BERMUDA Insurance Update

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Ex-NASA experts help mitigate weather risks

Former NASAexperts are helping to propel Commercial Risk Reinsurance along the leading edge of the weather risk business. Commercial Risk wants to drive the evolution of the weather market beyond pure commodity type products into more value-added covers.

Managing Director of Commercial Risk Capital Markets Christopher J. Phelan will discuss the new approach during the RIMS (Risk and Insurance Management Society, Inc.) Conference in Atlanta. Mr. Phelan is a speaker in a Wednesday afternoon session, "Don't Let it Rain on Your Parade (Weather Hedging)".

Christopher J. Phelan

Commercial Risk Capital Markets (CRCM) is a division of Commercial Risk formed in May 1999 to take advantage of business opportunities arising out of the convergence of insurance and financial markets.

Sophisticated in-house modelling has required the use of a former NASA scientist with a PhD. in climatology, a quantitative analyst/actuary, a theoretical physicist with a Ph.D. and a former NASA programmer involved in collecting massive amounts of global climatic data from satellites.

The required expertise relates to the building and maintaining of new proprietary computer modelling systems specifically designed for the weather market.

CRCM is leveraging a core competency in valuing, hedging and managing weather risks, and taking a portfolio management or investment management type of approach. It is a departure from just selling options or insurance.

"In our industry, we take a different tack than most," said Graham Pewter, President and Chief Executive Officer of Commercial Risk Partners Limited, the holding company of the Commercial Risk Group.

"At one point, we were the only industry participant willing to *buy* and sell risk. Most, or all, of the others would only sell options, which was analogous to selling reinsurance capacity, which we found severely limiting, and didn't understand why anyone would do that."

A top insurer and reinsurer in a quickly growing nascent market, Bermuda-based Commercial Risk is a very visible player. They add value to contracts by modelling other risks that insureds would be exposed to, creating a more integrative cover. By attaching addi-

■ *continued page 8*

Risk Managers have captive class

The Bermuda Insurance Institute (BII), in conjunction with the Bermuda insurance industry, has been raising the level of awareness about the principles of captive insurance among risk managers through the use of a traveling "Captive Classroom".

The BII has created a schedule, criss-crossing the US, and making tailor-made presentations to individual RIMS Chapters in an effort to enhance their understanding of the captive management concept as an effective risk management tool.

The Institute's Director of Information Services, David Fox, said that while many risk managers are aware of the value of diversification in the management of risk, there is an increasing interest in the details of how captives can be applied to their specific businesses.

One of the key presenters is Jonathan Groves, assistant vice president with Marsh Management (Bermuda) Ltd.

He said, "This program has proved to be a beneficial forum

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Leading executives earn BII awards

The Bermuda Insurance Institute and Bermuda market luminaries have honoured two leading lights of Bermuda's successful insurance industry at a gala banquet at the Fairmont Hamilton Princess Hotel.

James N. Stanard, Chairman, President and CEO of RenaissanceRe Holdings Ltd. was presented with The 2000 Bermuda Market Leader of the Year Award and industry icon, Brian Hall, was named as the recipient of The Lifetime Achievement Award.

Mr. Hall, who spent more than 40 years in the Bermuda insurance industry, also chaired the influential Insurance Advisory Committee for 13 years and founded the Bermuda Foundation for Insurance Studies, to assist Bermuda students in insurance studies.

The Market Leader of the Year Award is conferred upon individuals who distinguish themselves during the course of the year, and accomplish something extremely extraordinary.

Mr. Stanard has been described as one of the brightest minds in the reinsurance industry. Over the past year, he led a company that strengthened appreciably as other global insurers suffered through share price declines and soft market conditions.

Lifetime Achievement Award recipient Brian Hall (left) and Market Leader of the Year Award recipient Jim Stanard flank BII President Rees Fletcher

The Lifetime Achievement Award is presented to individuals from the insurance industry who have distinguished themselves over the course of their careers. Mr. Hall is President of Inter-Ocean Management Ltd., which has been involved in company management and general consulting.

After running one of the most successful captive management companies of its time, he sold the business of Inter-Ocean Management to Johnson & Higgins in 1969, and became the first non-American director of J&H.

