BERMUDA Insurance Update

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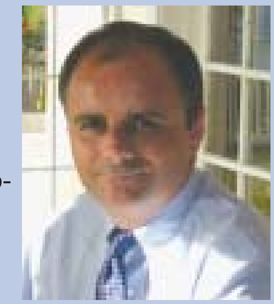
IN THIS ISSUE

Capacity issues in the market have strengthened Bermuda as a major capital for risk transfer. No longer an afterthought on the note pad of buyers of insurance and reinsurance; no longer simply the largest and most innovative captive insurance market; Bermuda's reputation as a mature and useful market has blossomed…..D&O cover in the domestic market has been hard to get. Buyers are finding it in Bermuda... Captive managers seek answers to long standing problems...Large US and European pharmaceutical and medical goods companies have taken action to add another layer of risk protection, with the establishment of a mutual insurer….One of the Island's market leaders shuffles executives and still finds all hands on deck.

Insureds find needed D&O cover



Tony Hay

The cost of Directors' and Officers' (D&O) cover is still trending higher this year. Buyers trying to mitigate large program risks are increasingly looking for answers on the Island, seeking face-to-face meetings with Bermuda insurers. But top professional liability underwriters have warned that with new markets committing added capacity, carriers need to exercise underwriting discipline. The concern is that should a pricing war start, it could again lead to severe problems with the provision of D&O cover, that began more than a year ago, with too little capacity and unstable rates.

Tony Hay, Senior Vice President, Arch Insurance (Bermuda) Ltd., said "With respect to the impact of the newer Bermuda carriers (those that started writing business in 2003), it's important that rates and terms stay realistic so that limits remain sustainable, and my hope is that level heads will continue to prevail. I'm expecting that despite the more crowded marketplace, underwriters will take account of the exposures, and we won't see an adverse impact on pricing caused by new market entrants. The exposures are still very real, even in the high excess layers. The potential severity of claims continues to be very high.

"The hard market has affected D&O in a more noticeable way than the other professional lines. For example, we also write E&O (errors & omissions) for lawyers and other professionals. There, capacity has contracted and prices have been going up. But the premium increases haven't reached the same pitch as in D&O."

David Bell, Vice President and Worldwide Manager of Professional Lines at Allied World Assurance Company, Ltd., agrees: "The professional lines industry, and D&O in particular, has taken such a profitability beating over the last several years that although rates may stabilize in the coming months, it is going to take a while for the sins of the past to be corrected. There are still a large number of corporate meltdowns yet to be litigated, and a likelihood of more high profile corporate scandals to come. These events will contribute to the behavior of both the new, and existing, D&O players."

Mr. Bell added, "Through 2002, there were significant reductions in D&O capacity available domestically for companies with US securities exposure. This made it difficult to complete larger programs onshore, which resulted in significant amounts of capacity shifting to Bermuda.

"As we finish the first half of 2003, there is more D&O capacity available now then at this time last year. The existence of new markets, subsequent to numerous carriers running off business or becoming insolvent, means insureds will want to focus on the financial stability, infrastructure, and long-term commitment to this product line, prior to placing business."

David Bell

Said Mr. Hay, "For 2003, D&O premiums have been rising on average by about 50 percent so far over 2002. But it varies widely based on the account specifics, for example such things as claims experience, financial performance, and the extent to which a particular account's premiums have been increased previously."

When the market started to harden over 2001 and 2002, new capital found its way to Bermuda and new carriers were set up. Over the past year and a half Bermuda transitioned from having three or so D&O carriers (ACE, XL, Starr) to nine (Arch, AWAC, Endurance, Everest, Max Re and AXIS).

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Drug and medical firms form mutual

J. Oliver Heyliger

Several pharmaceutical and medical products companies working in conjunction with captive management firm, Willis Management (Bermuda) Limited, and the large accounts practice of Willis Group Holdings, have established a new mutual insurance company to write the risks of its members.

The new Bermuda company is managed by Willis Management, headed up by long time insurance professional J. Oliver Heyliger.

Pharmaceutical Insurance Limited (PhIL) is a Class 2 Bermuda insurer, and is an assessable mutual, meaning that it can assess additional premiums from its insureds should the losses exceed expectations.

The company, which issued its first policy July 1, provides excess property damage and business interruption coverage for a layer of $150 million, excess of $50 million per occurrence.

Mr. Heyliger noted: "PhIL intends to write only first party risks either directly or as a reinsurance of the member's captive.

"There have never been any losses to the pharmaceutical industry in excess of $50 million, consequently it makes a lot of sense for PhIL to attach at this level," he said.

"Bearing in mind the insurance attachment point, PhIL will appeal to larger companies.There are minimum gross revenue requirements for potential members," he added.

The membership of the new mutual is made up of large US and European manufacturers who have historically experienced significant volatility through insurance market cycles and whose plan is for PhIL to provide long term premium and coverage stability.

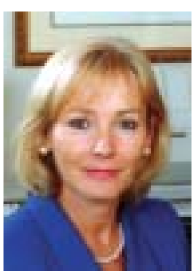
Members have advised that it is not their intention for PhIL to replace the conventional market, but to work in conjunction with the markets. With billions of dollars of exposed values, the pitching of the attachment point at $50 million means that the companies can maximize their premium savings while accepting a layer of risk in excess of a normal working loss layer.

