

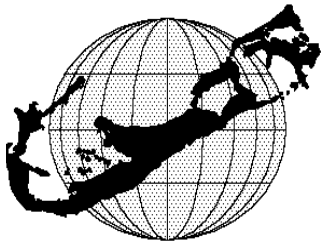
# BERMUDA

## Insurance Update

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## KPMG affirms Bermuda's offshore leadership

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Marcus Killick

Bermuda could be a big winner from changes being forced by onshore governments on offshore financial centres, according to a key man behind a recent review by KPMG of financial centres in UK territories.

Marcus Killick is the man who headed the investigation into the financial regulation of Britain's overseas territories. The UK's Foreign and Commonwealth office commissioned the KPMG report. And out of that, Mr. Killick, a top consultant with KPMG, told a Bermuda International Business Association (BIBA) luncheon that Bermuda was among the best equipped to survive the probe.

He said the myriad of reviews of offshore financial centres is mere evidence that offshore is changing, not an indication that offshore business will die

He said, "My belief is that Bermuda is one of the most perfectly situated jurisdictions to benefit from this change. For the areas that change most threatens

are the areas that Bermuda has as its strengths and so is able to deal with those threats."

He justified his faith in Bermuda by discussing a lack of inter-country co-operation from some offshore countries and a leading concern among onshore countries against banking secrecy laws.

He said, "Bermuda has no such specific laws. Bermuda has never relied upon a veil of secrecy to encourage businesses to locate here. Legitimate confidentiality, yes, that is important for personal, security and commercial reasons.

Bermuda provides that, much in the same way as every legitimate centre does, or should provide it.

But secrecy, as manifested in a failure to co-operate in respect of legitimate criminal and regulatory enquiries, was never a policy followed by Bermuda. This provides a considerable defence to external bodies.

"Secondly, there does remain a belief, among some jurisdictions, that a "race for the bottom" is the sure way to gain a foothold in the offshore market. Historically,

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## Bermuda Market sees continued growth

Bermuda continued its offshore dominance in international insurance as the financial centre incorporated nearly 12 percent more new international insurers in 2000 than it did in 1999. The Registrar of Companies (ROC) reported that 94 new insurance entities joined the Bermuda register for the year, up over 1999's number of 84.

Captive formations continued to dominate new incorporations, with 46 new captive operations being established during 2000. Pure captives (15) and rent-a-captives (8) represented 50% of this total.

Incorporations of professional insurers and reinsurers declined slightly (12%), down from 25 in

1999 to 22 in 2000.

However composite professional insurers and reinsurers increased marginally from 6 to 7 incorporations in 2000. The continued growth of this sector of Bermuda register indicates that the market continues to view Bermuda as a jurisdiction where innovation and creativity are encouraged.

During the 2000 year, Bermuda attracted 15 new long-term insurers, a fifty percent increase over the 10 incorporated in 1999. Finite insurers (4) and health care captives showed some positive growth after no new incorporations in 1999.

The total number of interna-

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# Insurance index rises, BSX blossoms



*William Woods*

The BSX Bermuda Insurance Index rose 53% in 2000 to end the year at 1060.35 when compared to the 1999 close of 563.17. A true reflection of Bermuda's insurance industry, the Index saw a number of significant changes throughout the year. Most notable were the addition of Everest Re, PXRE and Trenwick Group, and the withdrawal of Terra Nova and LaSalle Re.

And while many other international markets ended last year in negative territory, the overall Bermuda Stock Exchange (BSX) was up more than 52% in 2000. The Exchange saw a significant increase in trading volumes, along with a steady rise in listed issuers and a marked increase in market capitalization. In all it was a record setting year for the world's leading fully electronic, offshore securities market.

The BSX/RG Composite Index ended the

year at 2,293.25 just slightly short of the all time high of 2,296.80 set one week earlier on 21 December and up more than 52% over 1999's close of 1,506.54.

The Exchange's market capitalization rose from \$122 billion to \$148 billion and trading volumes soared to 5.6 billion shares with a total value of \$230 billion. Domestic securities accounted for 6.7 million shares and \$135.9 million value respectively, also setting new records for the BSX.

"The BSX had a record breaking year in 2000 and we look forward to continuing rapid growth in the new millennium," stated William Woods, Chief Executive Officer.

During the course of the year the Exchange welcomed four new Trading Members: Brooke Securities, G-Trade, G2 Securities and E\*Trade Global and one new Listing Sponsor: Continental Sponsors.

