

# BERMUDA Insurance Update

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## Top reinsurer offers a way forward

Groundless litigation by the plaintiffs' bar is buffeting the insurance and reinsurance industry and it needs to be stopped, the 16th International Reinsurance Congress was warned by a leading Bermuda reinsurance executive.

ACE Ltd. Vice Chairman, Donald Kramer, told the annual Congress in Bermuda that primary insurance rates were heading toward an all-time high, at six times the rate of inflation. And carriers were forced into more policy exclusions - cutting terrorism, asbestos, mold and even workers compensation out of traditional policies.

Solutions, he said, to the existing problems, lay in the passage of the Terrorism Package and the medical malpractice bill.



Donald Kramer

He also suggested asbestos reforms that would require evidence from a court-approved medical diagnostic clinic, before compensation is considered. And venue-shopping for sympathetic juries should end.

Mr. Kramer's list of remedies further included the elimination of contingency fees on punitive damages. He said, "Limit punitive damages to one time, one case. You can not punish the same perpetrator for the same crime, over and over. It's a variation of double jeopardy.

"Put any punitive damages in a trust to be shared by current and future plaintiffs. "End the consolidation of mass torts, which are stacked against the defendants, and, try each case on its merits, requiring the same standards of evidence and fault that the law actually requires."

■ continued page 11

## Island attracts strong incorporations

Bermuda continued an annual trend of strong incorporations of international insurers in 2002, with 94 new companies formed during the calendar year, although additions declined from 108 in the banner year of 2001.

A large number of captive insurance vehicles were formed. The Supervisor of Insurance recorded 35 new Class 1 companies for the year, up more than 52 percent from the calendar year 2001. Class 1 companies are single-parent captives insuring only the risks of its owners or affiliates-of-its-owners.

There were 17 new Class 2 insurers incorporated, a near 30 percent improvement over 2001. Class 2 are (a) a multi-owner captive insuring the risks of its owners or affiliates of the owners; (b) a single parent and multi-owner captive: (i) insuring the risks related to, or arising out of, the business or operations of the owners and affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks.

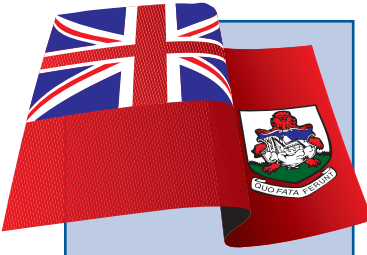
There was a decline in new Class 3 companies, with 33 incorporated last year, compared to 53 the year before. Class 3 includes insurers and reinsurers not included in Class 1, 2 or 4, such as: reinsurers writing third party business; insurers writing direct policies with third party individuals; single parent, group, association, or joint venture captives where more than 20 percent of their net premiums written arise from risks which are unrelated to the business of the owners; finite reinsurers and rent-a-captives.

There were three Class 4 companies formed during 2002. The year before, a flood of new Class 4 reinsurers, eight in all, were formed in the immediate aftermath of the attack on the World Trade Center.

Class 4 includes insurers and reinsurers underwriting direct excess liability and/or property catastrophe reinsurance risks.

There were also two companies formed as composites, identified as Class 3 and Long Term. Composites are insurers writing a combination of long-term (or life) business and Class 1, 2, 3, or 4 business.

In addition, four Long Term companies were incorporated. Long-term insurers are insurers writing long-term (or life) business.



### IN THIS ISSUE

- Broker touts Bermuda Market .....2
- Premier addresses conference.....3
- Endurance broadens reach.....4
- Olympus Re focuses on underwriting.....6
- RenRe buys Platinum.....8
- Raters OK Bermuda.....9
- AXIS acquires global reach.....10



# Broker touts Bermuda Markets



**Michael Woodroffe**

A Bermuda reinsurance broker will help Carolina captives access the leading Bermuda reinsurance market.

President of Kirkway International Limited, Michael Woodroffe, noted: "Bermuda has become a true market

with products that are constantly evolving and broadening in scope. This has been achieved through a combination of the existing companies maturing, along with an extraordinary influx of newly capitalized companies."

For the captive owner and risk manager facing a chaotic domestic and European reinsurance market, he said, there was hope from the Bermuda Market.

"If you are the owner of a single-parent captive or large corporate captive then Bermuda can provide virtually all of the reinsurance and excess insurance that you possibly need," he told the South Carolina Captive Insurance Association Conference.

"For captives and their parent companies needing protection from large severity losses, companies such as ACE, XL Capital, Starr Excess, Allied World, Endurance Specialty and Chubb can provide both excess casualty limits and excess property limits.

"For middle market companies, attachment points for the larger umbrella writers have become lower and more flexible. Bermuda has recently become especially strong in providing cover for hospitals, and the healthcare industry in general.

"For protecting against unusually high instances of small losses within the captive's retention, Bermuda can offer traditional quota-share reinsurance as well as some of the most sophisticated finite and aggregate excess reinsurance capacity available. It is still possible to buy multi-year covers in the Bermuda market, something that has virtually disappeared in Europe.

"Association and group captives typically focus on casualty lines and have reinsurance needs falling within the primary \$5-million layer.

"Bermuda has specialist markets that can

help provide general liability, professional liability, auto liability and employer's liability. This marketplace is constantly evolving and we recently developed the first non-standard automobile quota-share capacity. We now have five reinsurers who are prepared to look at this domestically out-of-favor coverage.

"Bermuda also came to the rescue at the end of 2001 by providing excess workers compensation coverage from companies such as; Endurance Specialty, Allied World Assurance, and a facility involving Chubb and Renaissance Re.

"For the last 12 months there has been a decreasing supply of US capacity available for medical malpractice especially for hospitals, nursing homes and the assisted living industry. Several of the Bermuda carriers have developed creative new ways to provide this coverage.

"As anyone knows who is involved in this class, it is still much harder to obtain coverage for agency and MGA risks. Bermuda is not falling over itself to write these risks especially when they involve very small programs, start-ups, or groups that have poor loss experience.

"However, well thought out risk-sharing risk retention groups and captives are still able to buy reinsurance in Bermuda through several of the local brokers including ourselves. We have had particular success with providing capacity for the non-standard auto sector."