He presided over the Insurance Advisory Committee at a time when Bermuda was rapidly developing a major insurance center. He also served more recently as Chairman of the Board of Governors of the Bermuda College.

The BII has used a broad-based panel of representatives from leading organizations in international business, education and journalism to make the selection.

The selection committee included representatives from Business Insurance, the College of Insurance, the Bermuda Insurance Management Association, the Bermuda Independent Underwriters Association, the Insurance Brokers Association of Bermuda, daily newspaper The Royal Gazette, and the BII.

The prestigious awards were presented by the BII for the first time two years ago to recognize the contributions of individuals whose initiative and leadership set them apart from their industry peers.

Goldman Sachs' Arrow Re has rating affirmed

Fitch has affirmed Arrow Reinsurance Company Limited's (Arrow Re) 'A+' insurer financial strength rating. The Rating Outlook is Stable.

The Bermuda-domiciled reinsurance company is a wholly owned subsidiary of The Goldman Sachs Group, Inc. (Goldman Sachs), a New York-based investment banking and asset management company. Fitch's long-term rating on Goldman Sachs is 'AA-'.

A capital support agreement exists between Arrow Re and Goldman Sachs. This agreement requires Goldman Sachs to maintain Arrow Re's net worth at $1 million, subject to a $1 billion cap. Fitch believes that this cap exceeds Arrow Re's near-term risk exposures by a significant margin. Fitch also believes that this capital support agreement provides Arrow Re with a significant amount of contingent-capital and that it offsets the company's modest stand-alone capitalization.

Fitch's rating on Arrow Re continues to reflect Goldman Sachs financial strength and explicit support coupled with Arrow Re's sound underwriting policies and controls.

Fitch's rating also reflects its belief that Arrow Re is closely linked to Goldman Sachs from both a risk-management and a marketing perspective. Partially offsetting these positive factors is uncertainty associated with the company's brief operating history.

Arrow Re's objective is to facilitate insurance-related risk securitizations and to provide reinsurers with access to capital markets. The company employs a 'matched book' strategy where it first accepts and then hedges different forms of risks via reinsurance contracts or swaps and securitizations, and earns a spread based on the risk it retains.

Retained risks might include credit risk, basis risk or risks associated with differences in contract language.

Fitch believes that Arrow Re benefits from Goldman Sachs' significant capital markets expertise. Goldman Sachs has played a significant role in the recent convergence of the insurance and capital markets by structuring and underwriting insurance securitizations.

Fitch believes that Arrow Re's ability to leverage this expertise provides it with competitive advantages that may be difficult for competitors to achieve.

While the market for insurance-linked securitizations has grown rapidly in recent years it is still quite small compared to the traditional reinsurance market.

Fitch believes that Arrow Re's near-term business development is linked strongly to the size and health of the insurance-linked securitization market.

XL gets critical mass

XL Capital Ltd intends to complete the purchase of Winterthur International for about $600 million by the second quarter of the year, in a deal that will bring it a large, global commercial insurance business.

XL is using current resources to buy, in an all-cash transaction, the business from Winterthur Insurance, a subsidiary of the Credit Suisse Group ("CSG").

Winterthur International is a large, international commercial account property and casualty insurance business, which operates in 27 countries, has a staff of more than a thousand. In 2000, it had gross written premiums and net earned premiums of approximately $1.3 billion and $600 million, respectively.

In terms of premium volume, Winterthur International's top five markets are the UK, Switzerland, Germany, the US and France. Other significant markets include Italy, Belgium, Denmark, Hong Kong, Japan and the Netherlands.

As of September 30, 2000, Winterthur International (including certain operations to be retained by CSG) had investment assets of approximately $1.9 billion and net loss reserves of approximately $1.0 billion.

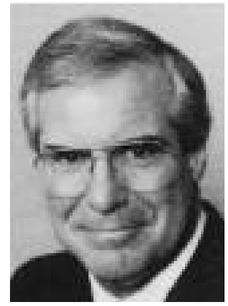
XL will be purchasing a combination of insurance companies, including Winterthur International Insurance Company based in the United Kingdom, Winterthur International in Switzerland and Winterthur International America Insurance in the United States, and selected Winterthur International insurance portfolios.