The number of listed securities rose too, with the listing of some fifty-three new issuers, including two Mezzanine Market companies, Safire and Shui Sing, and one International Secondary market listing, Tycom. There are now more than 310 securities listed on the BSX.

Other highlights in 2000 included the appointment of Mr. David Brown as Chairman. Mr. Brown replaced long serving Council head Arthur Sculley in January 2000. Mr. Harry Wilken, President of Jardine Matheson Bermuda, was appointed Head of

the Listing Committee and the Exchange expanded its Listings and Compliance Department to further meet international regulatory standards.

In 2001 the BSX will continue to focus on its core businesses, with an increased emphasis on international marketing initiatives. The Exchange will also continue to seek international recognition from key jurisdictions as appropriate.

In addition, later this year the BSX will



*David Brown*

introduce its new electronic registration and clearing facility, 'GlobalScrip' and begin offering the PlusFundsSM Market trading facility for the secondary market trading in the shares of hedge funds.

In 2000, the BSX announced a substantial reduction in Secondary Issue Listing Fees and added BVI to its list of recognized fund domicile jurisdictions.

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## HK life leader remains AAA-rated

The leading individual life insurance provider in Hong Kong as well as a provider of institutional funding agreements, Bermuda registered American International Assurance Co. (Bermuda) Ltd. (AIAB), had its triple-'A' insurer financial strength rating affirmed by Standard & Poor's.

The rating is based upon a guarantee from a related U.S. company, National Union Fire Insurance Co. of Pittsburgh, PA (triple-'A' insurer financial strength rating).

AIAB is a wholly owned subsidiary of American International Group Inc. (AIG). AIG is a leading global provider of insurance and financial services.

S&P cited an extremely strong financial flexibility as one reason for the ratings affirmation, noting the guarantee from National Union Fire Insurance Co. of Pittsburgh, PA for policyholder obligations

and select funding agreement obligations.

The rating agency also said AIAB had a very strong business profile consisting of a market-leading position in Hong Kong, where AIAB is the largest provider of individual life insurance as measured by in-force and new annual premiums, and a strong brand identity in the Hong Kong insurance marketplace. In 1999, the company also entered the institutional funding agreement market.

S&P was also satisfied that there was a very strong operating performance. This was reflected by a 1999 pre-tax operating return on assets of 2.2%, although tempered by one-time investment valuation write-downs during 1999 for select Southeast Asian investments.

AIAB also has a diversified investment portfolio (excluding investment in the ultimate parent company) consisting primarily of

U.S. dollar denominated bonds, and a moderate-size portfolio of equity investments of companies based in Asia.

AIAB is a Security Circle insurer, which means that it voluntarily underwent Standard & Poor's most comprehensive analysis and was assigned ratings in a top four category for financial security.

Standard & Poor's said it expects AIAB to maintain its leading market position in Hong Kong and report strong first year premium growth in 2001 and continue to write institutional funding agreements through 2001.

S&P expects operating earnings to be good in 2000 and 2001 as a result of good mortality experience and good sales growth in the life insurance business, and appropriate pricing and investment performance in the funding agreement business.



# Independent agents use Bermuda captive

Members of the Independent Insurance Agents of America (IIAA) will use a Bermuda captive - one of the first companies incorporated under Bermuda's Segregated Accounts Act. - to share in their clients' risks.

The captive insurer is owned by a Bermuda-based holding company, Leading Edge Holdings, which was the brainchild of the Independent Insurance Agents Association of New York (IIAANY). IIAANY, the state association affiliate of IIAA, along with the Illinois and Minnesota state associations help spearhead this unique initiative.

But Chairman/Chief executive of Leading Edge and its subsidiaries, Robert W. Menikheim, said that although there was much enthusiasm for the new facility from other state associations, it was decided to go slow until an adequate infrastructure was developed. And with the increased appetite for risk and a need to build a service infrastructure, there is a need to go to the market for a second round of capital financing.

The holding company was capitalized in mid 2000 with \$1.5 million, and will now seek another three to five million dollars. The associations and independent agents put in the initial capital, themselves. There are 26,000 member firms, representing 60 per cent of independent agencies in the U.S., who write about \$150 billion of property casualty insurance - a major share of the US marketplace.

The new insurer was originally focused on workers compensation business, but the company is also taking a risk position on other blocks of business.