Mr. Woodroffe also provided some insight for buyers as to how reinsurers viewed the new markets, and what conditions they sought out in providing cover.

He said they sought out good actuarial presentations that included relevant historical losses, and most reinsurers preferred the primary issuing carrier to share in the success or failure of the program with them.

He said, "Reinsurers are looking more closely at the capitalization of the captive to avoid wildly optimistic projections.

"The days of being able to buy net aggregate reinsurance that attached very close to the projected loss ratio are long gone. Reinsurers now only provide coverage that is well above expected losses and mainly to reduce the need of increased securitization.

"To finish a captive's reinsurance program in this market, we have used a combi-

nation of treaty and facultative reinsurers as well as excess insurance companies. We have had facultative underwriters issuing policies with terms more typical within a treaty placement - for example excess insurers issuing swing-rated policies. One has to be creative and knock on a lot of doors to get the best deals.

"When you and your reinsurer cannot agree on a price for the layer; having a minimum, maximum and provisional price can make both sides meet in the middle. It certainly focuses attention on loss control if one knows that bad experience will automatically result in greatly increased reinsurance premiums.

"In a hard market, risks are often priced well above expected losses merely due to the effects of a lack of supply. The most commonly used tactic to counter this is very obvious and that is simply to retain it. Hence, a hard market is the time when a captive is most useful to its policyholders.

"This is not the time to be buying unlimited coverages or dramatically large limits well outside your historic loss patterns. Much of this cover was given away free or for very little in the soft market of the 90's. Now, you will pay dearly for the luxury."

## Suncor joins sEnergy

Alberta-based Suncor Energy Inc., a growing Canadian-based integrated energy company with about US\$6 billion in assets, has joined Bermuda-based sEnergy Insurance Ltd. Suncor is a world leader in mining and extracting crude oil from the vast oil sands deposits of northern Alberta.

Norm Frape, Manager, Insurance for Suncor commented "sEnergy will fill a vital block in our insurance programs that was unavailable to us in the commercial market. We have participated for many years in Oil Insurance Limited (OIL) and know that mutuality is in the long term the least costly alternative for energy company insurance requirements."

Rudd Marlowe, SVP and COO of sEnergy said, "sEnergy will become a critical building block in the insurance programs of the international energy business. The OIL Group of Companies has proven for many years that the continuity of coverage and significant limits offered is a real benefit to our member companies."



# Premier opens reinsurance congress

The fact that Bermuda continues to attract high quality investors makes the Island a target for international scrutiny, delegates of a highly regarded reinsurance conference have been told.

The Sixteenth International Reinsurance Congress met at the Fairmont Hamilton Princess Hotel in Bermuda under the theme: "Risk: A New Paradigm."

And Premier Jennifer Smith used the occasion to make it clear that her Government was ensuring that international business, and the international insurance and reinsurance industry in particular, remained on a strong footing.

In opening the conference, the Premier remarked: "One hot topic of discussion in recent months, has been the emergence and rapid expansion of the Bermuda reinsurance market, including eight new insurance and reinsurance firms, backed by investors with impeccable credentials. This capital flight to quality has not gone unnoticed.

"We believe that it has been because

"blue chip" organizations are attracted to Bermuda's leading financial services markets, that we've faced so much relentless scrutiny from authorities in larger countries.



**Premier Jennifer Smith** have been stated as: our prudent but flexible regulation, top-notch infrastructure, the presence of the leading intellectual capital, and a tradition of innovative risk transfer solutions.

"These are qualities that Bermuda has developed over many years. These are the assets that we continue to trumpet in the face of growing competition and criticism.

When these authorities, by the way, actually look at Bermuda, they generally are impressed with what they see here.

"Reasons for Bermuda's continuing attractiveness

"I should mention that the Patriot Tax initiatives aimed at stopping inversions by US companies to Bermuda, are really not about Bermuda. Rather, this is an issue born out of the US tax code - something that a number of senior US Government officials have now accepted."

The Premier noted that recent reports and surveys on Bermuda's international business sector by the OECD, FATF and KPMG all remarked on the fact that Bermuda's Government and its private sector are working together to maintain the integrity of the island as a leading financial services jurisdiction.

She said, "This relationship has nurtured a world-class business environment that is the real secret to our success and that is why we continue to provide avenues and opportunities for representatives of the international business sector to talk directly to us about how we can maintain, and even improve on, the benefits of doing business in Bermuda."

## Aspen seeks fast start

Aspen Insurance Ltd., a start-up Bermuda-based reinsurer capitalized at \$200 million, has said it expects to underwrite gross premiums of nearly a quarter of a billion dollars during 2003, mainly as a result of a quota-share reinsurance arrangement with London-based sister company Wellington Reinsurance Ltd.

Aspen Insurance, along with Wellington Re, is a wholly owned subsidiary of Bermuda-based Aspen Insurance Holdings Ltd. (AIH).

Aspen Insurance's quota-share arrangement with Wellington Re will remain of central importance to the company, will be in place until at least 2006, and will account for more than 85 percent of the company's annual premium income over the same period.

The group is expected to swiftly build on its franchise and take advantage of the current hard rating environment. Results will suffer in years of exceptional catastrophic losses, but, over the cycle, the combined ratio is expected to average 85-90 percent.

Group capital adequacy is expected to

remain extremely strong, while that of the operating subsidiaries is expected to remain at least very strong.

Wellington Re's - and therefore the Aspen group's - business portfolio will continue to focus mainly on the classes underwritten from start-up, although additional classes may be added to the business mix in line with changing market conditions.

Standard & Poor's Ratings Services has assigned its 'A' long-term counterparty credit and insurer financial strength ratings to Aspen. The outlook is stable.

"The group as a whole has a strong business position, very strong earnings prospects, proven management team and control structure, and an extremely strong capital base," said Standard & Poor's credit analyst Marcus Rivaldi. "These factors are offset by the potential operational volatility and cyclicity inherent in the classes of business on which the group focuses, its high reliance on reinsurance, and the nature of its investor base."

A.M. Best Co. has assigned an initial financial strength rating of A- (Excellent).

At the same time, Best has affirmed the A (Excellent) financial strength rating of AIH's UK operating subsidiary, Wellington Reinsurance Limited.

