurance Services Limited** (Long Term). For the first five months of 2005, five Class 1, six Class 2, nine Class 3, and four Long-Term start-ups have been added to the Bermuda register.

An AEGON affiliate completed its acquisition of the interest of Global Preferred Holdings, Inc.'s interest in **Global Preferred Re Limited**, the Bermuda-based life reinsurance company. At March 31, 2005, Global Preferred Re reinsured 260,000 life insurance policies, riders and annuity contracts, which accounted for life insurance policies with an aggregate face value of \$6.9 billion and aggregate annuity contract benefits of \$229 million.

Two new shareholders - the 84th and 85th - have joined **Oil Insurance Limited**. Pacific Gas and Electric Company of San Francisco and Koninklijke Vopak N.V. of Rotterdam, the Netherlands have boosted the company's membership to record heights.

Pacific Gas and Electric Company is one of the largest combination natural gas distributor and electric utilities in the United States, with approximately 14 million customers throughout a 70,000-square-mile service area in northern and central California.

Royal Vopak provides independent tank terminaling capacity worldwide to the chemical and oil industries for the storage of liquid chemical products and oil products. Vopak also provides a range of value-added logistic services to the energy industry, such as tanker shipping, barging and warehousing.

Meanwhile, the capital requirements of the existing Bermuda market continue to grow and companies have been raising new capital to meet their growth requirements.

Max Re Capital Ltd. has entered into a five-year \$350 million secured letter of credit and a three-year \$100 million unsecured revolving credit/letter of credit facility with a consortium of leading financial institutions. The facility provides Max Re with significant financial flexibility, liquidity, and letter of credit capacity to support its operations.

Separately, NASDAQ has added Max Re in the NASDAQ Financial-100 Index, which includes 100 of the largest domestic and international financial organizations listed on the NASDAQ National Market, based on market capitalization.

Platinum Underwriters Holdings, Ltd. has completed an offering of \$250 million aggregate principal amount of 7.50 percent notes due 2017. The notes were issued by Platinum Underwriters Finance, Inc., a subsidiary of Platinum Underwriters Holdings, Ltd., and guaranteed by Platinum Underwriters Holdings, Ltd., which intends to use the net proceeds from the offering to increase the capital and surplus of Platinum Underwriters Bermuda, Ltd. and one or more of its other reinsurance company subsidiaries and for general corporate purposes.

Institutional Investor, Bermuda was the venue for, and the subject of, a June conference organized by Institutional Investor. The magazine group's first annual "Bermuda Risk Management Round Table" was held June 13 to 15.

A total of 40 invited risk managers attended, predominantly from the United States, most of whom represented Fortune 1000 companies and other organizations of similar size and profile, and all but two of whom already had a Bermuda operation.

Six Bermuda companies sponsored the event which comprised presentations, panel discussions, workshops and break-out groups. On the first full morning of the event, a panel composed of the chief executive officers of the six sponsor companies addressed the discussed the state of the industry.





Market Moves

ACE Limited has made a number of senior appointments as President & Chief Executive Officer Evan Greenberg completes the reshaping of his team, both on the operational side and at the corporate level.



Jacques Bonneau

Jacques Bonneau, formerly Chief Executive Officer of ACE Tempest Re USA, has been named President & Chief Executive Officer, ACE Tempest Re Group. Based in Bermuda

and reporting to Mr. Greenberg, Mr. Bonneau heads the company's global reinsurance segment. He succeeds David Furby, who has been appointed President of ACE's Continental European business. Mr. Furby, who is now based in Paris, joins Gerard Fournier, formerly President of Continental Europe, who has become Chairman.



Guy Swayne

Guy Swayne has been appointed Chief Underwriting Officer, International at ACE Tempest Reinsurance Ltd., the Group's Bermuda-based property and

specialty catastrophe reinsurer. Reporting to Andreas Lewin, President of ACE Tempest Re, Mr. Swayne has assumed responsibility for the day-to-day management of ACE Tempest Re's international catastrophe business.

Ari Lindner has been appointed President of ACE Tempest Life Reinsurance Ltd.

Finally, ACE Bermuda Insurance Ltd., a subsidiary of ACE Limited, has named **John C. Lenzen** Executive Vice

President, General Counsel and Secretary. Reporting to Rees Fletcher, President and Chief Executive Officer of ACE Bermuda, Mr. Lenzen will serve as chief legal officer with responsibility for all of ACE Bermuda's legal affairs and will assume management responsibility for the company's Legal and Claims Departments.

Platinum Underwriters Holdings, Ltd. has appointed **Michael D. Price** to serve as its Chief Operating Officer, subject to the approval of the Bermuda Department of Immigration. In this capacity, Mr. Price will be responsible for supervising the group's underwriting and investment management functions. Mr. Price has been President and Chief Underwriting Officer of Platinum US since Platinum's initial public offering in November 2002. Mr. Price will relocate to Platinum's headquarters in Bermuda.