Mr. Menikheim said, "Member agents

write everything, from home owners to workers compensation to general liability and professional liability. We did workers comp in the captive for the first two states we were working with - Minnesota and Illinois - because they had blocks of workers comp that was historically profitable."

"Our next line of business is a programme for personal umbrella liability insurance.



Robert Menikheim

The national association (IIAA) has about a \$15-million block of business with an excellent loss ratio. So we're taking a risk position on that. But as we go down the road, we intend to have our Bermuda facility write a healthy balance of various lines of business."

Agents will have options that include investing in the captive; using the captive and participating in risk-share arrangements; or simply using the captive as an alternative market for their mid and large size clients. Depending on the type of programme an agent wants to fund, a number of U.S. admitted carriers would be used for the fronting arrangements.

Because of the rapid changes in the industry in recent years, a lot of companies representing the independent agents are marketing their products direct, using the Internet and other distribution methods. As a result, the agents are also looking at other ways to garner business and improve bottom line profits. The vast majority of independent agencies have not had a cost effective way

to be involved in the alternative market. Their trade associations have now made available a practical way to get involved if they so desire.

Mr. Menikheim said, "We looked at all of the offshore domiciles and onshore locations like Vermont. But after much research, we decided that Bermuda was the best place to get the company going. We formed the Bermuda holding company, Leading Edge Holdings Ltd. in order to raise capital, which led to the formation of the registered Insurer Independent Agents Insurance Company Ltd., a Class 3 insurer."

They were assisted in this endeavour by Powerscourt Management, whose Andy McComb pointed out: "It is an alternative risk transfer facility for the independent agents. One of the options is that agents can take books of business and place them through the captive and participate in a portion of the risk in the process.

"On certain books of business, IAIC will allocate a portion of its capital that is in excess of statutory requirements and put it against the book. They are developing the company from a traditional rent-a-captive approach in to a more flexible alternative risk transfer facility without leveraging their capital at this time."

Said Mr. Menikheim, "Some of the agents will participate in the success of the company by holding stock in the company, as opposed to assuming risk on their own books of business. But collectively, through the company and "Big I" associations, a new business opportunity is available to independent agencies. We're going to have unique access to profitable business through our proprietary marketing alliances."

## Everest Re acquires AFC unit

Transplanted Bermuda reinsurer, Everest Re Group, Ltd. used subsidiary Everest Reinsurance (Bermuda), Ltd. to buy Bermuda-based annuity/life reinsurer AFC Re Ltd. from AFC Holdings Ltd. for about \$17 million, in a cash transaction to be accounted for as a purchase.

The acquisition brings with it approximately \$253 million in assets and \$236 million of liabilities, most of which represent reserves for annuity benefits, as well as a staff of four who will become part of Everest Re Group's existing operations in Bermuda.

AFC Re's operations complement Everest Re's existing reinsurance expertise and provide it with additional life and annuity reinsurance capabilities.

Joseph V. Taranto, CEO of Everest Re Group, Ltd, stated, "Our Bermuda reinsurance company continues to strengthen under CEO of Everest Reinsurance (Bermuda), Ltd., Peter Bennett's leadership.

"We expect this transaction to be accretive in 2001 and add approximately 5 cents to earnings. Accordingly, we are raising our estimate of operating earnings for 2001 to a range of \$4.45 to \$4.85 per diluted share,

absent unusual loss activity."

Everest Re Group, Ltd. is a Bermuda holding company that operates through the following subsidiaries: Everest Reinsurance Company provides reinsurance to property and casualty insurers in both the US and international markets. Everest Reinsurance (Bermuda), Ltd. provides reinsurance to property and casualty and life insurers in both the Bermuda and international markets.

Everest National Insurance Company provides property and casualty insurance to policyholders in the United States. Everest Indemnity Insurance Company offers excess and surplus lines insurance in the United States.

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# King retires from OIL, limits increased

President and CEO of Oil Insurance Ltd. and subsidiary OCIL, Jon King, will retire with the close of the Annual Shareholder Meetings in March, after more than 10 years with the companies. He will continue to make himself available to consult and advise the companies and to assist as needed during this period of transition.

The Executive Committees of OIL and OCIL have appointed Senior Vice President of OCIL, Jack Wesley, as acting-President and CEO until a permanent replacement can be found. Mr. Wesley will continue his responsibilities with that company in addition to these interim responsibilities.