In addition to the quota share with Wellington Re, Aspen will write a small book (\$25 million) of third-party business in 2003. Aspen represents a significant source of underwriting capacity for the Aspen group through the quota share of Wellington Re's business amounting to \$225 million in 2003, rising to \$230 million in 2004. Aspen's underwriting portfolio will likely be relatively concentrated with property catastrophe and per risk, representing approximately 29 percent of the total book in 2003 and 31 percent in 2004.

Best believes Aspen has a significant dependence on the pricing and availability of retrocession cover, and going forward, it will monitor the company's maintenance of good quality retrocession cover. A.M. Best believes that the company will achieve profit before tax of approximately \$50 million in 2003, which is largely in line with that proposed in the business plan.



# Endurance broadens its reach...

Bermuda-based Endurance Specialty Holdings Ltd. has spread its wings and established key bases in the UK and the US.

The company has formed a wholly owned UK subsidiary, Endurance Worldwide Insurance Limited (EWIL), which has been authorised by the Financial Services Authority to begin writing commercial insurance and reinsurance in the UK.

Endurance has also incorporated a wholly-owned US subsidiary, Endurance Reinsurance Corporation of America (Endurance Re), which has been granted a license as a New York domestic insurer for all lines of property and casualty insurance and reinsurance.

Endurance subsidiaries are global providers of property and casualty insurance and reinsurance.

EWIL has been assigned Endurance's group rating of A- (Excellent) from A.M. Best. The new European insurer will focus initially on commercial property risks predominantly in the UK, and international treaty business, mainly sourced from Europe.

EWIL's business plan calls for adding

other lines of commercial insurance and reinsurance when appropriate.



**Kenneth LeStrange**

The launch of EWIL and Endurance Re is part of Endurance Specialty Holdings' strategy to expand its presence in the global insurance and reinsurance markets. EWIL will pursue an underwriting strategy based on quality risk selection, prudent pricing discipline and being responsive to the needs of an international client base, especially in Europe.

Endurance Specialty Holdings CEO Kenneth LeStrange said, "Like our Bermuda-based insurance company, Endurance Specialty Insurance Ltd., EWIL will endeavor to take a technical and analytical approach to the business while practicing disciplined underwriting. To this end, we have brought together a seasoned group of UK insurance executives with strong reputations in the industry."

EWIL has been capitalised at 140 million pounds sterling of issued capital from Endurance Specialty Insurance Ltd. (ESIL) with 100 million pounds paid in. ESIL is Endurance Specialty Holdings' wholly owned Bermuda-based insurer.

Endurance Re will apply an analytical approach to underwriting and pricing that is responsive to the needs of a US client base.

Endurance Re will focus on broker market reinsurance business, initially targeting the following business segments: Working layer property and casualty excess of loss reinsurance; pro rata reinsurance of primary and excess property and casualty business; per-person exposed workers compensation reinsurance; surety reinsurance; and, other specialty lines.

Endurance Holdings' CEO Kenneth LeStrange said, "The strategy for Endurance Re is to apply our technical, analytical approach to the business, be selective in underwriting and remain disciplined in pricing. We continue to attract and retain highly qualified and seasoned insurance and reinsurance professionals."

Endurance Re President Steve Carlsen stated, "We look forward to bringing a strong, clean balance sheet to the US market and a team of highly experienced practitioners."

Endurance Re enjoys the strong support of Endurance Holdings' Bermuda subsidiary, Endurance Specialty Insurance Ltd., including \$335 million in paid capital and surplus, and broad reinsurance protection.

## ...seeks capital market approval for IPO

Endurance Specialty went to the capital markets to raise \$200 million in an initial public offering, according to documents filed with the Securities and Exchange Commission.

Endurance Specialty Insurance Ltd. began operations at the end of 2001, after raising \$1.2 billion of capital in a private placement of equity securities. Initial investors included Aon Corp., and Zurich Financial Services Group, which both put in \$200 million.

The company's SEC filing stated: "Since our founding and initial private placement, we have been able to achieve significant success in the development of our business.

For the nine months ended Sept. 30, the company had \$623 million in gross premiums written and acquired, \$63 million in net income, \$1.9 billion in total assets and \$1.2 billion in shareholders' equity.

Along with forming and licensing its

insurance subsidiaries in the past year, the company said it has acquired the catastrophe business of Bermuda reinsurer, LaSalle Re Ltd., established a \$300 million credit facility and repurchased Zurich's equity interest.

Current conditions in the global insurance and reinsurance markets present an attractive opportunity for Endurance Holdings to deploy its capital.

"Many global property and casualty insurers and reinsurers are currently experiencing significantly reduced capital resulting from several years of excessively competitive pricing, expanding coverage terms, significant increases in losses from asbestos liability, under-reserving, poor investment performance and losses from the World Trade Center tragedy," Endurance said in its filing.

The reduction in capacity has resulted in considerable increases in pricing, as well

as terms and conditions that are significantly more favorable for insurers and reinsurers.

"We believe that the additional capital provided through this offering, combined with our business strategy, experienced management team and unencumbered balance sheet, will enhance our ability to benefit from this market environment," the company said.

Endurance also pointed to strong market relationships and underwriting expertise, previously developed by its management team, that have allowed the company to quickly establish its presence in the global insurance and reinsurance markets.

"We have strong relationships with major insurance and reinsurance brokers, including: Aon, Marsh & McLennan Cos. Inc.; Willis Group Holdings Ltd.; Benfield Group plc, and A.J. Gallagher & Co.," Endurance stated in its SEC filing.



# Ingrey cited as top insurance leader

Chairman and CEO of Arch Worldwide Insurance and Reinsurance Group is the "2002 Insurance Leader of the Year" for the School of Risk Management, Insurance, and Actuarial Science (SRM) of The Peter J. Tobin College of Business at St. John's University (formerly the College of Insurance).

Brandon W. Sweitzer, Chairman of the SRM Board of Overseers commented: "This Award seeks to recognize an individual's exceptional leadership over a lifetime or during the year of the award. Paul's distinguished 38-year career in the field of insurance and reinsurance, combined with his considerable accomplishments this past year in the formation of Arch Worldwide Insurance and Reinsurance Group, qualify him for this award on both counts."