"The exposures underwritten are premier risks from an engineering perspective and the insurance offered by PhIL will eliminate the restrictions on coverage for natural catastrophe perils, terrorism and other coverage restrictions through the use of a manuscript wording," Mr Heyliger said.

"It is certainly anticipated that PhIL will grow with the addition of new members. This is an industry mutual and its current membership and future members are not limited to clients of Willis."

The seven founding members reportedly are Europe's GlaxoSmithKline, AstraZeneca, Aventis and Sanofi-Synthelabo and from the US, Bristol-Myers Squibb, Baxter International and Becton Dickinson.

XL's Fiona Luck: APIW Woman of the Year



Fiona Luck

Fiona E. Luck, Executive Vice President of XL Capital Ltd Group Operations and Assistant Secretary, was awarded the 2003 Insurance Woman of the Year by the Association of Professional Insurance Women (APIW) during an awards ceremony in her honor in New York City.

The APIW Insurance Woman of the Year Award was first presented in 1976 and recognizes women with outstanding achievements in the insurance industry. It is the leading organization dedicated to the advancement of professional insurance women and to the recognition of their contributions to the industry.

XL President and Chief Executive Officer, Brian M. O'Hara, said: "We are thrilled that the APIW has acknowledged Fiona for her outstanding work in the insurance industry. This award recognizes Fiona's tremendous dedication and hard work over the years and all of us at XL are proud to work with her. She is a valuable asset, not only to XL, but to the industry as a whole. We congratulate Fiona for this well-deserved recognition."

Ms Luck began her insurance career in 1983 with Marsh & McLennan. In 1992 she became one of the youngest Managing Directors at Marsh & McLennan and was selected to head Marsh's Global Broking operations in Bermuda. In 1997, she joined ACE Bermuda, as Senior Vice President of Financial Lines, where she was responsible for all Alternative Risk operations. She was later made Executive Vice President of Joint Ventures and Strategic Alliances.

In 1999, Ms Luck joined XL in the newly-created role of Executive Vice President of Group Operations. She is responsible for group strategic planning, business planning, global human resources, global information technology, global marketing, internal audit and for the integration of acquisitions and start-ups.

Named a Rising Star by Business Insurance magazine in 2002, Ms Luck is also a Trustee of the Bermuda Biological Station for Research, a Bermuda Government appointee to the National Drug Commission, and a Trustee of the Masterworks Foundation, a registered Bermuda charity and trust.

Ms Luck obtained her Bachelor of Arts degree in Economics and Finance from Manchester University in England and is a member of the Institute of Chartered Accountants of Scotland.

Captive managers see market change

Issues with fronting, reinsurance and higher capital requirements have been impediments to even stronger captive formations in the hard market. There were 43 international insurers incorporated in Bermuda in the first six months of the year. But at least one leading captive manager believes that without those impediments, the number could have tripled.

Managers say that eventually more insurance company capital will be dedicated to fronting, although at present, those companies are chasing more lucrative business.

Head of office at Marsh Management Services Bermuda Ltd., Rory Gorman, said that a soft market will bring more capital from the insurance industry to fronting arrangements.

He said, “While I doubt that the level of commitment to fronting capacity will ever get back to where it was in the eighties, you are already seeing some interest from the recent Bermuda start-ups. Endurance, for example, has significant interest in medical malpractice. And they are licensed onshore.”

President of Quest Management, Nick Dove, said, “There is an enormous opportunity there. Right now, I believe that only one in three of those interested in forming a captive is able to move ahead, because of these issues. And those who are fronting are demanding higher capital requirements of those firms who do proceed to establish a captive program.

“In fact, there is another opportunity. We’ve been talking to people who are interested in providing that capital for captive programs or rent-a-captive programs because they see an opportunity in this era of low investment returns, to provide a better investment return for themselves.

“These capital providers could be insurance companies, capital markets or private investors. The investor could help with money to get the captive up and running, because they see it as a great program.”

In other trends, Mr. Gorman said that Marsh is finding that a number of existing Bermuda captive owners are seeking ways of using their facilities for selected employee benefits programs.

He said, “If they do use them, it is through the US branches. We’ve seen over the last 18 months, much more interest in standard, retention-driven property and casualty captives…the standard workers comp GL/AL package.

Nick Dove

“And there’s a lot of interest in insuring US property risks, as opposed to virtually none of those enquiries before. That’s a product of increased retentions.”

Mr. Dove added, “No one talked of putting US property risks in Bermuda captives until the last year or so. And now we are getting a lot of enquiries about that.

“But apart from increased retentions in captives, we’ve also seen old captives which were moth-balled, now being revived and used again. These were cases where owners de-emphasized captives when the market softened and went back to the market for coverage that is now, no longer there, or too expensive.

“I’ve always said that buyers should look at captives as a long-term tool, using the fluctuations in the commercial market as a complement to a captive program as opposed to moving completely in and out.

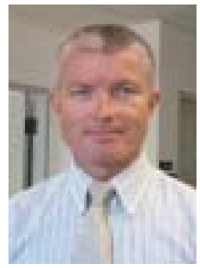
“And reinsurers prefer that you have “skin in the game”, so to speak. They are more likely to be comfortable with the risk, when they see you taking an interest in a higher retention level. Consequently we are seeing reinsurers taking more interest in quota sharing layers rather than only taking excess layers.”