Michael E. Lombardozi has been named its Executive Vice President - General Counsel and Chief Administrative Officer, subject to the approval of the Bermuda Department of Immigration. In this capacity, Mr. Lombardozi will be responsible for the group's legal, compliance, human resources and corporate communications functions, as well as other matters pertaining to corporate development. Mr. Lombardozi has been Executive Vice President, General Counsel and Secretary of Platinum since November 2002. Prior to joining Platinum, he was Senior Vice President - Planning and Operations of W.R. Berkley Corporation.

Endurance Specialty Holdings Ltd. has made two senior appointments.



Michael Angelina

Michael E. Angelina has been appointed the company's new Chief Actuary. He was most recently a Principal and head of the Philadelphia office of the consulting actuarial firm Tillinghast Towers Perrin.

Catherine A. Kalaydjian has been named Executive Vice President and Head of Claims for Endurance's Bermuda subsidiary, Endurance



Catherine Kalaydjian

Specialty Insurance Ltd. In addition, Ms. Kalaydjian also serves as Chair of the parent company's Global Claims Committee.

Neville Weston has joined Guy

Carpenter's Bermuda office as Senior Vice President in its Casualty Specialty Practice.

George F. Hutchings has joined the **OIL Group of Companies** in Bermuda as Senior Vice President & Chief Operating Officer of Oil Casualty Insurance, Ltd.

Michael D. Fisher has joined **Integro Ltd.** as Managing Director of recently incorporated Integro Bermuda Ltd. He will lead the new Integro office in the placement of clients' insurance programs with Bermuda-based carriers.

W. Preston Hutchings has joined **Arch Capital Group Ltd.** as Senior Vice President and Chief Investment Officer. Mr. Hutchings will be based in the Company's Bermuda headquarters and will report to John Vollaro, Executive Vice President and Chief Financial Officer.



Neill Currie

Neill A. Currie has rejoined **Renaissance Re Holdings Ltd.** as an Executive Vice President. His chief responsibility is to head the Specialty Reinsurance and company's firm-

wide marketing and client relations activities. He is based at Renaissance Re headquarters in Pembroke, Bermuda.

Two extremely well-known Bermuda executives have decided to retire.

Don Kramer has retired as Executive, Office of the President & Chief Executive Officer of **ACE Limited**. He had held that position since May 2004, when he retired from the ACE Limited Board of Directors. Mr. Kramer joined the company in 1996 as Vice Chairman, following ACE's acquisition

Continued on page 10 ►



Market Moves continued from page 9

of Tempest Reinsurance Ltd., a company he founded and for which he served as Chairman & Chief Executive Officer.

Philip R. Kruse, Executive Vice President, Life & Annuity, has retired from **Max Re Capital Ltd.** to spend more time with his family. Mr. Kruse was a founding member of Max Re and was instrumental in the development of the company's life & annuity operations.

Directorships

David B. Kelso has joined the Board of Directors of **Aspen Insurance Holdings Limited** in a non-executive capacity. He was also appointed to the Audit and Investment Committees of the Board. Mr. Kelso is the former Executive Vice President, Chief Financial Officer and Managing Director of Chubb Corporation. The addition of Mr. Kelso brings the total number of directors to 10 and the number of independent directors to six.

Scott Schoen, who is currently co-president of Thomas H. Lee Partners, L.P., a Boston-based private equity firm, has stepped down from the Board of Directors of **AXIS Capital Holdings Limited** following the sale of all remaining AXIS Capital common shares owned by Thomas H. Lee Partners and related entities. Mr. Schoen had served as a director of the company since its formation in November of 2001.

Endurance Specialty Holdings Ltd. has appointed **Howard Mann** to its Board of Directors. Mr. Mann was President and Chief Executive Officer of McCain Foods from 1995 to 2004. Prior to joining McCain Foods, Mr. Mann held numerous positions at Rank Hovis McDougall Ltd. from 1982 to 1995.

John L. Marion has resigned from the Board of Directors of **Max Re Capital Ltd.** President & Managing Director of Western General Insurance Ltd., Mr. Marion had been a Director of the company since November 2002.

PXRE Group Ltd. has named **Jonathan Kelly** to its Board of Directors, to fill the vacancy created by the resignation of **Susan Fleming Cabrera**.



Rethinking Investment Constraints



William Dudley



Bob Litterman

Goldman Sachs Asset Management will host its second annual conference for Bermuda reinsurers in November. This conference series is part of Goldman Sachs Asset Management's commitment to the Bermuda insurance market and to providing innovative solutions to the challenges of today's investment environment.

Rethinking Investment Constraints is the topic for this year's conference (Charles.Fuller@gs.com). Keynote speakers will include William Dudley, Chief US Economist for Goldman, Sachs & Co., who will present his latest US economic outlook, and Bob Litterman, Head of Goldman Sachs Asset Management's Quantitative Resources Group, who will anchor the seminar with his discussion "Are Constraints Eating Your Alpha?"

Some constraints are necessary and desirable, such as a risk budget for an investment mandate. Others are less desirable, but are imposed by governments, regulators and the markets themselves. But, perhaps the most difficult are those that restrict a manager from implementing his or her investment views, such as geographic or credit quality limitations and long-only biases.