Dr. Ellen Thrower, Executive Director of the SRM, said, "We are especially proud that Paul is an alumnus of The College of Insurance. It is both a pleasure and an honor to recognize him as the 2002

Insurance Leader of the Year," she added.

The award was presented in January at the Eighth Annual Insurance Leader of the Year Award Dinner in New York.

The "Insurance Leader of the Year Award," presented annually since 1995, recognizes the contributions of outstanding individuals whose leadership in the worldwide insurance and financial services industry sets them apart from their peers.

Past recipients are John J. (Jack) Byrne, Chairman of White Mountains Insurance Group Ltd. and Chairman of OneBeacon Insurance Group (formerly CGU), Ronald E. Ferguson, Chairman and CEO of General Re Corporation; Robert Clements, Chairman of Arch Capital Group, Ltd. and former President of Marsh & McLennan Companies; Maurice R. (Hank) Greenberg, Chairman & CEO of American International Group, Inc.; Patrick G. Ryan, Chairman of Aon Group; Sir David Rowland, former Chairman of Lloyd's of London; and Edward J. Muhl, former

Superintendent of Insurance of the State of New York.

The School of Risk Management, Insurance and Actuarial Science (SRM) was founded in 1901 as The Insurance Society of New York and over the years, evolved into The College of Insurance (TCI).

In June 2001, TCI merged with St. John's University, becoming a school of the Peter J. Tobin College of Business. Located in New York City's downtown financial district, SRM awards undergraduate, MBA, and MS degrees in the insurance, risk management, and actuarial science disciplines.

Through its Center for Professional Education, SRM also provides education, training and consulting services to industry, governments and regulators worldwide.



Paul Ingrey

## Auditors form new local body

A group of professionals from a wide-range of Bermudian companies have formed a local chapter of the Institute of Internal Auditors (IIA), reinforcing the island's focus on good corporate governance and responsibility.

Trevor Brookes, Internal Audit Director at XL Capital, will serve as President of the chapter and George Holland, Senior Manager at Ernst & Young, will serve as Chairman.

Other directors include Remonde Brangman of Ernst & Young, Peter Grewal of the Bank of Bermuda, Fred Tesch and Owen Martin of the Bank of Butterfield, and David Taylor of Capital G.

According to Trevor Brookes, "The recently enacted Sarbanes-Oxley legislation in the United States has increased the importance and role of Internal Audit by mandating a series of corporate governance reforms and new financial reporting requirements.

"Companies in Bermuda trade on their reputation and set high standards for them-

selves in corporate accountability. IIA Bermuda will provide the island's internal audit community with access to global best practices on security and governance, international compliance standards, and a vast network of peer professionals."

Founding members of IIA Bermuda also include professionals from the Bermuda Government, the QuoVadis certificate authority, Deloitte & Touche, KPMG, and PricewaterhouseCoopers. The launch meeting, held at XL House, was also attended by representation from IIA world headquarters in Florida.

Established in 1941, the IIA serves over 75,000 members in internal auditing, governance and internal control, IT audit, education, and security from more than 120 countries.

The IIA is the world's leader in certification, education, research, and technological guidance for the profession, and serves as the profession's watchdog and resource on significant auditing issues around the globe.

## Insurance index changes

The Bermuda Insurance Index Advisory Committee has announced that pursuant to the Ground Rules for the Management of the BSX Bermuda Insurance Index, Trenwick Group Ltd. and Annuity & Life have been deleted from the Index's constituent base as of October.

In addition, Montpelier Re was added to the Index.

The announcement was made in accordance with Section 4.2 of the Ground Rules, which requires that constituent companies have a market capitalisation of greater than one percent of the total Index market cap to be eligible for inclusion in the Index.

The total number of Index constituents stood at eight, with a combined market cap of \$31.6 billion.



# Olympus Re continues business strategy



Sheila Nicoll

Bermuda reinsurer, Olympus Reinsurance Company Ltd. will continue a conservative business strategy, according to President Sheila E. Nicoll, as it moves into a second

year of business.

The company declared a net income of nearly \$65 million for the first three quarters of their first year, on premiums of nearly \$250 million.

Ms Nicoll, a 20-year veteran of the international insurance and reinsurance markets, said that pricing has so far been adequate.

She said, "The US market has been stable going in to 2003. But there is continued upward pressure on European rates because of the flooding in Czechoslovakia, Austria and Germany.

"Our focus has really been on property catastrophe reinsurance and property excess. Other companies may have a broader range of business, but in terms of the cat business, rates didn't go up as much as many thought they would. And people have continued to be very conservative in their underwriting.

"The conditions in the investment market

have meant you must stay focused on underwriting profit. I think that there are challenges ahead, but I'm fairly optimistic, as the rates have held up and should continue to do so."

Olympus Re, a Class 4 Bermuda Insurer/Reinsurer, was awarded an "A-" (Excellent) rating from A.M. Best. The initial rating reflects the company's extension of capacity for an established reinsurer, solid capitalization and recognized management expertise.

The company offers property catastrophe, property risk excess, property retro excess of loss, aviation and marine excess of loss coverage. Other selected short-tail lines will be considered.

"We are pursuing a different strategy from the other new players in the post-September 11 Bermuda marketplace," said Ms. Nicoll. "We intend to remain a smaller, tightly-managed venture. Our focus is on conservative underwriting, fixed income investing and low overhead."

The company's strategy is to develop and maintain a top quality book of business, diversified geographically by cedant and exposure, laterally by class and vertically by attachment level.

Olympus Re has entered into a quota share agreement with Folksamerica Re (A.M. Best rating "A-"), an affiliate of the

White Mountains Insurance Group, covering property excess of loss business mainly in the United States, Canada and Latin America. In addition, Olympus Re has contracted with White Mountains Underwriting Ltd. in Dublin, Ireland, to provide international reinsurance advisory services and to source and develop the portfolio in UK, Europe, Japan and Asia/Pacific regions. Mark Stockton, formerly Chief Underwriting Officer of LaSalle Re Ltd. (Bermuda), heads up White Mountains Underwriting Ltd.

"The contractual relationship with White Mountains Underwriting Ltd. and the quota share agreement with Folksamerica provides Olympus Re the unique opportunity to market and underwrite property excess business under the guidance of seasoned, experienced underwriting professionals, and at a relatively low expense level," said Steven E. Fass, President and CEO of Folksamerica Re.