Meanwhile, the increasing number of US states that are promoting themselves as captive domiciles is having more effect on the major US domiciles, than on the offshore jurisdictions.

Mr. Gorman said, “The new domiciles in the US are simply fragmenting the US market. There may be a tiny bit of cannibalism of offshore, but I’d say it’s very tiny. It’s a bigger issue for the strong US domiciles, like Vermont and Hawaii.”

Clients still tell Bermuda captive managers that as a jurisdiction, there are several issues that separate the Island from many other captive jurisdictions.

The Marsh executive said that history, reputation, the strength and ease of regulation and the caliber of the Island’s infrastructure, are key reasons some clients still prefer Bermuda over other jurisdictions.



Rory Gorman

Mr. Gorman said, “Regulation is a key one. There is no chopping and changing at political whims.”

And Mr. Dove noted, “The new jurisdictions have not yet developed the infrastructure required to give the service to captives that is found in Bermuda.

“I’ve seen visitors here who have met with different lawyers, bankers, captive managers, investment managers, auditors and tax experts. And they tell me that they are stunned at the variety and depth of expertise here. They are surprised at how developed business is here, and how much of the various professions know about captive insurance and how they can help captive programs.

“Bermuda still has unparalleled expertise in this area.”

Mr. Gorman added, “No other domicile can bring to the table the number and variety of experts that are critical to captive management as you’ll find here. People looking at captive insurance are smart people. They see that there is a lot more going on here than just captive management. There is a wealth of knowledge here. And they see a solid, stable jurisdiction, with a strong economy.”

ACE issues shares

ACE Limited has issued approximately 11.8 million ordinary shares in satisfaction of the purchase contracts underlying ACE's Feline Prides.

The consideration for the issuance of such ordinary shares consisted of substantially all of the ACE 8.25% Cumulative Redeemable Preferred Shares Common Series A. The impact of the issuance has been included in previously provided earnings guidance.

Allegro to focus on SAC reinsurance

Leading independent providers of captive management services, Allegro Insurance & Risk Management Ltd. has emerged out of a management buy-out of Castlewood Limited's captive insurance operation.

But President and CEO, Andy McComb, faced with Bermuda's leading captive community that is dominated by the global leaders, has placed significant focus on, and excelled at, the niche business of segregated accounts reinsurance. Allegro currently manages 21 segregated account companies.

Andy McComb

Mr. McComb pointed out: "Because of the hard market and carriers pulling out of certain lines of business, clients are forced to find new markets, or funding approaches, in a very short time frame.

"Segregated Accounts Companies (SACS) have responded very well in being able to implement self insurance programs quickly. It's generally faster to implement a cell program than to set up a full-fledge equity captive, from scratch.

"These SAC companies are facilitators and generally are not retaining any risks for their own account. The regulatory parameters for these companies is that there must be a finite aggregate exposure, and that has to be fully funded through a combination of premium, other reinsurance and capital from the risk participants.

"There are some facilities that do take risk, but they would be more akin to a commercial reinsurance type arrangement."

Bermuda had more than 105 SAC, or cell companies, and a further 37 private act companies on the books by April 2003.

Allegro has more than 100 client relationships through captives and SAC programs, and the firm's SAC reinsurance facilities have more than $100 million of SAC program assets. Clients are single parent, agency or group captives, or affiliates of traditional insurers and reinsurers.

Mr. McComb said that the company tends to get involved with clients at an early stage in their establishment, assisting with the development of the business plan, the formation and licensing of the company.

Allegro's style, he said, is to provide services very tailored to individual client objectives and to provide strategic input through a team of knowledgeable professionals.

He said, "The diversity of our client base and client ownership provides us with a very broad understanding of issues and options, as well as execution alternatives. Too much of a focus on one area of the alternative risk market can limit the ability of a service company to understand the broader market options, and develop innovative approaches to resolve the challenges that our clients encounter.

"One area in which we are the recognized leader and have a concentration of clients is in setting up, managing and developing segregated accounts companies, often referred to as protected cell companies or rent-a-captives. While this is a focus of ours, due to the diversity of the over 100 programs facilitated by our segregated accounts company clients, this concentration still exposes our staff to a broad range of property and casualty exposures and industries.

"The extensive use of segregated account companies is a fairly recent alternative market phenomenon, though some of our professionals have been managing this type of risk facility and programs for nearly 20 years.

"As with any specialization, this concentration of clients has allowed us to develop a significant depth of understanding and experience of numerous structures and applications for segregated account companies."

But he said consolidation of brokers, insurers and reinsurers has led to an opportunity to build on the demand for objective structuring, valuation and execution of alternative risk programs.

Castlewood Limited together with Avondale Holdings Ltd. this spring agreed to the sale of their captive insurance management operations and alternative risk reinsurance facilities to the company management.

The management, employees and systems of Castlewood Risk Management Ltd. were transferred with the company and it was re-born as Allegro Insurance & Risk Management Ltd.

Mr. McComb said following the change of ownership the new group is positioned as one of Bermuda's few truly independent providers of captive insurance management services, and unequivocably, the leading independent provider and manager of segregated accounts reinsurance facilities.