Meanwhile, OIL increased its per occurrence limit to \$250 million - an increase of \$25m from the limits offered for 2000. In addition, the aggregation limit for all losses from multiple members arising out of one event was increased to \$1 billion.

Mr. King noted that with OIL's proven track record of success, and continued solid performance, the Board of Directors is able to keep proposed rates for 2001 at the same level as 2000, which is the lowest in the near 30 year history of the company. With the commercial insurance markets suffering from very low returns in the energy sector,

this should make membership of OIL a very attractive alternative for the buyers of energy insurance, he said.

OIL commenced operations in Bermuda in 1971 as a mutual insurance company designed to service the needs of the petroleum industry. The company was formed at a



Jon R. King

time when the commercial markets had ceased to provide petroleum companies with adequate insurance coverage limits, particularly in the area of pollution liability. Based upon the perception of both a common need and interest, a group of 16 petroleum companies joined together and formed OIL to provide catastrophe insurance coverage to members of the petroleum industry.

OIL's capital and surplus at January 1,

1971 was \$160,000. Each of its 16 founding members contributed \$10,000 as start-up capital for the company.

As OIL enters its 30th year, the number of members has increased to 47. A review of shareholders as of December 31, 2000 demonstrates that OIL has evolved into a truly multi-national company with its ownership comprised of 6 European, 7 Canadian, 2 Australian and 32 United States headquartered members. On a global basis, the total gross assets of the 47 shareholders are in excess of US\$ 930 billion.

The coverages and limits provided by OIL form the cornerstone of the insurance programs of most of its members. Participants in OIL have available limits of up to \$250 million per occurrence with no annual aggregate. The limits insure against catastrophe exposures inherent in petroleum industry operations. The principal risks covered by OIL are losses and costs arising from physical damage to onshore and offshore property, well control costs and third party pollution liability. Coverage is extended on a world-wide basis.

At September 30, 2000, Shareholders' Equity totalled \$1,943 million and total assets were \$2,622 million.

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## Bermuda Insurance Market sees continued growth

■ *continued from page 1*

tional insurers registered in Bermuda rose to 1564. This represented a net increase of 26 as there were 68 removals during 2000 compared to 34 removals in 1999.

Brazil, Norway, Netherlands and France were among the non-traditional sources of new business for the Bermuda market, although the United States continues to be the major source of our new business.

Meanwhile, global market forces contained Bermuda's Insurance Market writings for the year 1999, as both total assets and capital & surplus in the industry rose significantly.

New figures released by the ROC show Bermuda's market growth came at the high end, and was characterised by developments with larger companies.

As was anticipated in the soft market, premium writings failed to grow, as buyers continued to seek cheap commercial capacity, prevalent in traditional markets. Gross premiums written softened by three percent, down marginally from \$26.6 billion for the year to 31st December, 1998 to \$25.9 billion for the corresponding period in 1999.

Bermuda companies also passed on more risk to reinsurers, retaining a smaller portion of the premium dollar, effecting a 19 percent decline in net premiums written, down from \$21.2 billion to \$17.1 billion. But total assets climbed five percent from \$116.4 billion to \$122.1 billion, as capital and surplus rose eight percent from \$51.2 billion to \$55.2 billion. The industry-wide premium to capital and surplus ratio became even more conservative at 0.31 to 1, compared with 0.41 to 1 in the previous period.

Chairman of the Insurance Advisory Committee (IAC), Robert D. Steinhoff, commented, "Gross premiums showed a modest decline of 3 percent, reflecting declining premium rates during the period and underwriting restraint. Purchased reinsurance increased from \$5.4 billion to \$8.8 billion, as Bermuda insurers reinsured an increasing amount of their risk in alternate markets. Capital and Surplus increased by eight percent."

Class 4 insurers, which includes commercial insurers and large reinsurers, recorded a \$1.2-billion jump in gross premiums written,

up 41 percent from \$2.9 billion to \$4.1 billion. This was as a result of the period in which Bermuda companies were active in acquiring other insurance companies. Net premiums written for this class were 26 percent higher, rising some \$600 million to \$2.9 billion. Total assets declined seven percent from \$21.7 billion to \$20.2 billion. Capital and surplus also declined to \$8.3 billion from the 1998 figure of \$11 billion.