Olympus Reinsurance Company Ltd. was formed in December 2001 to provide additional capacity to the insurance and reinsurance markets following the September 11, 2001 terrorist attack on the World Trade Center.

Led by Leucadia National Corporation, Gilbert Global Equity Partners and Franklin Mutual Advisors, Olympus Re was initially capitalized at \$500 million.

## IPCRe rating affirmed by A.M. Best

A.M. Best Co. has affirmed the financial strength rating of A+ (Superior) of IPC Holdings' reinsurance subsidiaries, IPCRe Limited (Bermuda) and IPCRe Europe Limited (Ireland). The outlook for the rating is stable.

The rating reflects IPCRe's strong capital position and well established market presence within the property catastrophe reinsurance market. Further supporting the rating is IPCRe's highly experienced management team, prudent risk management strategies and customer-oriented focus, which have fostered long-term client relationships.

The rating also considers advantages IPCRe derives through strategic relationships with affiliates of its original sponsor and largest shareholder, American International Group Inc (New York).

Despite volatility in operating performance stemming from a very high degree of catastrophic activity from 1998 through 2001, IPCRe is well-positioned with a globally diversified book of business to participate in the hardening property catastrophe reinsurance market.

To minimize impacts from catastrophic events, IPCRe carefully monitors aggregate accumulations--with the maximum allowable exposure in any single geographic zone limited to a pre-set percentage of capital, established by its Board of Directors.

Offsetting these positive rating factors are the competitive pressures in recent years in the property catastrophe reinsurance market and the group's concentrated risk profile, which adversely impacted

operating performance.

However, IPCRe's balance sheet is supported by an investment portfolio with over \$1.3 billion of assets that is conservatively managed to ensure adequate liquidity and preservation of capital.

IPCRe consistently records strong operating cash flows, which supplements the availability of a \$150 million revolving credit facility and enhances its financial flexibility. In December 2001, this flexibility was evidenced by the ability to raise \$546.9 million in additional capital through public and private offerings.

A.M. Best believes IPCRe has demonstrated ability to withstand the inherent volatility associated with the business risks and competitive pressures of the property catastrophe reinsurance market.



# AWAC Europe based in Dublin

Allied World Assurance Company (AWAC) has opened European headquarters in Dublin, Allied World Assurance Holdings (Ireland) Ltd, and will operate through its wholly owned subsidiary, Allied World Assurance Company (Europe) Limited. The move was in response to new global demand for an array of insurance coverages.

AWAC received an A.M. Best rating of A+ (Superior) at launch and is pleased to have been awarded the same A+ rating for AWAC (Europe) Limited. A. M. Best awards the A+ 'Superior' rating only to those companies with superior balance sheet strength, operating performance and business profile under the standards established by the rating company.

The Bermuda-based global writer of property and casualty insurance and reinsurance has appointed a new European President, John Redmond.

Prior to joining Allied World Assurance Company (Europe) Limited, John spent



**John Redmond**

twenty-three years with the Chubb Corporation. During this period he held various senior underwriting and administrative positions in Ireland, Belgium, Scandinavia and the UK. Most recently he was responsible for Chubb's Commercial Insurance Division in Southern Europe. Mr. Redmond was elected a senior vice president of Chubb

Insurance Company of Europe in 1997.

For the past year, AWAC has been seeking niche market opportunities.

Mr. Redmond commented, "Continuing AWAC's strategy for evolving into a leading, geographically-diverse, multi-line insurer we will be providing a product and specialty base for moderate to high hazard risk exposures. Our client base is expected to be the larger EU companies seeking to add or replace capacity in the current hard market environment. The same criteria will apply for indigenous Irish business."

He said the company has the ability and

desire to provide capacity where it is most needed. As CEO Michael Morrison has previously pointed out, one of the features that distinguishes AWAC among its competitors is that AWAC will write on lower layers of an account.

Mr. Redmond anticipates that initial emphasis will be on broad-ranging property, casualty and financial lines coverage. Property will primarily deal with commercial real estate accounts, communication risks, heavy industrial risks and municipal/institutional exposures. Casualty will emphasize energy liability, excess general liability, professional liability and products liability.

However, he pointed out that the long-term strategy is to remain flexible and cover a growing number of specialty lines as need and business demand develops.

Mr. Morrison added, "With John Redmond at the helm, backed by our Dublin underwriting staff, we see great opportunities to write European Union business through the fast-evolving Irish market."

## Willis supports foundation for insurance studies



Insurance brokerage, Willis (Bermuda) Ltd. showed support for the Bermuda Foundation for Insurance Studies (BFIS) by making a donation to its education fund.

Willis Bermuda President, Henry Scully, said, "We all benefit from the on-going efforts to ensure that all Bermudians have the opportunity to pursue higher education. As BFIS grows and expands their scholarship studies criteria, which now includes students studying economics and finance as well as insurance and actuarial science, we applaud them for understanding that the needs of the market place in Bermuda are under increasing and continual change."

Mark Lima, President of BFIS and Chairman of the BFIS Steering Committee, said, "We appreciate the support of all members of the insurance and financial services community. We thrive on having a broad base of support from our donors, both local and overseas."

Willis (Bermuda) Limited is an Insurance Brokerage placing business into the Bermuda market on behalf of over 13,000 Willis employees in over 90 countries across the globe.



# RenRe buys pieces of Platinum

Leading Bermuda reinsurer, RenaissanceRe Holdings Ltd., purchased nearly ten percent of the outstanding common shares of Platinum Underwriters Holdings Ltd., during Platinum's initial public offering.

Renre struck a deal to buy 3.96 million shares of Platinum common stock, about 9.9 percent, with an estimated value of \$82 million to \$100 million, in a private placement concurrent with Platinum's IPO. The placement also ran concurrently with a private placement in which Platinum's parent, St. Paul Cos. also invested in Platinum.

RenaissanceRe negotiated to buy Platinum's stock at a price equal to the IPO price, less an underwriting discount. RenRe would also have a 10-year option to buy as many as 2.5 million shares of Platinum common stock at a per-share price equal to 120 percent of the IPO price.

At years end, St. Paul completed the transfer of its continuing reinsurance business and related assets, including renewal rights, to the new Bermuda reinsurer.

