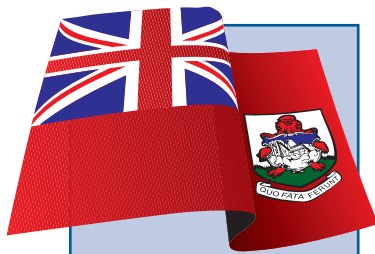


BERMUDA Insurance Update

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Bermuda mourns for WTC victims

Political and business leaders joined concerned Bermudians from all walks of life in a series of memorial services across the Island to remember the victims of the World Trade Center attack and to pray for their family and friends.

The services came as Bermuda's insurance leaders paused to condemn the senseless terrorist actions.

Weeks later, top professional executives from the Bermuda market took the stage at an investment community conference, and commented on the unnecessary loss of life by thousands of innocent victims.

ACE Limited Chairman and CEO Brian Duperreault labelled the assault "unholy", and XL Capital President Brian O'Hara called the events of September 11 "an immense human tragedy".

The annual conference, The Bermuda Angle, attracts about 150 investment analysts and senior investors, mostly from the US, who study the financial performance and financial future of eight leading, publicly-traded insurance firms that are domiciled on the Island.

But it wasn't just in business meetings where Bermuda residents gathered and found consensus in support for the victims.

The Bermuda Government, in an unprecedented move, invited heroes from the ranks of the New York Fire and Police departments to bring their families on free holidays to Bermuda.

An increasing number of American flags appeared over homes, businesses, cars and



A memorial service for the victims of the world trade center was held at the Anglican Cathedral.

trucks - a symbol of alignment with US interests - a sign too, that Americans were not mourning alone.

One of several special memorial services was held at the Anglican Cathedral of the Most Holy Trinity in Hamilton (see photo), by the two largest global brokers and captive managers, Aon and Marsh.

Both firms have significant Bermuda and global operations. Among the thousands of victims lost on September 11 were about 530 employees of the two firms, many known to the Bermuda industry.

Top executives of Bermuda's insurance community joined with the two firms in a standing-room only crowd at the Cathedral, for a

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Island (re)insurers to pay claims

The Bermuda insurance and reinsurance community will bear a significant share of the ultimate cost of the World Trade Center tragedy, ACE Limited Chairman & Chief Executive Officer, Brian Duperreault, told the Bermuda Angle Conference at the Fairmont Southampton Princess Hotel (see page 3).

Mr. Duperreault was addressing Wall Street analysts and investors during the annual two-day affair hosted by eight publicly-traded Bermuda-based insurers and reinsurers.

"It was a trial by fire for ACE and I'm proud to say we have withstood the test quite well," he

added.

Mr. Duperreault was among industry leaders who met with President Bush in the wake of the terrorist attack, telling the President that the insurance industry saw no way it could cover terrorist attacks in the future.

The September 11 event was the insurance industry's largest insured loss in history, yet the industry is still standing, he said. But prices are going up, capacity is being reduced, and there are changes in coverage, policy terms and conditions.

The industry appealed to the US Government to develop an equitable method of compensating victims and create a



Brian Duperreault

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Bermuda to lead in evolving market

During The Bermuda Angle Conference President and CEO Brian O'Hara said XL Capital Ltd. will play a leading role in the changing marketplace resulting from the September 11 disaster at the World Trade Center.

Mr. O'Hara was one of the 11 insurance and reinsurance leaders who met with President Bush and Secretary of Commerce, Don Evans, in the aftermath of the tragedy. What Mr. O'Hara described as an interesting and fruitful experience was sponsored by the American Insurance Association.

He commented: "We basically wanted to get across the need to keep litigation from becoming a feeding frenzy by trial lawyers, and the need for a mechanism to address terrorism. We found the administration extremely interested and happy that the industry would pay claims quickly, and not hide behind loopholes in coverage. I was very impressed indeed with the remarks the President shared with us for over half-an-hour."

Mr. O'Hara noted: "People want to do business with companies which have strong ratings, strong capital on the balance sheets, financial strength and a blue chip claims paying reputation - that's us!"

"There is a dramatic increase in rates in virtually all lines. But even more impor-

tantly, we expect improvements in terms and conditions, and coverage restrictions, which have long been overdue. In some cases there are paradigm shifts.



Brian O'Hara

"It's like in 1985/86, when XL came along, we changed casualty from occurrence to claims-made, and we didn't bind coverage until we received our premium. Similar types of terms of trade we would like to try to lead in the marketplace, particularly in London and Europe, where the practices have been

frankly abysmal."