Assets for long-term insurers were 112 percent higher to \$8.9 billion, from \$4.2 billion in 1998, and capital and surplus for this category doubled from \$0.9 billion to \$1.8 billion. Net premiums written declined 28 percent to \$1.7 billion from \$2.4 billion

Class 3 companies recorded no significant change in total assets, which were marginally higher at \$54.6 billion. Capital and surplus, however was 17 percent higher at \$25.8 billion up from \$22 billion in 1998. Gross premiums declined four percent to \$14.2 billion.

Mr. Steinhoff said, "There's about a four percent decline in premiums, which can be explained by rate decreases during the year."



# Senior execs calls for ratings re-think



Brian O'Hara

XL Capital President and CEO, Brian O'Hara has called for an end to what he says is a dangerous mindset that encourages insureds to expect rate decreases every year. He believes insurance and reinsurance underwriting results have been going

in the wrong direction for too long.

Speaking at the Professional Liability Underwriters Society Conference in San Antonio, the top executive warned of the danger of caving in to pricing pressure, which he predicts could lead to severe dislocation in the property and casualty industry.

Meanwhile, President and Chief Executive Officer of XL's reinsurance arm, XL Re, Henry C.V. Keeling believes excess of loss reinsurance pricing increased in line with the market's expectations during the year-end 2000 renewal season. Despite this, he said that he was of the view that there is still a significant way to go before prices return to the levels seen only four years ago.

Mr. Keeling's remarks, which were confined to the general state of the reinsurance markets and did not specifically address XLMO's operations, were made during an investment conference call organized by Merrill Lynch & Co.

He said the reinsurance market had sought higher prices to reflect changing market conditions and noted that these higher price levels had been mostly realized during the year-end renewals. Commenting specifically on pricing in specialty lines, including marine, aviation, energy and space, Mr. Keeling estimated that rate increases had averaged about 15 to 40 percent depending on the line of business.

He said he anticipated that overall reinsurance price rises could continue through the year, possibly at a higher level than at present if capacity continues to shrink.

Mr. O'Hara challenged underwriters to "draw on all the discipline and professionalism they will need to hold the line" and urged a return to "underwriting that properly compensates carriers for risk".

He said, "The prolonged soft market has produced a dangerous 'soft market mindset' along with equally dangerous expectations of the underwriting community and the purchasers of coverage," he told an audience of more than 1,500 Society members.

"Insureds have grown accustomed to their annual rate decrease and in some cases construct their annual budgets accordingly. Insureds expect continued liberalization of coverage terms and conditions with each renewal."

Delivering the PLUS conference's first keynote address, Mr. O'Hara pointed out

that these expectations can be modified if underwriters and insureds are better informed about the dynamics of the industry and the importance of generating an underwriting profit.

"As underwriters, I feel we have lost our way," he said. "We have repeatedly caved in to pricing pressures to the extent that instead of feeling like proud members of PLUS, many of us are beginning to feel like ashamed members of the world's oldest profession."

Referring to a recent Insurance Information Institute (III) report, the Earlybird study, Mr. O'Hara said the estimate for 2000 showed that the industry will pay out some \$30 billion more in claims and expenses than it collected in premiums.

"The underwriting cycle kind of went missing in the 1990s," he said. "Though the III's latest forecast predicts net premium growth of 5.2 percent for 2000, and 7 percent for 2001, this kind of growth—assuming the forecast is actually realized—will not be nearly enough to make up for the years and years of decline."

He said that underwriters must be equipped with the skills to underwrite in a hard market. Those skills range from the art of negotiating to in-depth exposure analysis and underwriting training. And he stressed the need for brokers to add value to the process.

## Lawyers' mutual gets thumbs up

Fitch, the international rating agency, has affirmed the 'AA' insurer financial strength rating of Attorneys' Liability Assurance Society (Bermuda) Ltd. (ALAS). The Rating Outlook is Stable.

ALAS provides a stable, long-term source of the highest quality lawyers' professional liability insurance program to a carefully selected group of large law firms at the lowest cost over time.

ALAS is an unaffiliated, integrated mutual insurance organization owned by its Member-insureds. The parent company, Attorneys' Liability Assurance Society (Bermuda) Ltd., is a Bermuda mutual insurance company formed in 1979.

Rationale for the rating includes ALAS' good competitive position and strategy in its chosen market, comprehensive reinsurance program that mitigates its exposure to large losses, strong capital position and high-quality investment portfolio.

Partially offsetting these positives are the underwriting volatility inherent in the lawyers' liability insurance line, recent declines in underwriting and operating cash flows and the very competitive nature of the lawyers' liability market that has generated severe price competition in recent years.