The St. Paul contributed \$123 million of cash to Platinum and transferred approximately \$350 million in assets relating to

transferred insurance reserves.

In exchange, The St. Paul has acquired six million common shares, representing a 14 percent ownership interest in Platinum and a ten-year option to buy up to six million additional common shares at an exercise price of \$27 per share, which represents 120 percent of the initial public offering price. The St. Paul will retain reinsurance liabilities primarily relating to contracts issued prior to Jan. 1, 2002.

The St. Paul expected the transaction to result in an after-tax statutory gain, a pretax GAAP gain, and - as a result of an anticipated write-off of a reinsurance-associated deferred tax asset - an after-tax GAAP loss.

Platinum Underwriters Holdings, Ltd. is a newly formed Bermuda holding company that will underwrite property and casualty reinsurance business on a worldwide basis.

A.M. Best Co. has assigned an initial financial strength rating of A (Excellent) to the reinsurance subsidiaries of the newly formed Platinum Underwriters Holdings Ltd. and assigned an initial rating of "bbb+" to the equity security units included with this initial public offering.

Future obligations by the investors to

Future obligations by the investors to acquire Platinum's common stock under these equity security units are secured by senior notes issued by Platinum Underwriters Finance, Inc. and are guaranteed by Platinum.

Platinum, formed to assume the reinsurance operations of St. Paul Companies, completed public securities offerings and private placements generating over \$1 billion in capital.

The creation of Platinum was based upon St. Paul's strategic decision to separate its insurance and reinsurance businesses following substantial losses incurred from the September 11, 2001 events.

Parties to the transaction have agreed that there is some overlap in the kinds of business being written by Platinum and RenRe, but the investment agreement includes a proposed coordination of the different operations.

RenRe is strong in property and catastrophe reinsurance, and would offer Platinum non-marine property catastrophe retrocessional business, giving Platinum an option of reinsuring RenRe's reinsurance business. Platinum may also gain some of RenRe's leading catastrophe modeling expertise.

## Legal move for top lawyer

A top insurance lawyer has moved his legal practice across town from Milligan Whyte & Smith to Attride-Stirling & Woloniecki (AS&W).

Listed among the best insurance lawyers in the world by Euromoney's Guide, Bala Nadarajah has been named AS&W's Senior Counsel for Corporate & Commercial Law.

The respected lawyer first came to Bermuda in 1979 as a legal advisor to the Registrar of Companies, while attached to

the Attorney General's Chambers.

Credited with assisting with the drafting and introduction of Bermuda's insurance regulations and the Bermuda Companies Act 1981, he worked in Washington D.C. between 1986 and 1993, while providing consultancy services to the Ministry of Finance. Upon his return in 1993, Mr. Nadarajah assumed a role in private practice.

One of the Island's most experienced

corporate attorneys, Mr. Nadarajah still contributes in the public sector.

He sits on the Insurance Advisory Committee, which advises the Bermuda Government on all matters relating to insurance.

He is also a director of the Bermuda Monetary Authority and the International Business Forum, and is Chairman of the Investment Business Act Appeal Committee.

## Liberty Mutual expands Bermuda base

One of the largest multi-line insurers in the property/casualty industry in North America, Boston-based Liberty Mutual Insurance Co., pushed deeper into the burgeoning alternative risk markets by incorporating a Bermuda-based rent-a captive that will also function as a reinsurer behind the Liberty Mutual group's operating units.

Established under the Segregated Accounts Companies legislation, Arlington

Insurance Co. Ltd. will offer rent-a-captive services to companies seeking alternatives to traditional insurance approaches.

Arlington will issue reimbursement policies directly to companies under large-deductible plans.

Scott R. Goodby, COO and GM of Liberty Mutual Specialty Risks, noted that while companies are concerned with protecting the assets in their rent-a-captive

accounts, Bermuda has enacted legislation that protects such assets in a specific cell from the liabilities of other cells.

Over the past year, a number of insurers have taken steps to move into the fast-growing alternative markets as traditional insurance lines continue to harden, with higher premiums and stricter underwriting pushing more buyers to seek other risk solutions.



# S&P reports on insurance outlook

In a current loss environment for reinsurers, rating agency Standard & Poor's has said that Bermuda reinsurers, including those which were formed in the wake of the September 11, 2001 tragedy, will be among the chief beneficiaries.

In its December report "Global Reinsurance Outlook 2003: Famine in the Midst of Plenty", S&P stated: "Among the main beneficiaries of the current loss environment are the 'New Bermudians'; some of the longer established Bermuda-based operations; and other writers of both short- and long-tail risks that have not been blighted by prior-year reserving.

"For instance, the weighted combined ratio of the six new Bermuda-based (re)insurance operations for the first six months of 2002 was about 82%. This compares with an estimated weighted average of 118% for the five largest global (re)insurance operations over the same period.

"The established global groups are being hit from a variety of directions. As well as the adverse development that is occurring on their long-tail exposures, the benefit of

the price increases in these lines will take longer to work through, because internal and external actuaries will take a pessimistic view of claims development in 2002, due to the reserve development on prior years.

"The distinction in profitability has been further compounded by the fact that a number of the long-tail writers are also among those with the greatest equity market exposures.

"All in all, the 2002 financial year is shaping up to be significantly less profitable than expected. While the aggregate underwriting year combined ratio will be in the region of 106 percent, prior-year development may well add up to 10 percentage points to the combined ratio for the 2002 financial year."

S&P concluded that there remained a flicker of light at the end of the tunnel that the reinsurance industry might see real improvement.

The agency said: "An improving outlook for the industry can only be achieved by an end to, or at least a reduction in, pricing cyclicality; the maintenance of the improved terms and conditions currently

being imposed; and a further shift in emphasis from reinsurance as a source of capital to reinsurance as a value-added risk management tool.

"Ratings are expected to have stabilized by the second half of 2003, as all the remaining downside works through. As to whether the structural changes have been fully implemented, only time will tell, and that is unlikely to be before the beginning of 2004."

The negative S&P outlook for ratings, they say, is underlined by the fact that, of the top 25 global reinsurance groups ranked by net premiums written, 12 are either on CreditWatch with negative implications or carry a long-term negative outlook.