Additionally, XL intends to continue Winterthur International's strategic alliance with Travelers Insurance for the production of global solutions for their multinational customers.

XL President and Chief Executive Officer Brian M. O'Hara said: "We believe our purchase of Winterthur International's global risk management business will provide XL with a superior franchise and the capability to serve our large commercial customers on a truly global basis. This will result in expansion of our core risk management business, which we expect will further complement our other insurance operations.

"We are acquiring a high quality underwriting business known for its client servicing capabilities. We believe that this will give us the opportunity to leverage the XL and Winterthur International franchises, creating a powerful combination that gives us added global reach and critical mass with very little overlap with our existing insurance operations.

"Our customers will benefit from the service capabilities of our global infrastructure across all lines together with more products and solutions to help manage the risks of their business."



Brian O'Hara

Credit Suisse Financial Services and Winterthur Group Chief Executive Officer Thomas Wellauer said: "Winterthur International is one of the leading insurers in total risk management for large national and multinational corporates and XL Capital provides an ideal environment for this business."

Nicholas M. Brown Jr., XL's Chief Executive for Insurance Operations, said: "The addition of Winterthur International's business and strong management team will increase the gross written premiums of our insurance division to approximately $3 billion. This is a significant strategic expansion for XL.

"We are pleased that Willi Suter, the Chairman and Chief Executive Officer of Winterthur International, has agreed to lead our new global risk management operation.

We are also pleased that Clive Tobin, Chief Executive Officer of XL Insurance in Bermuda, will become Deputy Chief Executive Officer and Chief Underwriting Officer of this new unit. After the transaction closes, XL intends to change the name of the unit to "XL Winterthur International."

Captive options continue to develop

J. Oliver Heyliger

In an age of captive development when risk management specialists are learning to get even more out of their captive insurance companies, a substantial amount of financial institution customer-related business is increasingly being found in captive programmes.

Bermuda-based captive manager J. Oliver Heyliger, Managing Director of Willis Management (Bermuda) Ltd., said that includes credit life, health and disability reinsurance.

He added, "Private mortgage insurance and payment default insurance larger loans are also newer products. And in other developments we are seeing captive profits being used to fund risk management initiatives, such as loss prevention studies."

Mr. Heyliger, who has been in the captive business for 23 years, said that with the emergence of segregated accounts companies and special purpose vehicles, there will still be continued growth in the traditional captive market. But he said service industries are using captives more than firms in the manufacturing industry.

Standard captive insurance companies promote control and flexibility in risk management, while focusing on identifying risks and providing an additional profit centre.

Willis has more than 200 captives, 30 of which are managed through the Hamilton, Bermuda office.

Mr. Heyliger noted: "Some of our captives under management have been formed primarily to access the reinsurance market, and are therefore making good use of it. The inwards programs written by the captives in these instances are direct.

"With fronted programs, it is administratively easier for the fronting company to keep the exposure. It eliminates the reinsurance bad debt exposure from the captive and simplifies tax (deductibility) calculations for US captives. In many cases the front company also buys reinsurance, so there is continued utilisation of the reinsurance market."

Bermuda market grows at top end

Global market forces had limited impact on the Bermuda Insurance Market's overall performance for the year 1999, as premium levels, total assets and capital & surplus in the industry showed modest growth.

New figures released by the Registrar of Companies - representing an updated and final analysis of the preliminary statistics reported in the Bermuda Insurance Update Winter 2001 edition - show Bermuda's market growth came at the high end, and was characterised by developments with larger companies.

Robert Steinhoff

As was anticipated internationally, competitive pricing pressures continued although to a lessening extent, but the statistics reflect a Bermuda market that continues to resist pressure to chase rates downward.

The focus has been on maintaining strong balance sheets and managing company assets with a conservative investment philosophy. This is reflected in a thirteen percent increase in total assets from $116.4 billion to $131.6 billion, and a six percent rise in capital and surplus from $51.2 billion to $54.4 billion.

Overall, gross premiums written grew to just over $30 billion and net premiums increased twelve percent from $21.2 billion in 1998 to $23.8 billion. Underwriting restraint and continued security remained a strong focus of the Bermuda market as the latest statistics point to an industry-wide premium to capital and surplus ratio of 0.44 to 1.