Asked about Bermuda's positioning in the SAC program business, he said, "No official statistics have been released on the extent of Bermuda's SAC business. However, a Business Insurance survey of the largest SACs and leading SAC managers, reveals that Bermuda has more SACs than any other domicile.

"Intuitively, I would say that when the forthcoming BIMA (Bermuda Insurance Management Association) SAC survey is completed and the figures released, we will see a significant growth in not only the SAC facilities listed but also the number of established programs."

Capital Crunch

Trenwick Group Ltd.'s Board of Directors has authorized the senior management of its Lloyd's of London business - Trenwick Managing Agents Limited - to seek alternative sources of capital. It is to replace Trenwick's ownership of TMA and the current capacity provided by Trenwick and its subsidiaries on composite Syndicate 839 and life Syndicate 44 from industry partners, private equity and other financial sources.

Syndicate 839's authorized capacity for the Lloyd's 2003 year of account is $508 million, of which $333 million is provided by Trenwick, and up to $175 million by National Indemnity Company, an affiliate of the Berkshire Hathaway Group. Syndicate 44's capacity is $7 million of which $4 million is provided by Trenwick. Syndicate 839 had been successfully repositioned over the last two years.

OIL's gross insured assets rises

The amount of gross assets insured in a Bermuda energy mutual has more than tripled over the last five years, and is now approaching a staggering $2 trillion.

Oil Insurance Limited (OIL) has provided stable and cost-effective insurance capacity to the energy industry shareholders for 31 years, initially only to oil companies. In 2001, eligibility requirements were broadened to include utility, mining and non-petrochemical companies.

That decision had brought 26 new members to the company in the year to January 1 of this year, increasing total membership to 81.

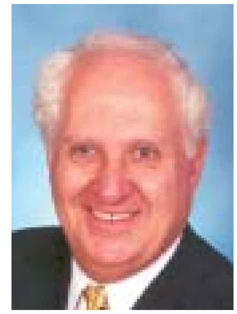
They joined an organization that remarkably provides one of the largest blocks of catastrophe property damage and pollution liability insurance capacity available. This has allowed international energy firms to use their OIL entry as a cornerstone of their over-all insurance program.

OIL President and CEO, Jack L. Wesley reported to members: "2002 was another year of unprecedented growth in assets insured in OIL, both as a result of extensive merger and acquisition activity among existing members, as well as continued interest from prospective members operating in all areas of the highly diverse energy community. 2002 was a challenging year."

Members of the mutual benefit from the growth in the membership because loss volatility is dampened when the base of assets insured, widens.

In an operational review, the company stated: "While OIL members benefit from the growth in assets insured, due to the intrinsically more stable rates that result from such growth, more capital in absolute terms is required to support the growing base of insured assets.

"However, the efficiency of capital employed improves because, due to the lower loss volatility, the company requires less capital per unit of assets insured.



Jack Wesley

"OIL has experienced enormous growth over the past seven years, but the company has not compromised its fundamental principles of focusing on providing catastrophe insurance coverages, specifically tailored to the insurance industry.

"Against a backdrop of turmoil and change in the outside world, OIL's ability to continually provide stable and quality products in the most cost-efficient manner to members must be viewed as an extraordinary achievement by any measure.

"OIL exists for one purpose and one purpose only – to pay claims incurred by members during the course of their operations."

Reinsurer nearly doubles its size

Patrick Thiele

In just its tenth anniversary year, PartnerRe is recognized as one of the top five global reinsurance franchises, according to a survey of reinsurance buyers.

But President and CEO, Patrick Thiele, has advised shareholders that with all of Bermuda reinsurer's successes in recent years, the 12.5 percent operating return on beginning common shareholders' equity, was just not good enough.

His annual letter stated, "The August (2002) floods in Europe and turmoil in the agriculture and credit and surety segments restrained results.

"While this performance was superior to many in our industry, it was not at the level we expect of ourselves, or what you deserve. We expect to exceed our long-term goal of 13 percent in 2003."

PartnerRe has almost doubled its size in the last two years, while growing its net premiums by 45 percent to $2.66 billion last year alone.

This growth occurred in a challenging period for the industry. Reinsurance prices, terms and conditions improved or stabilized across the board, but the year 2002 was also a difficult year for many in the insurance and reinsurance markets.

Reserve deficiencies and poor investment markets led to substantial capital reductions, and dislocation or disruption among some of the world's top reinsurers. As 2003 dawned, the face of the reinsurance industry had dramatically changed.

Said Mr. Thiele, "We achieved this growth across virtually all our lines and geographies, highlighting the value of our global spread and diversification, which is as complete as any reinsurer in the world.

"Most importantly, we achieved this growth while improving the underlying profitability of the business."

PartnerRe remains blessed with a strong balance sheet. While many reinsurers were forced to take large additional reserve charges to cover prior year liabilities, the company's conservative reserving history meant that any prior year loss development was handled in a normal fashion.

Mr. Thiele also noted: "Our investment strategy protected our capital from the precipitous decline in the worldwide equity markets. We raised an additional $93 million in common equity, further strengthening an already solid capital position."

The company also completed a three year project to install a group-wide underwriting system. All PartnerRe operations worldwide now operate on the same systems platform in underwriting, finance and accounting. One IT system, with standard reports, definitions and strong analytics, will have a positive impact on the long-term loss ratio.

PartnerRe writes most lines of reinsurance business in over 120 countries.