The report said since the beginning of 2002, there had been 47 downgrades and only three upgrades among the 150 largest reinsurers. Although this proportion of downgrades is not expected to continue in 2003, by maintaining a negative outlook for the global reinsurance industry overall, S&P is indicating that downgrades will still outnumber upgrades.

## Moody's gives Bermuda stamp of approval

In its annual report on Bermuda, Moody's Investors Service said the country's Aa1 foreign currency country ceilings, Aaa domestic currency government bond rating, and stable outlook reflect the island's prudent macroeconomic policies, favorable external position, and low debt and debt-service ratios.

"While tourism remains important, especially as a source of jobs, it has been replaced by offshore business as the largest industry and the driver of the country's economic activity," said Moody's Vice President Steven Hess, author of the report.

"Together, international business and tourism account for about 50 percent of GDP and 85 percent of foreign exchange earnings with tourism experiencing a steady decline over the last 20 years."

The Moody's report said it was less like-

ly that changes in US legislation regarding offshore tax shelters could have a significant impact on Bermuda's insurance sector, following Republican success in the mid-term congressional elections.

Mr. Hess stated: "Bermuda's regulatory and tax environment has successfully withstood scrutiny from the OECD (Organisation for Economic Co-operation and Development) and Financial Action Task Force investigations, which focused on tax harmonization and money laundering.

"Bermuda's tax and regulatory regimes have generally been judged as sound - an important factor in the island's ability to attract international business."

While both the insurance and tourism sectors were affected by the terrorist attacks on the World Trade Center, the

Bermudian government took a number of steps that limited the effects on its fiscal position and on Bermuda's macroeconomy, said Moody's.

"Bermuda's insurance sector had more than adequate liquidity to face the large losses caused by September 11," said Mr. Hess.

The Progressive Labor Party won control of Parliament in 1998, marking the end of one-party rule since 1968. The new government has continued its predecessor's commitment to sound fiscal policies and low government debt levels, said Moody's.

"Regardless of which party wins the 2003 election, we believe that there is little threat to the island's fiscal conservatism, including the long-standing policy of keeping government debt at less than 10 percent of GDP," said Hess.



# AXIS displays acquisitive mood

AXIS Specialty Ltd. has moved quickly to consolidate its market position, by establishing bases of operation on both sides of the Atlantic, within a year of its formation.



**John R. Charman**

AXIS completed its acquisition of Connecticut Specialty Insurance Co., a Glastonbury surplus lines insurer. Renamed AXIS Specialty Insurance Co., it will specialize in

large commercial property business with an initial emphasis on high excess and buffer layer excess programs.

It will be licensed as a surplus carrier in 38 states. Part of the company's underwriting profile will be primary placements.

Dennis B. Reding will be joining AXIS to run its US Specialty Insurance operations.

John R. Charman, President and CEO of AXIS Specialty Limited said, "We are delighted that Dennis and his team have chosen to join us at AXIS. We are fortunate to have someone of Dennis' reputation and expertise in the industry available to take on the leadership of our Specialty Insurance business here in the US and we welcome him to our senior management team."

Mr. Reding is to become President and CEO of AXIS Specialty Insurance Company; he will be joined by Marshall Turner and other senior professionals from Combined Specialty Group. AXIS Specialty Insurance Operations will be headquartered in Atlanta with locations in New York, Chicago, Los Angeles and Glastonbury, Connecticut. Mr. Reding's team will also be joined by William Boornazian and the AXIS Specialty property team based in Glastonbury.

Mr. Reding was most recently CEO of Combined Specialty Group and prior to that was President of ACE, INA and President and CEO of ACE USA. He currently serves on the Board of Directors of the American Institute CPCU and the Insurance Information Institute.

AXIS Specialty Ltd. is one of several

new Bermuda companies formed after Sept. 11, 2001, in response to market dislocation in the global insurance and reinsurance markets. The company announced net income of \$92.1 million for the third quarter and \$153.8 million for the nine months ended September 30.

Gross premiums written for the quarter and the nine months ended were \$252.3 million and \$778.7 million. Of the premiums written during the quarter \$179.1 million was derived from specialty lines and \$73.2 million from treaty reinsurance.

Specialty lines and treaty reinsurance accounted for \$483.9 million and \$294.8 million, respectively, of the premium written for the nine months. Net premiums earned were \$167.7 million and \$317.8 million over the same periods. Net investment income, including realized gains, was \$28.3 million and \$71.6 million for the quarter and the nine months.

The company generated a combined ratio of 63.3 percent for the quarter and 74.9 percent for the nine months. Shareholders' equity was \$1.8 billion as of September 30, 2002.

Mr. Charman said, "Our strong third quarter earnings confirm that the transformational nature of the global insurance and reinsurance market dislocations are indeed creating an exceptional opportunity to establish long term strategic value for AXIS. We continue to be extremely focused and disciplined in our business approach."

By December 2002, AXIS also completed the acquisition of professional reinsurer Royal & SunAlliance Personal Insurance Co. Domiciled in New York, and with capital of more than \$375 million, Royal & SunAlliance Personal Insurance's name is being changed to AXIS Reinsurance Co.

AXIS Reinsurance was expected to offer traditional and specialty property and liability reinsurance products, such as directors and officers, medical malpractice, umbrella, workers' compensation, marine, property pro rata and property per risk.

AXIS Reinsurance Co., AXIS Specialty Ltd. and AXIS Specialty Insurance are rated A- (Excellent) by A.M. Best Co.

AXIS Specialty has also been assigned an 'A' ("Strong") financial strength and counterparty credit rating from Standard &

Poor's. The 'A' financial strength rating has also been assigned to its four wholly-owned operating subsidiaries: AXIS Re Limited, AXIS Specialty Europe Limited, AXIS Reinsurance Company and AXIS Specialty Insurance Company. Subject to Standard & Poor's due diligence at the time, it is also anticipated that the rating will be extended to Sheffield Insurance Company upon the receipt of regulatory approval of the transaction.

Mr. Charman said, "We believe that our rating from S&P is a substantive confirmation of all our efforts in 2002. We now have global licensing capabilities and a fully developed infrastructure and management team to support them. From a standing start a year ago, we have the ability to deploy our capital in the most important insurance and reinsurance markets in the world."