It is also apparent from the statistics that the Island's captive insurance business, as reflected generally by Bermuda's Class 1 and Class 2 companies, experienced a contraction in the volume of business written in 1999.

This was due in part to the re-registration of some of these companies into Class 3, and buyers continuing to seek out cheap commercial capacity that was prevalent in the traditional markets as an alternative to using their captives. The combined net premiums written of the two classes declined to $3.8 billion, while their combined assets finished the year at approximately $39.4 billion, up nine percent from 1998.

Registrar of Companies, Jeremy Cox stated that: "Bermuda insurers continue to grow at a modest rate and appear committed to expansion, while maintaining underwriting discipline. The Bermuda market even through challenging conditions has demonstrated an ability to shift resources strategically to benefit from opportunities that may exist in other major markets."

Chairman of the Insurance Advisory Committee, Robert Steinhoff, illustrates the Bermuda insurance industry as: "a market which continues to out-perform competitive markets."

Mr. Steinhoff asserts that: "Bermuda's Insurers, with their strong balance sheets, are well positioned to capitalise on the improving rates currently being experienced in the global reinsurance market.

Another significant aspect of the Bermuda market in 1999 was the growth of the Class 3 sector of the market. Under Bermuda's multi-licence system of regulation, Class 3 companies include finite risk reinsurers, rent-a-captives, agency captives, commercial carriers and captives deriving more than 20 percent of net premiums from unrelated risks.

During the year, the capital and surplus of Bermuda's Class 3 companies rose by $2.3 billion to finish at $24.3 billion, up ten percent on the $22 billion recorded in this category in 1998.

The balance sheets of Bermuda's Class 4 excess liability and property catastrophe reinsurers were impressive, even with the high frequency and severity of catastrophic events in recent years.

Total assets increased by nine percent to $23.6 billion from $21.7 billion in 1998, while capital and surplus declined slightly to $10.2 billion from the 1998 figure of $11 billion.

Gross premiums written increased by $1.6 billion, up 59 percent from the $2.9 billion written in the previous year, and net premiums rose 43 percent to $3.3 billion. This growth reflects the initiatives of certain companies to expand geographic coverage and diversify products. Bermuda's Class 4 insurers remain some of the best-capitalised companies in the world with a premium to capital and surplus ratio of 0.32 to 1.

Jeremy Cox

Assets for long-term insurers moved 114 percent higher to $9 billion, from $4.2 billion in 1998, and capital and surplus for this category rose 111 percent from $0.9 billion to $1.9 billion. Net premiums written increased 25 percent to $3 billion from $2.4 billion in the previous year.

Insurance incorporations keep pace

The number of international insurers in Bermuda rose to 1,564 by the end of the calendar year 2000, after 94 new companies were added to the insurance register during the year. The change represented a net increase of 26, as there were 68 removals, compared to 39 removals in 1999.

Some 38 percent of new formations - the largest single category of new companies for the year - were Class 3 companies. They typically comprise rent-a-captives, finite reinsurers, reinsurers writing third party business, insurers writing direct policies with third party insureds and captives deriving more than 20 percent of their net premium income from unrelated risks.

Class 1 and Class 2 company formations comprised 17 and 20 percent, respectively.

The continued growth in the professional insurance and reinsurance sector is attributable to a sustained level of high interest in the Bermuda market and the continued development of the Island's commercial insurance industry.

Nearly half of the new companies formed were captives. Brazil, Norway, The Netherlands, South Africa and France were among non-traditional sources of new business, although the US and existing Bermuda insurers continue to be the source of new business.

BFIS boosted by increased pledges

The fundraising efforts of the Bermuda Foundation for Insurance Studies (BFIS) have received a boost, with donations from two Bermuda companies.

Commercial Risk Reinsurance Company Limited has joined The Endowment Fund of The Bermuda Foundation For Insurance Studies (BFIS) membership and pledged to donate $50,000 over the next five years to support BFIS'Endowment Fundraising Campaign.

Commercial Risk's pledge helps BFIS to surpass $4.6 million in donations which is well on the way to achieving BFIS's goal of creating an Endowment Fund in excess of $6 million.

This amount is essential to enable BFIS to provide ongoing scholarship assistance and other support to Bermudian students planning careers in the insurance industry.