ALAS has had success with its focus strategy of providing professional liability insurance to attorneys. The company has earned a reputation as a long-term participant in the lawyers' liability insurance market, providing coverage in both hard and soft markets.

Fitch believes that ALAS has been able to achieve a high market share and high member retention rate by combining a competitively priced product with value-added loss prevention and claims management services. As this market continues to stay competitive, ALAS should be well positioned to retain quality insured member firms that fit its risk profile.

ALAS' reinsurance program provides significant protection against large losses, limiting retained losses to roughly \$8 million on any one loss. Fitch believes that this is especially important for ALAS given the high policy limits it offers and the underwriting volatility inherent in the lawyers' liability line.

Fitch believes that ALAS has a strong surplus position and considers ALAS' ability to maintain this position despite severe price competition and the company's policy of returning funds through premium credits and other forms of members' distributions as a key factor supporting the rating.

ALAS' philosophy is to invest in fixed-income investments to support loss reserves and in equities to support members' net worth. Fitch believes that ALAS' investment portfolio is well managed and that its credit quality is good.



# Bda firms mitigate weather risks

Bermuda is playing an increasingly significant role in the mitigation of weather risks, as corporations other than energy companies discover the need for balance sheet protection against variations in the weather.

The original market for such covers involved derivatives for entities like utility companies. But the increasing demand from all other types of companies has led to more interest in insurance, as opposed to derivative contracts for weather covers.

Manager of the Weather Desk at ACE Tempest Reinsurance, Brock Webel, said, "We are in the middle of the fourth winter, and we're hopefully moving into a growth stage. We're finding more companies interested in buying protection against weather events. One of the major drawbacks in the past was that customers were slow to come to the table. We've seen a lot of interest in derivative structures, and some interest in insurance structures.

"The market is developing slowly. There is a lot of evidence that companies have a lot of weather risks, but historically they have just lived with it, allowing their financial results to fluctuate with the weather.

"The catastrophic events are generally reinsured through the traditional P&C market. But consider the last three winters on the East Coast and in the Mid West, where it's been warm. Utilities have suffered, because they don't sell enough natural gas and electricity. This has provided incentives for companies to buy protection against warm winters."

Element Re Capital Products Inc. CEO, Jeff Bortniker, stated: "Until now, businesses have had a limited choice in terms of how they managed their weather-related risk. To date, derivatives have been the primary mechanism. We have identified a growing demand for weather protection in insurance form, something that is more appealing to corporations around the world."

Chief Operating Officer at Element Re, Lynda Clemmons, said, "Initially, energy and utility companies were the primary market for weather-related risk management products. But that's changing as companies from far-ranging sectors including agriculture, construction, retail, transportation and entertainment realize the effects weather can have on the bottom line."

Said Chris Phelan, Managing Director of Commercial Risk Capital Markets, "A number of other sectors have weather exposures, but none as highly correlated and quantifiable as the electric and gas utilities. They are hedging their volume risk.

"The economics of weather derivatives and weather index insurance is pretty much the same. It's not indemnity based.

"Bermuda companies are at the forefront of the market. We are looking at combined

advantage is that there is no need to demonstrate loss. So long as the index is triggered, there is a formula-based pay out. The disadvantage comes when there is a divergence between the index value of the loss and the client's actual loss. While this can work in the client's favour or against him, it is still a risk. The National Weather Service, an unbiased producer of this information, calculates the indices."

Mr. Bortniker said, "The electric power situation in California is going to spur interest. Natural gas was recently trading at \$9, where it has never traded much above \$4 before, and it is trading at almost four times the level it was at last year. The gas crunch has created a power crunch. The cold weather has raised the price of gas, which has effected the price of power. Utility companies have to pay attention to how this could affect their bottom line.

"Then there are ski companies, who have suffered through three years of mild winters, with very little snow. They are looking at an opportunity to make a profit this year because of increased snow levels."

Weather issues raced to the fore of the insurance world in the latter part of the 20<sup>th</sup> century in the 1980's when a litany of weather and non-weather catastrophes de-stabilised Lloyd's. In the 80's and 90's there were increased concerns about global warming. Billion-dollar windstorms became common.

Hurricane Andrew pummelled Florida in 1992 and left a near \$17-billion bill. The next year saw freak storms on the East Coast (\$1.6 billion), unprecedented Mid-West flooding (\$10 billion) and a fortnight of bush fires in California.