XL expects to lose some \$700 million in claims to the September 11 event, arising out of a gross loss of \$1.8 billion, but after reinsurance recoveries of \$1.1 billion. The firm's reinsurer quality is strong with 96 percent graded A or better.

Said Mr. O'Hara, "Looking at the future, we plan to play a leadership role in the transformation of the market. We have the strong balance sheet to do it, and we have the talent.

"I've instructed our leaders to evaluate and prioritise our opportunities, provide capacity to the best customers and build long term relationships based on a "friend in need", and principally to put our capital where the highest, most enduring returns are."

There were signs of a hardening market before September 11, a more dramatic

hardening than many people thought. XL Capital executives were very bullish about the year-end, and the ensuing years. But the World Trade Center disasters, said Mr. O'Hara, magnified that ten-fold.

He said, "We think that the prospective profits that we will generate from insurance and reinsurance will help us fund and invest in financial products and services so it will be a strong contributor to earnings in three to five years, and moving forward."

CEO of Insurance Operations, Nicholas M. Brown Jr. said that even with increasing rates, XL subsidiary, XL Insurance, intends to have a smaller Lloyd's operation in the future, which is more focused. And the acquisition of Winterthur International will prove to be an expansion of XL's original franchise, providing an integrated global network, and established brand presence in Europe which was built on strong client relationships.

Henry Keeling, head of XL Re, XL Capital's reinsurance division, reported a near billion dollar portfolio of gross written premiums in the first half year. He said in an age of fewer, larger, better capitalised reinsurers, smaller players find it harder to compete. Mr. Keeling said XL Re is an organisation with a lot going for it, and is a significant part of XL Capital's potential profitability. XL Re is poised to become one of the world's top reinsurers over the next five to seven years.

Reinsurer set to expand 'cat' cover

While the new climate of hardening rates in cat reinsurance will bring new players into the market, they can never expect the overnight success achieved by eight cat reinsurers formed in Bermuda in 1993. That's the view given to The Bermuda Angle by Jim Stanard, Chairman, President and CEO of one of those Bermuda reinsurers, RenaissanceRe Ltd.

The legendary and lightning speed success of the reinsurance companies, which all began as mono-line catastrophe writers, before successfully pursuing more diverse futures, can not be expected to be repeated in the emerging climate, he said.

While making a presentation on his highly-rated RenaissanceRe, Mr. Stanard pointed out: "There will be billions of dollars of new capital coming into the market to support start-ups, but I think there is a difference between market conditions now and the way it was in 1993.

"Back then, everyone in the world, apart from Berkshire Hathaway, was pulling

away from the cat business. There were no existing markets that were growing into the hardening market. In 2001, there will be a severe contraction of market capacity, but I don't see the same vacuum that existed in 1993.

"In 2001 RenaissanceRe is going to grow substantially. I believe some other large, strong Bermuda companies might also grow. The highly rated existing companies have a huge advantage, by having management teams and client relationships in place.

"Today, we are writing multi-year contracts with our clients, while start-ups are writing business plans. I think it's likely that the returns that the new start-up capital will achieve, will turn out to be closer to those achieved by Lloyd's and Australian start-ups, than the successful Bermuda class of 1993."

The leading writer of property catastrophe reinsurance, RenaissanceRe Ltd. is one

of the largest writers in the world in terms of premium volume and has by far the best results.

But the company is taking bold steps to position itself in the hardening market with a new venture (see story on page 3) and an intention to increase activity at the primary level.

Mr. Stanard said, "I believe our industry leading ROE (return on equity) will continue and our earnings growth will gain momentum. And 2001 will be the ninth year in a row that we have the number one ROE of our peer group." The company expects this will rise in 2002, even with declining interest rates.

In fact RenaissanceRe is projecting a growth in gross premiums of 25 percent in 2002, over 2001 figures for its book, together with the books of joint ventures Top Layer Re and OPCat.

Mr. Stanard said the company's strategy hasn't changed from a year ago. The firm

New Bermuda reinsurers seek to fill the void

Two new Bermuda reinsurers are being formed to fill an anticipated void in market coverage arising out of the World Trade Center destruction and to take advantage of the hardening market.

A subsidiary of the world's largest insurance broker is at the centre of one venture and the global leader in catastrophe reinsurance is a driving force in the second.

MMC Capital, Inc., the private equity subsidiary of Marsh & McLennan Companies, Inc. (MMC), said their new insurance and reinsurance company, AXIS Specialty Limited, was being formed to respond to the capacity shortage in the insurance industry resulting from the events of September 11th.