Commercial Risk is the latest in a list of Bermuda and international market companies that have been contributing to one of the largest efforts at ensuring the place of Bermudians in the Island's international insurance industry.

BFIS Chairman Brian Hall (center) thanks Commercial Risk SVP and General Counsel Chris Sposato (left) and President and CEO Graham Pewter for their pledged donation.

Meanwhile, Swiss Reinsurance Company has also doubled their pledged donations to $20,000 a year.

It was in July 1999 that Swiss Re first signed a pledge donating $50,000 to BFIS over the next five years and then in November 2000 they decided to increase those annual payments of $10,000 a year to $20,000 a year.

Dr. Scott Bradley, an actuary and Member of Senior Management of Swiss Re who sits on the Steering Committee of BFIS said, "We are most impressed with the academic achievements of the BFIS students. Their accomplishments are certainly a fitting testament to the value and success of the Foundation and demonstrate that our support is indeed warranted."

Graham Pewter, Commercial Risk's President and CEO, said, "We're are delighted to take part in this industry initiative not only by way of making a five year pledge but also through the efforts of our personnel.

"Our Senior Vice-President and General Counsel, Chris Sposato is a BFIS Trustee and an active member of the Steering Committee, and I myself, am a mentor to a young Bermudian, Wendell Hunt, who is currently studying at The College of Insurance."

BFIS's provision of scholarships for Bermudians to obtain insurance, actuarial science, and now finance, degrees, supported by their mentoring and job search programmes, not only benefits young Bermudians but also provides potential employees for our industry.

Bermuda touts convergence capabilities

Bermuda remains positioned to take advantage of the convergence of reinsurance, financial instruments and e-commerce. Premier Jennifer Smith said the Island can maintain leadership among international offshore jurisdictions for this type of business.

The Premier was speaking during a special industry briefing on the subject of convergence in London, hosted by business and political leaders from Bermuda. The event was led by the Premier and Chairman of the Bermuda International Business Association, Raymond Medeiros.

Two of the most recent innovations in the Bermuda market-place were cited as examples of the convergence of the insurance market and alternative asset management. Max Re recently partnered with Moore Capital to blend elements of reinsurance risk transfer with hedge fund strategies.

Premier Jennifer Smith

And The Imagine Group is an example of the convergence of reinsurance and alternative investments. Imagine is a second-generation finite-risk reinsurance enterprise, which seeks to be the leading provider of structured insurance and reinsurance capital to the global insurance marketplace.

The Premier pointed out that effective regulation and high standards of business conduct have provided opportunities for successful business operations. And she cited evidence of sound business practices in that the Organisation of Economic Co-operation and Development (OECD) excluded Bermuda from its "blacklist", a register of what the OECD called harmful tax jurisdictions.

A new web site, www.bermudaconvergence.com, has been launched as part of a campaign to highlight the innovations occurring in Bermuda. It lists service providers and highlights case studies on risk transfer, including captives, while also noting alternative investments such as hedge funds and the continued development of e-commerce opportunities on the island.

ACE builds on outstanding year

In a landmark year to December 31 for diversified insurer and reinsurer ACE Ltd., the company strategically positioned itself for the changing market climate.

Commenting on the ACE Group's outstanding year, Brian Duperreault, Chairman and CEO, said, "We set new records in virtually all financial categories and achieved our goals of integration, expense control and increased profitability. With the improvement in industry conditions accelerating, I am pleased that we are beginning the year with the wind at our backs."

Income for the year excluding net realized gains (losses) and non-recurring expenses was $582 million compared with $330 million last year and earnings per share excluding net realized gains (losses), after deducting preferred dividends, of $2.48 for the year ended December 2000 compared with $1.67 per share for 1999.

Net income was $543 million compared with $365 million for fiscal 1999 and earnings per share, after deducting preferred dividends, was $2.31 for the current year compared with $1.85 last year. The fully diluted book value per share of the company at December 31, 2000 was $23.25.

Brian Duperreault

Gross premiums written for fiscal 2000 were $7.6 billion compared with $3.9 billion for fiscal 1999, an increase of 96 percent. Net premiums written increased 96 percent to $4.9 billion compared with $2.5 billion for fiscal 1999. Net premiums earned were $4.5 billion compared with $2.5 billion for fiscal 1999, an 82 percent increase.