Two years later, Germany, the Netherlands and France saw their worst floods ever, in a period that racked up \$180 billion in economic losses (insured losses just under \$16 billion). There was Hurricane Fran in 1996 and then in 1997, the worst Central European flooding, some say, in a thousand years.

Then there was 1998, the hottest year recorded, and the costliest ever year for insured losses from weather-related catastrophes, when fires, floods, droughts and storms exceeded all the weather-related losses of the 1980's.



COO Lynda Clemmons and CEO Jeffrey Bortniker of Element Re Capital Products, Inc

risk. Very few companies have just pure temperature risk. A corn producer has weather risk embedded in their production risk. The whole point of these products is to allow companies to manage their risks better.

It's not a huge market, yet, but is currently developing. The primary driver has been the deregulation in the US energy market.

"Weather, by its nature is volatile. And it's much easier to model weather that is near the average, or seasonal fluctuations, rather than random, one in 50 year events.

"So we don't believe it is a good strategy to write covers that are for high severity, low frequency risks. We are more interested in higher frequency, lower severity risks...or the working layer of weather risks.

"We create a weather index insurance. The



# RM at ASHRM wins Bermuda trip



Dean Matthys

The Director of Risk Management Services for Methodist Hospitals of Dallas, Dean Matthys, RN, MS, has won a free trip to Bermuda, courtesy of Delta Air Lines, the Fairmont

Southampton Princess Hotels and PricewaterhouseCoopers.

Mr. Matthys won the vacation as a participant in a promotional draw mounted by the Bermuda Insurance Market during the American Society of Healthcare Risk Managers of the American Hospital Association (ASHRM) Conference in New Orleans in November.

The promotion was an effort to attract more attention to the Bermuda exhibit during the ASHRM Conference.

The strategic partners who agreed to be sponsors, agreed to offer two free air tickets and a three night stay in Bermuda based on a business card draw from those who visited the Bermuda booth at the show.

The ASHRM Conference brings together risk managers and other insurance buyers from major hospitals and other healthcare providers. Bermuda is one of the largest providers of captive insurance to the healthcare industry.

Increasingly, healthcare insurance buyers

have begun to realise the significance of Bermuda's captive market, and have been following other industries into the Bermuda fold.

Bermuda remains, by far, the most dominant captive insurance domicile in general, having attracted some 1,200 captives, about 30 percent of the global total.



**Premier Jennifer Smith graciously agreed to pick the winner of the free trip to Bermuda from hundreds of entrants, with the assistance of Price waterhouseCoopers Senior Partner , Tom Conyers.**

## OPL adds to management team

Overseas partners Ltd. (OPL) has beefed up its management team, including the use of two former Stockton Re executives, as it develops and expands its reinsurance business to meet the changing demands of the reinsurance community.

Former General Counsel at Stockton Re Malcolm Furbert has joined OPL as General Counsel of Overseas Partners Re Ltd. (OP Re). And Overseas Partners Ltd. (OPL) Chief Underwriting Officer, Michael J. Cascio, FCAS, has been appointed President and CEO of OPL unit, Overseas Partners U.S. Reinsurance Company (OPUS Re).

Mr. Furbert joined OPL in conjunction with the acquisition of the OP Finite team from Stockton announced in November. With extensive experience and background, his responsibilities at OPL, while including legal support of the finite risk activities, will

be substantially broader and encompass all of the reinsurance and corporate activities of the Group. He will report directly to CEO of OPL, Mary R. Hennessy.

Prior to joining Stockton Re, Mr. Furbert was an associate with Conyers, Dill &



Mike Cascio



Malcolm Furbert

Pearman, one of Bermuda's largest and most reputable law firms. His practice at CD&P encompassed a wide range of international and corporate and commercial transactions.

Ms Hennessy said, "We are pleased that OPL has been able to attract someone of Malcolm's reputation, expertise and calibre. It is particularly exciting for us to be hiring as a senior executive a Bermudian of Malcolm's standing in this community. I am confident that Malcolm will add immeasurably to OPL's strategic re-positioning and expansion."

Meanwhile, Mr. Cascio has been in the Bermuda Market for 16 years, serving as senior executive and/or in technical positions with Stockton Re, Centre Re, Pinnacle Re and KPMG.

Ms Hennessy said, "While we are now fortunate to have the executive talent here in Bermuda to permit Mike's transfer to the U.S., he will be missed. He has been a key partner to CFO Mark Bridges and I over the past year in our efforts to execute the strategic re-positioning of OPL."