These constraints can result in either decreased returns or sub-optimal risk allocation. Mr. Litterman will shed light on constraints, both good and bad, and provide a framework to assess if they are "eating" your alpha.

John Gauthier, Head of Insurance Fixed Income Portfolio Management, will apply this framework to an insurer's fixed income portfolio.

Hedge funds have been a particular focus for Bermuda insurers considering alternative investments. Specifically, the fund of funds approach allows a firm to outsource the process of manager selection and monitoring, as well as fund administration.

Close interaction with a fund of funds team enables the insurer to gain familiarity with the asset class as well as its sub-sectors, such as relative value, event driven, tactical trading and equity long/short.

Hugh Lawson, Head of Product Management for the Hedge Fund Strategies Group, will discuss GSAM's outlook for the hedge fund of funds marketplace.

Goldman Sachs Asset Management is the asset management arm of The Goldman Sachs Group, Inc. (NYSE: GS), which manages \$489 billion as of May 27, 2005.

Goldman Sachs Asset Management has been providing discretionary investment advisory services since 1989 and has investment professionals in all major financial centers around the world. The company offers investment strategies across a broad range of asset classes to institutional and individual clients globally.

Founded in 1869, Goldman Sachs is a leading global investment banking, securities and investment management firm.

Teachers learn from market leaders continued from page 6

The faculty explored in discussion with executives topics such as financial solution products; challenges facing insurers in measuring and pricing risk; and, the use of innovative capital market tools to increase the efficiency with which they finance risk.

The objective was to expose the educators to the Bermuda insurance industry and its pioneering concepts in insurance and risk financing, and to increase interest in pursuing inter-disciplinary research involving the Bermuda insurance marketplace.

SRM, a division of the Peter J. Tobin College of Business was established in June 2001 when the former College of Insurance (TCI) merged with St. John's University.

The SRM and former TCI have historically recruited many Bermudian students, and, count among its alumni a large number of Bermudian insurance executives.

The traveling group, led by Dr. Nicos Scordis, John R. Cox/ACE Limited Professor in Risk & Insurance, and Chairman of the SRM academic department, was comprised of five economics, finance and risk management professors.

Dr. Ellen Thrower, Executive Director of SRM, who served as President of the former College of Insurance when it merged with St. John's University in 2001, accompanied the faculty.

The visiting delegation included: Dr. John Neumann, Assistant Professor of Economics and Finance; Dr. Ping Wang, Assistant Professor of Risk and Insurance; Dr. Yakeshi Nishikawa, Assistant Professor of Finance; and Dr. Therese E. Pactwa, Assistant Professor of Finance.

THE BERMUDA INSURANCE MARKET CONFERENCE SCHEDULE

Bermuda Events

American Association of Managing General Agents (AAMGA) International Insurance Symposium August 24-28
Fairmont Southampton Hotel, Bermuda
www.aamga.org

Bermuda Captive Conference September 12-14
Fairmont Southampton Hotel, Bermuda
www.bermuda-insurance.org

19th International Reinsurance Congress October 19-21
Fairmont Hamilton Princess Hotel
www.hawksmere.co.uk/bermuda/

Goldman Sachs Asset Management's Annual Conference for Bermuda Reinsurers November 10
Fairmont Hamilton Princess, Hamilton
Contact: charles.fuller@gs.com

Risk Management and the Bermuda Market - Explore The Possibilities
November 16-17 - Symposium
November 18 - Open Market Day (Optional)
Hamilton, Bermuda
http://www.rims.org/Content/NavigationMenu/Education/Symposiums/Bermuda_Symposium_November_2005.htm

You can also meet Bermuda Market representatives at these conferences:

Vermont Captive Insurance Association (VCIA) August 9-11
20th Annual Conference
Sheraton Hotel & Conference Center
Burlington, Vermont
www.vcia.com/2004joinus.htm

Les Rendezvous De Septembre September 11-16
Sporting d'Hiver, Place du Casino
Monte Carlo
www.rvs-monte-carlo.com/rvs.php

American Society for Healthcare Risk Management (25th Annual ASHRM) October 23-26
The Henry B. Gonzalez Convention Center
San Antonio, Texas
www.ashrm.org

Property Casualty Insurers Association of America (PCI) October 23-26
Chicago, Illinois
www.pciaa.net

15th World Captive and Alternative Risk Financing Forum (WCF) November 7-9
Turnberry Isle Resort & Club, Aventura, Florida
www.captive.com/CaptiveForum/index.html

Annual National Workers' Compensation & Disability Conference and Expo November 15-16
Lakeside Center, McCormick Place, Chicago
www.wconference.com/

2006

Captive Insurance Companies Association (CICA) March 8-10
Orlando, Florida
www.captiveassociation.com

RIMS 2005 Annual Conference & Exhibition April 23-27
Hawaii Convention Center
1801 Kalakaua Avenue, Honolulu, Hawaii
www.rims.org

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Update



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