AXIS Specialty is expected to be capitalized at approximately \$1 billion and to commence underwriting in Bermuda during the fourth quarter of 2001. Trident II, L.P., a fund managed by MMC Capital, will be the lead investor.

And leading cat reinsurer RenaissanceRe Holdings Ltd. is forming a new Bermuda-based property catastrophe reinsurer, DaVinci Reinsurance Ltd., initially capitalized with \$500 million, and which could be expanded depending upon catastrophe reinsurance capacity demands.

Initial investors in DaVinci Re are anticipated to include: State Farm Mutual

Automobile Insurance Company, with a \$200 million capital contribution; RenaissanceRe, targeting a \$100 million capital contribution; and other investors. RenaissanceRe and State Farm are involved in a similar venture.

James N. Stanard, Chairman, President and Chief Executive Officer of RenaissanceRe Holdings Ltd., said, "DaVinci Re will offer side-by-side participation with RenaissanceRe quotes, similar to the continuing arrangement with OPCat (a joint venture with another Bermuda reinsurer Overseas Partners Ltd.)."

"In conjunction with the OPCat and DaVinci Re managed ventures, RenaissanceRe will offer capacity of \$200 million per program from three strong reinsurers with over \$2 billion in total capital. DaVinci Re further strengthens the position of RenaissanceRe as the world's leading provider of property catastrophe reinsurance."

Like OPCat, DaVinci Re will be managed by Renaissance Underwriting Managers, Ltd., a wholly-owned subsidiary of RenaissanceRe Holdings Ltd.

Renaissance Underwriting Managers also manages Top Layer Re, another joint venture with State Farm, which has \$4 billion in capacity available for high-layer reinsurance and retrocessional coverage.

Meanwhile, the management team of AXIS Specialty will be led by John Charman as CEO and Robert Newhouse Jr. as chairman. John Charman was formerly the president of ACE International and was previously CEO of Tarquin Limited. Robert Newhouse Jr. was formerly the chairman of Mid Ocean Limited and prior to that was vice chairman of MMC.

"MMC is sponsoring the formation of AXIS Specialty in response to demand for reinsurance and insurance capacity at a time when it is most needed in the marketplace," said J.W. Greenberg, chairman and CEO of MMC.

MMC, responding to client needs, was instrumental in the creation of Bermuda-domiciled insurance and reinsurance companies, ACE Limited in 1985 and XL Capital Ltd in 1986, to provide excess liability and directors' and officers' liability coverages to corporations at a time of scarce supply. In 1992, MMC played a similar role in the establishment of Mid Ocean Limited primarily in response to a shortage of property catastrophe reinsurance.

"Trident II was established by MMC to address supply and demand imbalances in the insurance and reinsurance markets," said Charles A. Davis, vice chairman of MMC and CEO of MMC Capital. AXIS Specialty is in the tradition of previous ventures organized by MMC."

MMC Capital is a global private equity firm that serves as the investment manager to three families of funds that have received over \$2.3 billion of capital commitments.

Bermuda exposure to World Trade Center disaster

	Gross Exposure	Net Exposure
ACE Limited	\$1.74 billion	\$550 million
IPC Re	\$95 million	\$95 million
Max Re	\$5 million	\$4.25 million
Mutual Risk Management Ltd.	\$159 million	\$1.2 million
PartnerRe	\$400-450 million	\$350-375 million
RenaissanceRe	\$150 million	\$50 million
Trenwick Ltd.	\$400 million	\$100 million
XL Capital Ltd	\$1.8 billion	\$700 million
Centre Solutions Ltd.	\$50-75 million	\$50-75 million
Stockton Re	\$20 million	\$20 million
Commercial Risk	\$2.7 million	\$1.2 million
PXRE	N/A	\$30-35 million
Scandinavian Re	N/A	\$5-10 million

Mulderig heralds new era

Not only will insurance and reinsurance markets dramatically harden as a result of the attack on the World Trade Center, but there will also be a substantial shift to the Alternative Market, Chairman and CEO of Mutual Risk Management Ltd. (MRM), Robert Mulderig, told analysts at the Bermuda Angle.

Mr. Mulderig, in indicating a new era for global insurance markets, commented: "For more than five years, the growth of the Alternative Market has been stunted by unreasonably low pricing from traditional insurers.

"Business which naturally belongs in the Alternative Market because of its size and predictability of loss, had opted for risk transfer because it was priced below the insureds' expectation of loss. That subsidy provided by the traditional market is over. These risks will shift to the alternative market where they belong."

MRM began to notice a huge increase in demand in their corporate risk management business in the fourth quarter of last year.