Captive climate is good for the future

A leading Bermuda insurance executive concluded that while reinsurance and fronting was less available and more expensive in today's market, there was still sufficient of both to make a captive still feasible.

Senior Vice President of Business Development at ACE Bermuda Insurance, Roger Gillett, made this comment while chairing the recent International Captives Congress (ICAP) at the Fairmont Southampton Princess Hotel in Bermuda.

Mr. Gillett was summing up after a day of intensive discussions about issues affecting the captive industry.

A subsequent session reviewed the use of captives for difficult classes, and a detailed presentation was made on the difficulties facing the US healthcare industry.


Roger Gillett

The ensuing discussion clarified why medical malpractice has become such an attractive risk for insurers and reinsurers.

But there were suggestions as to how claims, and consequently insurance costs, could be controlled or reduced.


Mark Lima

The final session of the insurance conference provided a solution to managing the impact of difficult or uninsurable risk, with Mark Lima, Executive Vice President of ACE Financial Solutions International, describing in some detail, actual case studies of captives using risk smoothing devices.

Such devices combined financial structuring with real risk transfer, indicating that as a result of the hardened market, interest from captives was at an all time high.

Meanwhile, a leading captive lawyer stated that the US tax climate had never been better for the formation of a captive insurer.

Tom Jones, Partner with international law firm, McDermot, Will and Emery, said the US tax authorities were increasingly satisfied that captives were not being set up by corporations chiefly to avoid taxes.

He said that actions taken by the Internal Revenue Service in the spring, seemed to indicate that there will be less IRS scrutiny of captives, except in cases of abuse.

Mr. Jones opined, "The tax climate in the US is better than it has ever been for captives." He felt that this occurred as the IRS became more educated about the captive concept.


Tom Jones

The conference also heard Robert D. Wisecover Jr., senior vice president of strategic services, Sedgwick Claims Management Services Inc., say that it was important for captives to evaluate the quality of service obtained from service providers, such as claims and policy administrators.

It is important, he said, to rate the competing providers to ensure that the selected firms are a good fit with the captive.

Risk Manager explains Verizon's captive strategy

Delegates to the International Captives Congress (ICAP 2003) learned first hand how telecommunications giant, Verizon, put faith in captives to further its insurance strategy.

Assistant treasurer of risk management and insurance for Verizon Communications, Sheila Small, said that over the years, the company had found many advantages from the use of their captive insurers.

Named the 2003 Risk Manager of the year by Risk & Insurance Management Society, Inc. (RIMS), Ms Small said Verizon used three captives as risk financing options.

Citing the captive as a tool, she told how captive insurers had been used as risk management facilitators, a source of customized solutions for key problems, and as an investment opportunity, to name a few.

One key advantage, she said, was knowing that the insurer was going to be there, when it was really needed. This was a very real concern, she pointed out, with companies like Reliance and Kemper pulling back from the market.

Ms Small said that it was better that the firm directly controlled some of their insurance programs through captive insurers.

The insurance market fall-out from the terrorist attacks on September 11, 2001 brought difficulties for the firm in getting property coverage, necessitating the use of captives to ensure coverage.

And this saved the company between $15 million and $25 million in insurance costs.

One key value of the use of captive insurance, which came to light for the company over the past year, became apparent when Verizon sought to handle the difficult problem of getting an E&O (errors & omissions) policy.

The hard market had substantially increased the price for cover being charged by insurers in the traditional market. In some cases, the price was close to half the coverage amount.

After hearing what the firm felt was an unreasonably high quote from one insurer, they opted to write E&O through one of their captives. It was not an easy victory for Ms Small to convince management to take this route, but she said it brought the E&O deductible down to two million dollars from $15 million.

The commercial insurer was very surprised that Verizon took this option and returned with a better quote, which was also rejected.

ICAP 2003 The International Captives Congress

Interest in cell companies firms, as law evolves

Cell captives and rent-a-captives are experiencing a revival despite minor a lull period following numerous incorporations in the early 1990s.

This is the view of Michael Burns, Partner and Deputy Insurance Team Leader at Appleby Spurling & Kempe's Bermuda offices, who said that such business has been the product of the offshore world in general, and Bermuda particularly.

Michael Burns

And he said in light of recent US legislation such as the Sarbanes-Oxley Act, improvements are being made to the legislation not only to enhance flexibility and hone utility, but also to ensure that the rigorous standards of entry into the Bermuda market or "Bermuda Club" are maintained.

Mr. Burns said, "The SAC Amendment Act 2002 is a perfect example of streamlining the existing legislation effecting more efficiency for clients whilst not sacrificing rigorous general standards including those relating to accounting procedures.

"Many observers believe that the concept of segregated accounts is particularly well suited to a wide range of international business structures in Bermuda and that the responsible yet flexible nature of the SAC Act will assist in the continuing development of the offshore sector, particularly in Bermuda."

Speaking at the International Captives Congress (ICAP 2003) at the Fairmont Southampton Princess in Bermuda, Mr. Burns remarked: "A current intensity of interest in the success of arrangements which may be structured to offer alternatives to more conventional risk management options available in traditional insurance markets has become very evident."

The term "rent-a-captive" applies to any arrangement where the insured party obtains benefits equivalent to those provided by standard forms of captives without actually participating in ownership or management.