Net investment income, excluding net realized gains (losses), was $771 million compared with $493 million for fiscal year 1999

Net realized losses, net of tax, were $39 million, compared with net realized gains of $42 million for fiscal 1999.

Gross premiums written during the December 31, 2000 quarter increased by 19 percent to $1.6 billion, compared with $1.4 billion for the comparable quarter in 1999. Net premiums written during the quarter were $1 billion compared with $852 million for the same period in 1999. Net premiums earned were up 15 percent to $1.1 billion from $947 million for the same quarter in 1999.

Net investment income, excluding net realized gains (losses), was $209 million for the fiscal 2000 fourth quarter, compared with $159 million for the same period last year.

During the fourth quarter, ACE had net realized losses, net of tax, of $50 million, compared with net realized gains of $53 million for the same quarter in 1999.

XL Capital prepared for changing market

XLCapital Ltd weathered fourth quarter catastrophe claims, reported a half billion dollar profit and re-named its principal reinsurance units under the strong XL brand.

XL's Bermuda-domiciled reinsurance subsidiary, XL Mid Ocean Reinsurance Ltd, has changed its name to "XL Re Ltd" and XL's US reinsurance subsidiary, NAC Reinsurance Corp., will be re-named "XL Reinsurance America Inc.", subject to obtaining regulatory approvals.

XL President and Chief Executive Officer Brian M. O'Hara said: "The use of the XL Re banner for our reinsurance businesses marks a further refinement of the global branding strategy we introduced two years ago. This latest initiative also further implements measures announced last summer when we realigned our operations around three core business activities: Insurance, Reinsurance and Financial Products and Services.

"It is important that we continue to leverage the considerable goodwill enjoyed by the XL name and adopt a uniform approach that will help facilitate the development of a series of global XL brands."

Chief Executive of Reinsurance Operations for XL, President and Chief Executive Officer of XL Re Ltd, Henry C.V. Keeling, said: "The re-branding is a logical step which we believe gives us a common global identity and underwriting culture. We expect that this will avoid fragmentation and help us develop further our strategic vision."

XLCapital incurred one-time fourth quarter charges of $124.6 million, announced in October, which include reserve adjustments, together with employee severance charges, and other costs associated with the realignment of operations and the discontinuance of certain business lines.

Mr. O'Hara said, "Most of the property-casualty markets in which we operate have now seen improvement in pricing and policy terms and conditions. There will, however, need to be a continuation of these improvements for some time in order for the industry to fully recover from the prolonged competitive downturn that has impacted on most companies'results over the past several years. We believe that our strong balance sheet allows XL to fully participate in the recovery of the global insurance and reinsurance marketplace."

Net income, after one-time charges, was $506.3 million, or $4.03 per share for the year ended December 31, 2000 compared with $470.5 million, or $3.62 per share, for the year ended December 31, 1999.

For the years ended December 31, 2000 and 1999, total revenues were $2.7 billion and $2.5 billion, respectively.

For the year ended December 31, 2000, gross premiums written were $3.1 billion compared with $2.4 billion in 1999. Net premiums earned were $2.0 billion in 2000 versus $1.8 billion in 1999.

Total assets at December 31, 2000 were $16.8 billion compared with $15.1 billion at December 31, 1999. Shareholders' equity was $5.6 billion at December 31, 2000 and at December 31, 1999. Fully diluted book value per share at December 31, 2000 was $44.78 compared with $43.13 at December 31, 1999.

During 2000, the Company repurchased 5.1 million of its shares at an average price of $48.82 per share of which 0.2 million were repurchased in the fourth quarter.

RenaissanceRe has record results

Shareholders' equity in RenaissanceRe Holdings Ltd. grew by nearly 17 percent in the year to December 31, 2000, as the company reported another very successful year.

Net income for the twelve months was $127.2 million or $6.50 per share, compared to $104.2 million or $5.05 per share for the same quarter in 1999.

Net operating income was $134.4 million or $6.86 per share compared to $120.0 million or $5.82 per share for the same quarter in 1999.