Mr. Mulderig stated: "This segment will provide a great deal of growth for Mutual Risk over the next few years, as we occupy a leadership position in the Alternative Market where we have over 20 years of experience, and, the best team in the busi-



Robert Mulderig

ness."

The company's financial services sector is also producing strong profitable growth, climbing to nearly 40 percent of MRM's total fee income. Including acquisitions in the firm's trust businesses, fees from the Financial Services arm more than doubled in the first half of the year, but grew organically by more than 40 percent.

And Mr. Mulderig made the point: "At last year's Bermuda Angle, analysts and investors became concerned over the size of our reinsurance recoverable asset and especially the disputes which had arisen with a number of our reinsurers over their liability to reimburse us for paid claims. I think the major concern was that these disputes, which were manageable within our balance sheet, would snowball with more and more reinsurers piling on. This has not occurred. We have settled a number of disputes, and no new disputes have arisen. The disputes now number three and we feel comfortable that we will get favorable outcomes in arbitration, or settle these remaining disputes well within the reserve that we established last year."

The company raised \$112.5 million through the issuance of Senior Convertible Exchangeable Debentures in a transaction announced in April and led by XL Capital,

so that it could maintain its rating on its US insurance companies. It resulted in corporate re-structuring and an \$80-million corporate contribution to the companies.

The restructuring split the company into two parts, with one holding company owning all of the fee-based corporate risk management, specialty brokerage and financial services company. Combined, they are expected to produce some \$40 million of after-tax net income this year. Another holding company owns the specialty insurance operation.

MRM's Legion insurance Company had gross exposure to the World Trade Center destruction of about \$159 million, all but about \$10 million of which was related to aviation contracts. But all of it, save for less than \$1.2 million, was reinsured.

Mr. Mulderig said, "We continue to believe that the credit quality of our reinsurance recoverable asset is strong with the exception of Reliance on which we have a \$26.2 million exposure. Eighty percent of this asset is represented by reinsurers presently rated A or higher by A.M.Best, including captives which we manage and which secure their recoverables to us.

Lloyd's syndicates represent 12 percent of the balance. These numbers have been adjusted to include the gross World Trade Center exposure. We have exposure to 14 groups of reinsurers with balances that represent more than 10 percent of the Legion Insurance Companies policyholders' surplus on a statutory basis at June 30."

Regulators launch website

The launch of a web site this summer was the first step in making the process of doing business with the Registrar of Companies e-friendly, according to Registrar, Jeremy Cox. The interactive site, www.roc.bdagov.bm, was launched after extensive beta testing with industry partners.

Mr. Cox noted: "From your desk, at no charge, you can now reserve company names and search the company register for limited publicly available information.

"By establishing a debit account with the Registrar of Companies, you will be authorised to make various types of applications, including certificates of compliance, certified documents and tax assurances.

"The insurance community will also find good use through becoming a partner

of our e-commerce initiative, as applications can be made to extend the statutory filing period, to be granted exemptions from statutory filings and for extensions to be granted to the statutory filing deadline."

Mr. Cox said further additions to incorporate other types of applications will be made in the near future. Debit accounts may be established to facilitate the efficient processing of applications and application fees can be automatically deducted from a company's personalised account.

He added, "We have worked diligently to ensure that this site promotes the type of efficiency that will enhance the ability for you to meet the needs of your clients. It also has the capacity to grow with the future needs of this department and the

local business community. We are committed to delivering services to the community in an effective, efficient and equitable manner."

Users can review Bermuda registered companies, reserve company names, and check the status of applications pending before the Registrar. Applications can be made for certificates of compliance, certified documents, tax assurance, filing date extensions and filing extensions for statutory financial returns. Some services require payment of fees, using a debit account which must be established with the department.



Jeremy Cox

More diversification for PartnerRe

The reinsurance industry will continue to assume volatility from insurers, and for the long term, it will remain at the core of PartnerRe's business. And while the company had held on for a long time as a mono-line catastrophe reinsurer since its inception in 1993, diversification will become even more important than it has been in recent years.

PartnerRe President and CEO, Patrick Thiele, told analysts and investors at the Bermuda Angle: "Diversification, will be essential for long term stability. As we take on volatility from our clients, as we are forced to price for that volatility, it helps to have a diverse book of business by product line and by geography."

The company is moving into more of what Mr. Thiele termed "potentially esoteric" lines of business such as casualty and ART business, requiring more actuarial and related skills to be built in. The casualty business will be concentrated in the US at first, before being extended to other parts of the world.