Rent-a-captives "rent" their core capital, surplus, insurance license and legal capacity to engage in underwriting activities to policyholders who are not their voting shareholders.

The flexibility of the rent-a-captive structure is an "evolution" of the traditional captive structure. There are about 1,200 traditional Bermuda captives.

The rent-a-captive is a structure that offers more cost-effective and flexible risk management solutions with particular regard to areas such as workmen's compensation, general liability, automobile liability and professional liability programs.

Rent-a-captive programs can be structured to provide certain advantages such as effectively allowing for unrelated parties to participate in the underwriting profits generated by the risks which they insure via the captive. They also offer the ability to control the rate of the "flow of funds" through the captive, influence the investment of underwriting reserves maintained by the captive, control premiums and pricing and gain access to reinsurance.

The rent-a-captive will provide its program participants with required administrative services and related expertise, the costs of which will be shared proportionately among program participants. Rent-a-captives for the most part consider themselves as service companies. They do not assume substantial risk in respect of the insurance programs of the participants.

Mr. Burns said, "Combined with powerful and innovative, new, legal concepts such as those offered by private Act or registration under the Segregated Accounts Companies Act 2000 (also known as the SAC Act), I believe we can begin to appreciate the remarkably creative potential of the rent-a-captive solution."

One of the most attractive features of Bermuda as a domicile for both captives and rent-a-captives is the flexibility of Bermudian regulation which has brought to the forefront the public registration of segregated cells via the SAC Act.

The incorporation of a segregated accounts company via the SAC Act is the next evolution of the captive. Carrying on from concepts borne from the development of the rent-a-captive, a company registered under the SAC Act opens up a whole new universe of new structures and lowers the threshold or access point to the captive solution.

Companies registered under the SAC Act offer the legal segregation of accounts through the ambit of the public arena. Approximately 40% - 45% of all rent-a-captives are structured to use segregation of accounts. In the past, this has been done administratively through a traditional rent-a-captive structure and legally through the medium of a private Act.

The effect of such statutory division is to protect the assets of one account from the liabilities of other accounts with the result that only the assets of a particular account may be applied to the liabilities of that account. Mr. Burns noted that, while cells are insulated from each other and from the general account of the company, inter-cell transactions are also now possible pursuant to a specific blueprint set out in the SAC Act.

He said, "We anticipate, and it has already begun, that our private Act clients will wish to take the opportunity and convert to registered SAC Act status."

Although private Acts are still utilised with great frequency, the SAC Act has managed to acquire international recognition as a landmark piece of legislation and is certainly now the preferred method for achieving the formal legal segregation of accounts. The application of the SAC Act is not just limited to insurance uses.

New EVP at Max Re

Max Re Capital Ltd. has appointed David Kalainoff as Executive Vice President and Chief Underwriting Officer -- Traditional Reinsurance Operations of its principal operating subsidiary, Max Re Ltd.

Mr. Kalainoff joins Max Re from Transatlantic Reinsurance Company, where he headed Specialty Casualty Treaty Operations.

James C. Gray has joined the insurance team as Senior Vice President, General Manager of Professional Liability. Prior to joining Max Re, Mr. Gray was with XL Capital Ltd. as the Global Practice Leader for XL Professional in Hartford, Connecticut.

Assisting Mr. Gray is Jonathan Evans, who will serve as company Vice President.

ACE shuffles executive deck

At the commencement of summer, an ACE Limited re-alignment of senior executive responsibilities immediately moved Evan Greenberg to President and Chief Operating Officer of ACE Limited.

Mr. Greenberg continues to head ACE Global Reinsurance and ACE Overseas General, and has also taken responsibility for day-to-day operations of ACE Limited, the parent company. His new duties include supervision of all ACE Limited administration functions and learning and development.


Brian Duperreault

The offices of the Chief Financial Officer and General Counsel will continue to report to ACE Chairman and Chief Executive Officer Brian Duperreault.

Dominic Frederico became Vice Chairman of ACE Limited, with continued responsibility for ACE's North American operations, which include ACE USA, ACE Westchester Specialty Group and ACE Bermuda, as well as for all of ACE's financial lines of business.

"We are fortunate to have such a young and highly qualified team available to head up ACE," Mr. Duperreault commented at the time. "This team has allowed us to sustain the amazing growth that ACE has achieved over its 18-year history, while responding to ever-changing industry conditions.

"For a number of years, ACE achieved growth through acquisitions, assembling a global platform that would be difficult to replicate in today's business climate. For the last three years, however, ACE has outperformed its peers in achieving rapid growth through internal resources. For us to extend this track record, execution of business plans will be the key.

"Evan has an exceptional background in this regard, with considerable operational experience gained as the former President and Chief Operating Officer of American International Group. Even more impressive is the record he has compiled since joining ACE in November 2001. Under Evan's management direction, ACE Tempest Re doubled in size, ACE Global Markets returned to underwriting profitability, and ACE Europe and our other international operations were set on a path of highly profitable growth.


Evan Greenberg

"I am also pleased that the Board has appointed Dominic Frederico, one of our most valuable and experienced executives, to the position of Vice Chairman. Dominic has presided over nearly all of ACE's important acquisitions, negotiating terms and conditions and implementing restructuring plans. He has brought ACE USA and ACE Westchester Specialty to unprecedented levels of profitability and will continue to devote his energy to leading ACE to exceptional performance."