James N. Stanard, Chairman, President and CEO commented: "Fiscal 2000 was another outstanding year for RenaissanceRe. Operating earnings grew 18% per share to their highest level in the company's history and the 21% return on equity we recorded put us at the forefront of our industry in terms of productivity for shareholders for the eighth year in a row."

"Significantly, the 40% growth we achieved in Managed Cat Premium solidifies our position as one of the world's largest underwriters of treaty cat excess business. A successful January renewal season provides us with a very attractive portfolio of catastrophe reinsurance in 2001, leading us to expect another year of excellent performance.

"We are comfortable with Street expectations for the year, assuming normal loss activity." continued Stanard.

"In addition, we are especially gratified to have been one of the few companies in our industry to receive an upgrade to A+ from A.M. Best earlier this month. We see this as an important recognition of our operating success."

Gross premiums written were $433.0 million compared to $351.3 million for the same period of 1999. Net premiums written for the twelve months ended December 31were $293.3 million compared to $213.5 million for the same period of 1999.

Total Managed Catastrophe Premiums written for fiscal year 2000 were $397.0 million compared to $284.0 million for the same period of 1999.

Net investment income for the twelve months of 2000 was $77.9 million compared to $60.3 million for the same period in 1999.

Claims and claim expenses incurred for the twelve months ended December 31, 2000 were $108.6 million or 40.6 percent of net premiums earned. In comparison, claims and claim expenses incurred for the twelve months ended December 31, 1999 were $77.1 million or 34.9 percent of net premiums earned.

The increase in the loss ratio primarily relates to the increase in non-catastrophe reinsurance premiums written by the Company, which typically produces a higher loss ratio than the Company's principal product, property catastrophe reinsurance.

Shareholders' equity at December 31 was $700.8 million, compared to $600.3 million at December 31, 1999. Book value per common share at year end was $35.72 per share, compared to $30.50 per share at 1999's year end.

For the year, the Company repurchased 671,900 shares at a total cost of $25.1 million under its share repurchase program. No shares were repurchased during the fourth quarter.

Also during the fourth quarter, the Company repaid $200.0 million of bank debt and repurchased $2.0 million of its Capital Securities.

RIMS Risk Managers have captive class

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in which to discuss the financial advantages of utilizing a captive in numerous ways, whilst also giving attendees the opportunity to see how Bermuda measured up against other captive domiciles.

"As these are very much educational forums and discussions, attendees have a true opportunity to ask questions in a non sales environment from those who actually work in the field.

"We answer a variety of questions relating to how much capital is required and what the benefits are of structuring such a program, to note just a couple of examples."

Bermuda has been the pioneering domicile for captive insurance since the idea's conception in the late 1960's and has the most captive management expertise of any of the increasing number of captive jurisdictions. The largest global captive management companies have their head offices in Bermuda, which remains the largest captive domicile.

The BII has leveraged that expertise, taking executives directly to meetings of RIMS Chapters, to provide insight for risk managers on this strategic risk management tool.

Said Mr. Groves, "In our sessions we have RIMS members who have been operating captives for a number of years, as well as those who simply wish to know more about this interesting subject. Clearly, people are considering the hardening market and how captives address certain issues that arise from it."

Jonathan Groves

Captive management companies provide a variety of services to their clients, often custom made to meet the needs of captive owners. Bermuda's captive managers have created innovative products and services to meet client needs.

Examples include a program centrally administered from Bermuda for multinational companies who wish to control global exposures through one "master" program. The Bermuda company handles all the premium collections, claims payments, local policy issuance and reinsurance and accounting documentation. This service is provided via captives, rent-a-captives and Deductible Funding Programs.

A second example utilizes a reinsurance pool for a manager's captive clients in response to clients' interest in diversifying their captives' underwriting by assuming unrelated risks. The pool is a mechanism to assume and cede premiums and losses among a group of participating captives of their liability premiums and losses.

Other new uses for captives continue to evolve, including use as transformer companies to expand risk capacity by converting insurance exposures into derivative and other financial products and vice versa. Captives are also re-emerging as profit centers for customer business of financial institutions and other service companies.

Ex-NASA experts help mitigate weather risks

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tional branches onto these "trunks" of skills, CRCM can offer problem-solving integrated solutions to clients.

In addressing their business risks, clients sometimes have to take into account a number of issues, including accounting treatment, regulatory constraints and tax treatment.