But he said, "We will maintain our risk appetite, despite the body blow we took in September. We are in the business of assuming risk and we will continue to assume risk at approximately the same level, and in some cases at potentially higher levels."

Blessed with substantial financial resources, strong cedant and broker relationships, underwriting expertise, capacity and products expertise, PartnerRe is well

positioned in the market, going forward.

Mr. Thiele said there is reduced capacity in the reinsurance industry, because of September 11 and the likely reduction in the amount of retrocession capacity, but also because of the weak investment markets since the first quarter of 2000.



Patrick Thiele

He expects that demand will continue to increase for the firm's core reinsurance products over the short term, as a result of the reaction to the higher level of risk in the world and demands for relative stability in income statements and the need for contingent capital.

Mr. Thiele said, "This will lead to improved terms and conditions for us and it will mean improved prices certainly in the short term. And we have some reason to believe that this will not be just a spike, but will be a sustainable recovery in prices that will last for more than just one year."

PartnerRe expects net written premium growth in 2002 to exceed 25 percent, on top of very strong growth in 2001.

The CEO said, "We need to price our business in the underwriting year 2002 to achieve across our book a combined ratio of the low to mid-90s, which on our book of business and given our investment

income parameters, will yield return on our GAAP equity, on a calendar year basis, in the high teens for 2002.

"It is very likely that the second half of 2002 will be stronger than the first half, due to the obvious impact of the potentially lower investment income of the first half of the year, which will then be overwhelmed by the earned premium effect in the second half of the year.

"One of the advantages we do have in returning to more normal, or even above normal, levels of profitability, is that our product mix is more likely to respond quickly to potential price increases, and has the ability to earn back losses more rapidly than a different mix."

"Size matters. You'll have to have more than a billion dollars in capital and that number will probably gradually increase over the next few years. Relationships matter. Long term relationships are a very efficient way of doing business.

"We obviously in the short term need to respond to opportunities, but our first business will be our relationship business. Then over time, public policy considerations will increase. We believe those considerations will be more evident on the insurance side than the reinsurance side.

"We believe there will be some move towards de-regulation of the insurance industry, while we expect that the reinsurance industry will stay relatively de-regulated, and the home of last resort for volatility."

Bryce: 'Reinsurers must sharpen their pencils'

There will be many changes for the insurance and reinsurance industries, going forward from the September 11 terrorist attack. President and CEO of IPC Holdings Ltd., James P. Bryce, said one key area will be the need for most companies to take a more fundamental approach to risk assessment and risk management.

He said, "We have always been wary of the use of PML's in reinsurance buying, and it's time that insurance companies realise the inherent dangers in placing so much reliance on probable maximum loss (PML), without undertaking a detailed review of the potential risks.

"We have also been cautious of the over-reliance of models in the reinsurance underwriting process. And the limitations of models has once again been cruelly demonstrated. As we have said, models do have a place in reinsurance pricing, but their output should always be over-laid with a layer of common sense.



Jim Bryce

"Recognition must now be given to the fact that there can be significant correlation of risks from different classes of business, arising from a single event. There is going to be a further reduction of capacity in many lines of business. Much of the capacity reduction will be voluntary withdrawal, while some of it will be involuntary.

"As a result of the reduction in market capacity, combined with potentially greater demand for reinsurance, the hardening market that we have already been experiencing for the first part of 2001, will defi-

nately continue into 2002, and beyond".

IPC's main subsidiary, catastrophe reinsurer IPC Re, has an experienced management team and a strong financial position.

The company remains optimistic about its success in the evolving new marketplace, and feels its conservative but prudent business strategy, which included a disciplined risk management approach and a concentrated focus on cat reinsurance, has been validated.

IPC wrote business on an excess-of-loss basis, which normally exposes the company to severity of events, rather than frequency. The company strives to obtain geographic diversity as the most effective way to best leverage capacity, and at the same time spread the risk to which it would be exposed. The firm controls the overall amount of risk to which it can be impacted from a single major event, by keeping strict limits on zonal aggregates of

Max Re gears for market change

Max Re anticipates new opportunities in the market for enterprise risk financing for large corporate buyers of insurance in the immediate future, especially with the current environment of a hardening market.

The specialised reinsurance company offers customised risk transfer alternatives in both the life and annuity and property casualty markets. Less than two years old, it brings a clean balance sheet to the emerging marketplace - unencumbered capital and fresh ideas in risk solutions.

Max Re President and CEO Robert J. Cooney, told Bermuda Angle delegates that many large buyers will be faced with such massive rate increases and coverage exclusions, they will be forced to consider self insurance.