Both Dominic Frederico and Don Kramer, ACE's Vice Chairmen, will report directly to Evan Greenberg.

Another firm joins energy mutual

BHP Billiton Petroleum [Americas] Inc. has joined sEnergy Insurance Ltd. Based in Houston, Texas, the firm is a significant oil and gas exploration and production company. Rudd Marlowe, SVP and COO of sEnergy said, "The decision to participate in sEnergy by a company of this quality is further confirmation the broad coverage and $200 million capacity offered by sEnergy is a significant resource for energy companies to use in the structuring of their insurance programs."

sEnergy is a mutual insurance company established in Bermuda in May 2002 by a group of twelve international energy companies for the provision of large limits of coverage for business interruption and excess physical damage insurance.

It is part of the Oil Group of Companies that provide property damage, business interruption, third party liability and D&O coverage to Energy, Chemical, Utility and Mining Companies. sEnergy Insurance Ltd. is a provider of Business Interruption and Excess Property Insurance to the energy industry.

Formed by 12 world-class energy companies with the support of Oil Insurance Limited (OIL), and Oil Casualty Insurance, Ltd. (OCIL) sEnergy continues the tradition of providing an effective risk transfer tool to its membership. sEnergy was initially capitalised at $225 million and has been a hedge against a historically volatile commercial market for its members.

The hardening insurance market of 2000/2001 exacerbated by the tragedies of September 11th 2001 caused difficulties for the buyers of energy insurance. Restrictions in coverage, irrational pricing and shortages in capacity all contributed to the determination of major energy buyers to seek an alternative solution to their insurance needs.

Responding to the immediate demand for affordable, stable and long-term capacity, sEnergy was formed in May 2002 for the benefit of the Energy Industry to serve as a viable alternative to the commercial insurance markets. Following the same successful formula as developed by OIL where losses of its members are mutualized, sEnergy's rating plan will recover the company's losses and expenses over a five-year rolling period.

sEnergy Insurance Ltd. is managed by Oil Management Services Ltd. (OMSL) whose professional staff of 37 individuals is headquartered in Hamilton, Bermuda.

As a highly sophisticated business center, Bermuda is one of the largest insurance domiciles in the world and within this environment, OMSL has achieved an operating efficiency that is unchallenged by any commercial insurer.

With the addition of sEnergy, the OIL Group of Companies continues to maintain its role as a world leader in the provision of energy industry insurance coverages.

Reinsurers to hear former US Senator

Former US Senate Majority Leader George Mitchell will deliver the opening keynote address of the 17th International Reinsurance Congress is to be held on 8-10 October 2003 in Bermuda.

The annual meeting is presented by international accounting house, PricewaterhouseCoopers in association with Hawksmere plc. It usually focuses on the latest developments in the reinsurance market and gives attendees the opportunity to network with key industry professionals.

George Mitchell

The conference (www.hawksmere.com/bermuda) is attended by executives and clients from international insurance and reinsurance companies together with insurance lawyers and consultants. Participants in the panels and workshops throughout the congress include lawyers from major international firms, risk managers, regulators, financial analysts and journalists.

The 2003 three-day programme includes a mix of moderator-led panel sessions, keynote speeches and workshops. The speakers, moderators and panellists are all recognised experts in their chosen fields and represent organisations such as ACE Ltd., Montpelier Re, Lloyds of London, Renaissance Capital Partner and National Union Fire.

The topics to be covered in 2003 include: tort reform; exit strategies; disputes and arbitration; reinsurance collections; an overview of the reinsurance company of the future; D&O liability; captives; and reinsurance pricing.

New for 2003, Hawksmere have joined forces with Cavell Management Services and are staging a Commutations Rendezvous which will run concurrently during the afternoons of the usual Reinsurance Congress programme. The Commutations Rendezvous has been running successfully in Norwich UK since 1997 and gives risk carriers and their clients the opportunity to meet, negotiate commutations and manage credit control proactively.

Alan Quilter, Director of Cavell said, “Bringing finality to books of business and developing exit strategies are matters being addressed by many of our clients and contacts. Commutation enables both of these to be achieved and, our Rendezvous in Norwich has provided an ideal forum for such negotiations.

“We believe that an annual commutation event in Bermuda is not only a natural extension to our Norwich venue but also one which will bring together even more counter parties from around the world. We are particularly pleased that we are launching our first Rendezvous in Bermuda alongside the Hawksmere event.”

Jim Moran, organiser of all Cavell Rendezvous says, “At our annual Commutations Rendezvous in Norwich UK we regularly have companies from around twenty different countries coming together to discuss their business relationships. By siting a Rendezvous in Bermuda, in conjunction with a well-established event run by Hawksmere, we will make it easier for the US markets to meet its international counter-parties”.

Former Senator Mitchell, a Democrat from Maine, was an attorney in private and government practice in the 1960s and 1970s, he was a protégé of Senator Edmund Muskie. Generally considered a liberal Democrat, he was a federal district judge (1979–80) when he was appointed to fill the U.S. Senate seat vacated by Muskie in 1980. In 1984 he became chairman of the Senatorial Campaign Committee.