# Bermuda's leadership affirmed by KPMG

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there was merit to such an approach. Such merit is not moral but it was affective. Indeed, some successful offshore centres do have a past which they are striving hard to ensure they have successfully moved away from.

"For those now trying to emulate a race for the bottom approach there is little, if any, chance of success. Any jurisdiction wishing to develop business purely on the back of low standards and lack of co-operation is doomed to failure regardless of what some elements of their private sector may believe.

"Indeed it is the activities and elements of their private sector that is most likely to cause them damage through advertisements and other marketing means exploiting the jurisdiction's weakness. Jurisdictions like Bermuda, that do not play the "race to the bottom" game have nothing to fear."

He cited three distinctions jurisdictions make that will either help or hinder their development.

They include: effective regulation which reduces systemic risk, deters fraud and facilitates consumer protection and so encourages confidence in the financial system; intellectual mobility for a jurisdiction to take and use the best skills available from wherever they come from, for the benefit of that jurisdiction and its growth as a financial centre; and the ability to innovate, because such jurisdictions are small and there can be good connections between the public and private sectors as the private sector has access to Government and to the regulator and because of mutual trust and confidence subsequently builds up.

These are three areas in which Bermuda has long prided itself, as they have always pursued strong and effective, yet co-operative regulation.

Mr. Killick referred to his KPMG report, together with similar reports being produced by the Financial Stability Forum, the Financial Action Task Force and the OECD, with ongoing Caribbean Financial Action Task Force reviews and the start of a review of offshore centres by the International Monetary Fund.

His view is that there is no great conspiracy against offshore jurisdictions, by onshore countries. But he conceded: "Offshore centres now appear to be asked

to apply higher standards than many of their onshore counterparts. Many of the crimes that are in fact committed onshore are having the blame laid at the door of offshore. Clearly this is unfair.

"In the world of drugs they are produced onshore, they are sold onshore, the dealers are onshore. The criminals abusing offshore corporate entities are almost invariably from onshore.

It is always easier to blame someone in a faraway land with little political or economic clout than to accept the fault of oneself. And some large jurisdictions are not immune to such thorough processes.

I wonder how different it would be if mainland China was an offshore centre or India. We have seen the power of the United Kingdom in the defence of its offshore business against the pressure of the European Union.

To put it another way if Bermuda or the Bahamas or the Cayman Islands or Jersey or Guernsey had been contributors of about 24% of the world's greenhouse gases rather than the United States, would the conference in the Hague have collapsed? Would the US and the EU be looking at a compromise deal? Of course not.

The offshore polluters would be firmly told to cease and desist or have draconian action taken against them. However, as it is the US who pollutes, no one is making such threats.

The cards in the offshore debate are marked and the deck stacked against the offshore centres. However it is a deck of cards with which offshore must play. In my view, play it shall, and win, it certainly can."

## In brief

• A.M. Best Co. has upgraded the financial strength rating of **Renaissance Reinsurance Ltd.**, and its substantially reinsured subsidiary, Renaissance Reinsurance of Europe, to A+ (Superior) from A (Excellent) and affirmed the financial strength ratings of the other subsidiaries of RenaissanceRe Holdings Ltd. The existing trust preferred securities issued by RenaissanceRe Capital Trust have been rated "bbb+".

• **Everest Reinsurance Holdings, Inc.**, a wholly owned subsidiary of Everest Re Group, Ltd., has finalized a temporary expansion of its existing \$150 million revolving credit facility to \$235 million. It further announced that it has used this revolving credit facility to distribute \$95 million to its parent, thereby increasing the Everest Re Group Ltd.'s capital by a corresponding amount.

• **Max Re Ltd.** has obtained an 'A' insurer financial strength rating from Fitch, the international rating agency formed through the merger of Fitch IBCA and Duff & Phelps Credit Rating Co. The Rating Outlook is Stable. Max Re, the Bermuda-based multi-line reinsurance/insurance company which commenced operations in January 2000, is the principal subsidiary of Max Re Capital Ltd., a Bermuda-based insurance holding company.

• **XL Capital Assurance Inc.** has provided a US\$250 million guarantee for a future flow securitization of wire transfer payments by Banco Nacional de Mexico (Banamex), one of Mexico's largest domestic banks. It is the first securitization of wire transfer payments by an issuer in Latin America.

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