He said his company is well-positioned to offer something more palatable to such buyers that is in the middle - that avoids the large rate increases, but also avoids the increased volatility and is more tax effective than self insurance, while focusing on earnings protection.

He said, "Somewhere in the middle is a structured product that involves risk financing. We feel we're in a good position to service that niche market."

During the 18 months of operating, the company has focused equally on property and casualty reinsurance, and, life, disability and annuity reinsurance, writing some \$450 million worth of business for each of the two lines in about a dozen deals.

Mr. Cooney said, "Going forward, I would predict that our p&c business will be much more robust for a number of rea-

sons. Business will probably shift to perhaps being more two-thirds (p&c), one third - at least in the next year or two, given the opportunities and profit potential we see between the two businesses."

He said the company has already become recognised as a leader in providing customised risk management solutions to other insurance companies, reinsurers and even large corporations. The ART market that the firm views as its core business is growing

dramatically, and will continue to grow even more dramatically in the months and years ahead, given what will happen with capacity and pricing in the market place.

He said, "We have taken a very integrated approach to the two key business dimensions of any reinsurance or insurance companies, which are consistent, conservative, focused underwriting and a sophisticated approach to the asset side - the assets that support those liabilities.

"We really believe that those two businesses should be underwritten in concert. Our focus on asset management is probably a lot more proactive and sophisticated than many companies that take a more passive fixed income approach - a little bit of equity strategy on the asset side.

"We have taken a very diversified approach with allocations to an array of different strategies, which we think will give us an equity-like return over time, but with bond-like stability.

"We think the industry trends couldn't be

better in terms of timing to have a well-capitalised company with essentially no prior liabilities that could compromise our balance sheet in our ability to write products, going forward. The demand for our products is robust and we predict that it will even increase."

Mr. Cooney said, "Traditional reinsurers perceive core business to be taking long liability risks and hopefully getting paid at a break-even level, or ideally above that, although it doesn't happen too often. Combined ratios are typically not below 100 percent.

"They take most of the risk on the liability side. The asset side tends to be fairly passive, aimed at preserving capital. They predominately use fixed income instruments, perhaps a little bit of long equity exposure and that usually introduces more volatility than some companies may like.

"We look at it this way: where do you get paid the most to take a unit of risk? Up until now, we believed that we would get paid to distribute the risk across the enterprise a little more evenly. That is, dial down the underwriting risk by using structured, finite techniques - cap limits, avoid the catastrophe, avoid the downside surprise. But garner assets in which we can employ a well-diversified, low risk asset strategy, but with the potential of giving out higher returns over time.

"Hence we believe in a well diversified allocation strategy, looking something like 60 percent very high quality, short duration bonds, and 40 percent in a well-diversified asset strategy, incorporating a number of non-correlating strategies.

"It gives us the best risk return dynamic as a reinsurance underwriting entity."



Robert Cooney

In brief...

A member of the Centre Group and Tufton Oceanic have completed what is believed to be the first collateralized debt obligation (CDO) comprised entirely of high-yield shipping bonds. The \$50 million CDO, Shipping Bond Fund Ltd., is unique due to its size and the fact that it selected assets solely from a select group of shipping industry bonds with high asset coverage ratios.

...**XL Capital Ltd** and Les Mutuelles du Mans Assurances Group were discussing terms under which XL would acquire a 67 percent controlling interest in Le Mans Ré, the joint venture reinsurer formed by XL and MMA in 1999.

...**Sovereign Risk Insurance Ltd.** has issued two political risk insurance policies in connection with a capital markets transaction covering a two-tranche Yen and US Dollar-denominated notes issue by Banco Itau. The policies were issued in support of an aggregate amount of US\$350 million of notes, US\$250 million equivalent of which was denominated in Japanese yen. The notes are general unsecured and unconditional obligations of Banco Itau. The issue represents two "firsts" for Brazil -- it is both the first unwrapped A-rated deal and the first subordinated bond offering in Brazil. The 10-year political risk insurance policies cover up to 18 months of interest payments on the notes against the risks of currency inconvertibility and currency nontransfer.

...**RenaissanceRe Holdings Ltd.** has sold in a public offering, 2.5 million of its Common Shares pursuant to the company's currently effective shelf registration statement. The shares are being offered at a public offering price of \$94.30 per share. The net proceeds to RenaissanceRe are expected to be approximately \$233 million.

...**PartnerRe Ltd.** has filed an SEC shelf registration statement relating to a proposed offering of up to \$400 million of securities.