By helping them understand their own portfolio of risks and the alternative ways to hedge, or insure those risks, CRCM adds significant value for their clients. They provide flexibility in contract structure and documentation that optimally solves problems, rather than pre-packaged, mass-marketed standard products.

CRCM is optimally constructing their portfolio of risk, measuring the risk and actively managing the risk through the use of over-the-counter derivative contracts and reinsurance agreements. The technology not only allows them to add significant value to a client's business, but concurrently provides for profitable transactions.

"As an example of such structuring capabilities," said Mr. Phelan, "CRCM recently met with a client who controls citrus groves in Florida. The client has exposure to freezing temperatures, and that impacts the quality and volume of his fruit. This weather exposure, however, is quite expensive to insure on its own, as the recent winters have proven extremely volatile.

"The client estimates, however, that if a serious freeze does occur, he will be able to sell his reduced crop at higher prices and reduce his expected loss. The grower's real risk then, is that there is a serious freeze and the market price for his remaining citrus crop is the same or lower. By embedding the price response aspect into the cover (creating a dual trigger), CRCM is able to more accurately and economically address the client's risk."

"There are a lot of double trigger programmes discussed and modelled, but not a whole lot of them are actually sold," Mr. Pewter said. "One of the things closely linked to what Commercial Risk Capital Markets is doing in the weather business is our interest in selling integrated risk products, which can actually mean the integration of anything.

"Classically, it meant the integration of fortuitous risk with some sort of financial risk, such as rates of foreign exchange or commodity prices for example. But here you are combining multiple triggers where neither has to be a fortuitous risk.

"It's another example of the convergence of financial markets and insurance. We are moving toward being willing to look at multiple triggers and underlying exposures which don't have to include a classic insurance risk."

Commercial Risk, a wholly owned subsidiary of SCOR, is a specialist insurer and reinsurer that underwrites an international portfolio of business through operating subsidiaries in Bermuda, the United States and Luxembourg. A leading participant in the Alternative Risk Transfer market, Commercial Risk's clients are corporations and insurers who seek alternatives to traditional insurance and reinsurance mechanisms in order to manage risk.

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Name______________________________Position_____________________

Company____

Address____

For more on the Bermuda insurance market call the Information Office: (441) 292-9829

News in brief

• A.M. Best Co. has affirmed the A+ (Superior) financial strength rating of **XL Capital Ltd**., and its group members and has assigned an "a" rating to existing senior debt of NAC Re Corp., an intermediate holding company.

The ratings reflect the group's global market capabilities, strong capitalization, sustained earnings and demonstrated success of its management strategies. These strengths are derived from the group's specialist operating strategy, disciplined underwriting approach, strong risk management capabilities and experienced management team. In addition, the group maintains a distinct competitive advantage as a Bermuda-domiciled organization given its favorable regulatory

• **Annuity and Life Re (Holdings), Ltd.** reported record results for the quarter ended December 31, 2000. Net Operating Income grew 39% to $14,584,000 or $0.53 per share, as compared with $10,357,000 or $0.38 per share for the quarter ended December 31, 1999. Net Operating Income increased 21% for the twelve months ended December 31, 2000 to $44,804,000.

Net Income was $39,987,000 for the year ended December 31, 2000. Total revenue for the twelve months ended December 31, 2000 increased 64% to $307,151,000 as compared with $187,855,000 for the twelve months ended December 31, 1999. Similarly, the face amount of life insurance in force escalated 68% to $77.0 billion, compared with $45.4 billion at December 31, 1999. Underwriting margins for our life and annuity lines were favorable.

• **Commercial Risk Reinsurance Co. Limited**, the principal operating subsidiary of the Commercial Risk Group, achieved consolidated net earnings of $25,453,000 for the year ended December 31, 2000.

Total insurance volume (whether recorded through the income statement or directly to the balance sheet) reached $719,400,000, an increase of 16% over 1999. Gross written premiums reached $626,597,000, an increase of 43% over the previous year, whilst net earned premiums rose 36% to $464,171,000.

In 2000, casualty underwriting operations were once again the driving force behind revenues with strong demand for both prospective and retrospective transactions coming from a widening group of ceding companies and brokers.