Mike Morrill, President and Chief Executive Officer of AXIS Re said, "We are very excited to be able to provide our US clients and intermediaries with solutions to their underwriting and capacity needs for these transformational times."

AXIS Specialty Limited is a Bermuda based company with shareholders' equity in excess of \$1.8 billion, focusing on reinsurance and specialty lines of insurance.

## Sovereign writes Vietnam

Sovereign Risk Insurance Ltd. has signed a landmark political risk insurance agreement with the Asian Development Bank for a utility project in South Vietnam. Sovereign is supporting ADB's Political Risk Guarantee that covers a commercial financing tranche for the Phu My 2.2 power project.

This transaction marks the first Political Risk Guarantee issued by ADB under its Coguarantee Program. The \$25 million, 12.5-year Political Risk Guarantee covers a syndicate of commercial lenders. ANZ Investment Bank, Societe Generale and Sumitomo Mitsui Bank are acting as co-lead arrangers for this ADB PRG facility.

Phu My 2.2 is a 715 MW gas-fired power project located near Vung Tau in southern Vietnam. It is the first build-operate-transfer (BOT) power project in Vietnam and is the first large, international project financing in Vietnam.



# Top reinsurer outlines the way forward

■ continued from page 1

He also recommends the taking of political action to defeat those who are opposed to change. He cited a wealth of evidence that change is needed.

Directors and Officers liability insurance is in short supply, after experiencing an unprecedented level of frequency, and is, at present, only available at staggering prices, and only to the best risks.

Mr. Kramer continued: "Insurance companies are fleeing the malpractice business, and the availability of affordable health-care throughout the country is being compromised by the loss of doctors, nurses and critical care facilities unable to shoulder the burden.

"Class actions are at an all time high and the good news for the media from that nonsense is that advertising by lawyers, seeking to accumulate plaintiffs for a class action makes up for the revenue lost from the tobacco advertisers.

"You know my company can't afford the extensive media blitz, that asbestos and plastic pipe plaintiffs' attorneys can. Their budget includes several full pages weekly in Time magazine and 30 second national TV spots on ABC World News Tonight and NBC Nightly News. That's right. Only plaintiff's lawyers have that much money.

"What a world."

"Naturally, reinsurance prices are up, accordingly driven more by primary demand than by limited supply. Quite candidly, supply is adequate for well-priced risks as the new capacity partially offset the decline in capacity from some of the older players. Suddenly my new best friends in Bermuda are running a raft of start-ups."

Back in the primary market, he said insurance prices in some lines are rising at rates ranging from 6 to 50 times the rate of inflation.

Mr. Kramer warned: "A significant portion of asbestos litigation is a massive fraud piggy-backing on the heels of a national tragedy. Victims of mesothelioma, a deadly cancer with a long latency period, are finding compensation more difficult to obtain as thousands, if not millions, of healthy individuals with only incidental exposure, seek to raid the coffers of virtually any company that ever came near the

product directly or through acquisition."

He said, "Already, 62 major American industrial corporations have been driven into bankruptcy over this issue - three in just the last three weeks. Needless to say, the distrust of the jury system, the corruption of due process and the specter of ruin, brings many innocent defendants to their knees. Settlements are extracted that are virtually legalized blackmail."

He added that several studies reviewed by the Rand Institute, noted that about 75 percent of all cases filed showed no identifiable medical impairment. But lawyers continue to target corporations by their ability to pay - contingency fee lawyers who, he said, judges allowed to charge fees up to \$25,000 an hour.

He cited Professor Lester Brickman of Yeshiva University - who studied the Johns-Manville situation - who noted that no group has amassed such wealth and power as the contingency fee lawyers have, since the Robber Barons of the late 19th century.

Mr. Kramer also said mold, or water accumulation damage, has the residents of a New York City apartment complex suing the owners for \$12 billion. "nearly twice the cost required to re-build the World Trade Center, and twice the gross domestic product of Ethiopia."

"Mold is not toxic," said Mr. Kramer. "It's existed for 400 million years. It's common everywhere." Yet in Texas, the average cost of coverage per policyholder has risen 1,805 percent between the first quarter of 2000 and the third quarter of 2001.

Mr. Kramer said, "Two of the most efficient personal lines companies - State Farm and Farmers Group - have stopped selling policies, with Farmers canceling 58,000 policies a month.

"Many of the claims practices and mold remediation tactics there, are simply fraudulent. Instead of using Clorox - the most effective mold killer on the market - homeowners are encouraged to remodel by letting the damage spread and then have everything replaced. In some cases mold remediation firms send in employees in biohazard suits purporting to deal with this dreaded substance.

"And what can Florida learn from Texas. All they need to do to wreck a fragile

All they need to do to wreck a fragile homeowners market devastated by shortages of catastrophe insurance is to let the mold lawyers take over.

"The system is broken. It has to be fixed. Fortunes were made on mold by a few law firms but now the awful consequences are clear: Mold may not be toxic but the tort liability system is."

Mr. Kramer further commented on medical malpractice, by offering: "The plaintiff's bar would have you believe that by the mere threat of a lawsuit the quality of medicine has been improved.

"Don't they read the newspapers. Everywhere critical care facilities are closing. The staggering cost of medical care is destroying medical practices everywhere. Doctors trained in obstetrics and gynecology, are an endangered species. Rising costs are driving millions out of the health care system. We haven't raised the bar we've

## Sovereign writes Vietnam

■ continued from page 10

The project's sponsors are EDF International of France, Tokyo Electric Power and Sumitomo Corporation of Japan. Other lenders to the project include JBIC, ADB, Proparco (a French development bank) and the World Bank. The Phu My 2.2 project was recently named "Project Finance Deal of the Year" by Finance Asia and AsiaMoney and "Asian Power Deal of the Year" by Project Finance.

Sovereign's President Price Lowenstein noted that: "We are very proud to have been the private political risk insurer selected by ADB to support the structuring and launching of ADB's inaugural Political Risk Guarantee under the Coguarantee Program. We believe that this structure, which brings private sector underwriting experience and capacity under an ADB Political Risk Guarantee, will be applicable for other large infrastructure project financings in Asia. Sovereign works with financial institutions and bilateral and multilateral agencies on a global basis, and we are very pleased to be the first private sector underwriter to participate in an ADB PRG transaction."



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