...**XL Capital Ltd's** financial guarantee insurance subsidiary, XL Capital Assurance Inc., has received an Aaa financial strength rating from Moody's Investors Service. XLCA already has triple-A ratings from Standard & Poor's Ratings Services and Fitch, Inc.

Bermuda mourns for WTC victims

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moving, non-denominational service. Scripture readings by senior Bermuda staff from Aon and Marsh were merged with prayers from a number of faiths, including Catholics, African Methodist Episcopal (A.M.E.) and the Islamic community of Bermuda.

No one could deny the brutality, the unfairness and the cowardice of the attack, nor fathom the malice behind such a cold, calculating plan.

Canon Keith Wassall called the terrorist act "one of the greatest tragedies of our modern world".

He said the thoughts, prayers and concerns of Bermudians reach out "from this small Island across the seas to sur-

round those who mourn, and we do so with our compassion and our care."

The candlelight memorial service included the congregation's recital of the International Prayer for Peace.

Canon Wassall said the special prayer was a sign of our friendship with the victims' friends and families and many others who have been so affected as a result of that terrible day.

Mourners also grieved for two Bermudian victims, as freedom-loving people sought to come to grips with a terrorist mind-set that would commit such murderous acts.

Canon Wassall said, "The senseless horror of those actions are still hard for

many of us to believe and digest, despite the vivid illustrations that continue to move across our television screens."

He added, "As members of the Marsh and Aon families, many of you may have known some of those who were killed or whose fate is still unknown.

"They were your colleagues as insurance and reinsurance brokers, as accountants, as lawyers and people in computer services.

"They, like you, belonged to a world wide family that stretched around this great globe.

"Today, we gather to remember them and to honour them and their contribution to life and to your respective companies and industry."

Bermuda insurers to pay claims

■ continued from page 1

Government sponsored pool of funds to be ready in the event of future acts of terrorism.

ACE expects gross losses out of the World Trade Center catastrophe of \$1.74 billion, which translates into \$550 million, net of \$1.1 billion in reinsurance and a \$90-million tax benefit. Two thirds of the loss will come out of the company's Bermuda operations, including ACE Bermuda and ACE Tempest Re.

But ACE's run-off business should be largely unaffected and the company is expected to fully participate in the hardening insurance and reinsurance markets.

CFO Chris Marshall said the event

came in a quarter in which the company spent \$130 million repurchasing two percent of its issued shares and paid \$40 million in dividends. This came after some 18 months of building up excess capital.

"What we've built up here," he said, "is a very strong equity position, very strong balance sheet and a very strong liquidity position. And when you combine that with very strong underwriting skills and underwriting discipline, what occurs with this (September 11) event is exactly what you would expect.

"ACE is still here. We're still in great financial strength. The excess capital we built up did exactly what it was supposed to do. All the tools we put in

place have operated exactly how we expected them to do."

President and COO, Dominic Frederico, said, "ACE has the financial strength to participate in what is going to be a new and changing marketplace."

ACE, much like other publicly traded Bermuda insurers and reinsurers, had participated in significant improvements to pricing prior to the September 11 event. But the event will push prices even higher across many lines.

Mr. Duperreault said that events like this lead to some players withdrawing from certain markets and Mr. Frederico forecast rate increases that could climb to 50 or 100 percent for commercial liability, property and aviation markets.

Reinsurer set to expand 'cat' cover

■ continued from page 2

will seek to strengthen its position as the premier cat specialist, expand the presence in the cat exposed primary insurance business and expand in specialist non-cat reinsurance lines of business.

He said, "I think we are well positioned in all three of these areas. In the cat business, when we started in 1993, we were one of eight new companies starting. Now, we are going into this hardened market as the leading company in the business.

"In the cat exposed primary business and the non-cat reinsurance area, we have a platform in place for this business, including our alliance with Chubb Re in the non-cat reinsurance side. We

have a profitable track record of results over a number of years in both of these businesses, but it is on a very small volume.

"This means we have limited exposure to the old soft market pricing, and a real potential to grow in the hardening market."

Mr. Stanard said the company had a strong management team, the most sophisticated cat management system in the world, a Bermuda platform, the required geographic presence and the companies and licences needed to expand.

"In addition, we have strong capital resources to be able to grow," he said.



Jim Stanard

"The RenaissanceRe balance sheet has over \$1.3 billion in equity and debt available, plus substantial additional capacity available in our joint ventures, where we are the sole underwriting managers."

Among the three companies, the operation has more than \$5.5 billion in capacity to deploy in the cat market, and, what Mr. Stanard said is the strongest balance sheet in the business on a per share basis.



Castlewood to manage reinsurers

The shareholders and senior management of Castlewood Limited have signed a definitive agreement with The Enstar Group, Inc. and Trident II, L.P. to form a new venture, Castlewood Holdings Limited, to pursue the management and acquisition of reinsurance companies, including companies in run-off.

Castlewood is a private Bermuda-based firm, experienced in managing and acquiring reinsurance operations.

Trident is managed by MMC Capital, Inc. which is a global private equity firm that serves as the investment manager to three families of funds that have received over \$2 billion of capital commitments. MMC Capital is a wholly owned subsidiary of Marsh & McLennan Companies, Inc.

The current owners of Castlewood will contribute at closing all the shares of Castlewood to Castlewood Holdings in exchange for a one-third economic interest in the newly incorporated Castlewood Holdings, plus notes and cash totaling \$4.275 million.

As part of the transaction, Enstar and Trident will make equal capital commitments as of the closing date totaling \$79 million in exchange for their one-third economic interests in Castlewood Holdings. Enstar expects to use internal funds to satisfy its commitment.

Enstar will receive 50 percent of the voting stock of Castlewood Holdings and the Castlewood Principals and Trident will each receive 25 percent of the new company's voting stock. On closing, Castlewood Holdings will have total capital available in excess of \$100 million.

The contributions of capital will be made to Castlewood Holdings and its subsidiaries

to finance acquisitions and provide working capital as and when called for by the Board of Directors of Castlewood Holdings over a ten-year period.

The management of Castlewood will continue to run the business of Castlewood Holdings and its subsidiaries, with Dominic Silvester as President and Chief Executive Officer of Castlewood Holdings. Paul O'Shea will become President and Chief Operating Officer of Castlewood.

In June 2001, Enstar announced that Enstar and Castlewood, through Revir Limited ("Revir"), a newly formed Bermuda holding company, had agreed to acquire two reinsurance companies, River Thames Insurance Company Limited, based in London, England, and Overseas Reinsurance Corporation Limited, based in Bermuda.

Upon the closing, Enstar's shares in Revir will be transferred, at cost, to Castlewood. Consummation of the River Thames/Overseas Reinsurance acquisition is subject to certain regulatory approvals.

In July 2000, Enstar, through B.H. Acquisition Limited ("B.H. Acquisition"), a joint venture with Castlewood and Trident, acquired two reinsurance subsidiaries of Petrofina S.A., a subsidiary of TotalFina Elf S.A.

The reinsurance companies, Brittany Insurance Company Ltd. and Compagnie Europeenne d'Assurances Industrielles S.A., were purchased by B.H. Acquisition for \$28.5 million. As a result of the contribution of Castlewood's outstanding stock to Castlewood Holdings, Enstar's 33 percent direct economic interest in B.H. Acquisition will increase by an additional 15 percent indirect economic interest

through Castlewood Holdings. Enstar will retain its 50 percent voting interest in B.H. Acquisition.

through Castlewood Holdings. Enstar will retain its 50 percent voting interest in B.H. Acquisition.

Nimrod T. Frazer, Enstar's Chairman and CEO, said, "We are extremely pleased with the deepening of our relationships with Castlewood and Trident through this transaction. We believe that Dominic Silvester, the founding shareholder of Castlewood, and his management team, will lead the way for Enstar, through Castlewood Holdings, to be an effective player in the global insurance run-off management business."

'Reinsurers must sharpen their pencils'

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exposure.

The company has benefited from its relationship with sponsoring shareholders, AIG (24 percent stake holder) and General Re (5 percent stakeholder), and from its strong A+ ratings from Standard & Poor's and A.M. Best.

Said Mr. Bryce, "IPC continues to go forward from a great foundation. We have experienced and consistent management and underwriting teams. We have been through some good times, some challenging times and some tragic times, but the company is still in a very strong financial condition."

IPC Holdings estimated its loss from the September 11 terrorist attacks on the United States at \$95 million. The company said just days after the event that the preliminary estimate is based on a review of those property catastrophe contracts in its portfolio which it believes are likely to be impacted by claims arising from these events and will be revised as loss information continues to develop.

IPC's underwriting guidelines limit the amount of liability that can be accepted on any one programme and also impose maximum limits that can be exposed in any one geographic zone.

Chairman of the Board, Joseph Johnson, who is also the Senior AIG Executive in Bermuda, stated: "AIG has confidence in the underwriting skills within IPC and IPC's strong financial condition will enable it to fulfill all of its obligations arising from this horrific tragedy brought about by cowardly acts of terrorism."

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