In 1988, Mitchell succeeded Robert Byrd as Democratic (majority) leader in the Senate and in that position opposed President Bush’s capital gains tax cut in 1989 and Bush’s policies in regard to Tiananmen Square and the Persian Gulf War. Mitchell served on the Senate committee investigating the Iran-contra affair and with his colleague from Maine, Republican William Cohen, wrote Men of Zeal, attacking Oliver North and others for their roles in the scandal.

In 1994, Mitchell declined a nomination to the Supreme Court to aid the Clinton administration in its unsuccessful fight to overhaul the American health care system.

He retired from the Senate in 1995 and became the U.S. adviser to peace negotiations in Northern Ireland, which are discussed in his book Making Peace (1999).

He was credited with the major role in bringing about the 1998 and 1999 accords there.

In late 1998 he was named to head a U.S. investigation into financial scandals connected with the siting of the Olympic Games. Mitchell also headed (2000–2001) a fact-finding committee on the resumption of Palestinian-Israeli violence in 2000; apportioning blame to both sides, it called for an unconditional halt to the violence.

AXIS injects reinsurer with fresh capital

A start-up Bermuda insurer has supplied its reinsurance subsidiary with new money to improve policy holder surplus.

AXIS Capital Holdings Limited made it known that additional capital was contributed to its subsidiary AXIS Reinsurance Company.

The move increaed AXIS Re's policyholders' surplus to over $500 million.

AXIS Re is domiciled in New York and is licensed in all 50 states. It carries the AXIS group rating of "A" (Excellent) from A.M. Best and "A" (Strong) from Standard & Poor's.

Michael E. Morrill, President & CEO of AXIS Re, said, "This latest capital increase is another important step for AXIS in creating one of the most financially secure and highly rated companies in our industry.

“At a time of substantial financial dislocation and the ensuing flight to quality, we continue to demonstrate our absolute commitment to our clients and intermediaries."

Insureds find needed D&O in Bermuda

continued from page 1

This gave Bermuda much more critical mass. The Island is also now a much more diverse market, with impressive capabilities for large D&O buyers. At the same time, the other major markets, London and the US, contracted their limits, and this created enormous opportunities for the stronger Bermuda D&O carriers, both new and old.

Arch's Mr. Hay said, "We've had probably something approaching a thousand submissions in the past year or so. There has been a lot of opportunity for us. We've already been able to build a very good book of business written on a sustainable long term basis, with clients we've been able to choose carefully and underwrite properly.

"In the past year, I think it's fair to say we had even more D&O activity than we expected, as a result of contraction in other markets, including London, and the fact that large companies definitely now seem to want to have Bermuda markets in their D&O programs.

"They generally see a need to have both domestic US and Bermuda carriers involved in a large program, with each keeping the other on its toes. It's a strategic balance. One market can face difficulties when another does not. For example, the problems in the London market over the past few years have changed buying habits.

"Buyers want to avoid having too many eggs in one basket, and the way to do that is to strategically position the D&O program using a number of different markets, rather than to buy everything all in one place.

"It's still extremely busy. I see no decrease in the demand for cover at all. One reason the demand is still there is because of the ongoing severity of D&O claim settlements. Over the past three years or so there have regularly been D&O settlements above $100 million. It has become almost commonplace.

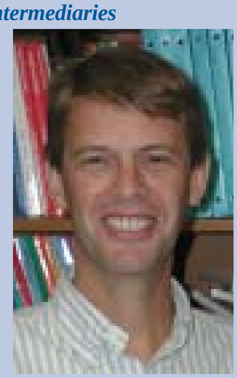
"Corporate governance is an enormous issue. Sarbanes-Oxley is still a big topic. And there is still a large back-log of class action shareholder securities claims that have not yet been settled."

COMPANY	LIMIT	ATTACHMENT	COMMENTS
ACE Bermuda Insurance Ltd.	$75M Side A $50M Side B	$50M for US risks $25M for privately held companies, charities $35M for non-US exposed risks	
Allied World Assurance Company, Ltd	$25M Side A	$10M	All industry classes, Excess cover, Side A only Policies
Arch Insurance (Bermuda)	$25M	No minimum attachment	Can be excess, or excess and DIC
Axis Specialty Limited	$25M	$75M	
CODA Premier	$75M	No minimum attachment	Comprehensive, predictably-priced cover, Can be primary, or excess and DIC
CODA Custom	$75M	No minimum attachment	Hybrid, market-sensitive option, Can be primary, or excess and DIC
Endurance Specialty Insurance Limited	$25M (net)	$25M	
Everest Reinsurance (Bermuda) Ltd.	$15M	$10M	
OCIL	$50M	$25M	OCIL members must buy a minimum of $50M, in total limits between GL and D&O
Max Re Ltd.	$10M	$20M	
Sargasso Mutual Insurance Company Ltd.	$15M primary $15M Excess $25M Side A only	Up to $20M in excess coverage available with minimum attachment of $15M $50M for Side A only product	Coverage is available to eligible US or Canadian domiciled life insurance companies
Starr Excess	$150M	$25M	Fiduciary liability and crime available with D&O
Starr Excess	$150M Side A only	$25M	DIC
XL Insurance (Bermuda) Ltd D&O	$50M Side A $50M Side B	No minimum attachment	Subject to $050M overall maximum limit
XL Insurance (Bermuda) Ltd IDOL	$50M Side A only	No minimum attachment	Can be primary or excess and DIC

D&O CHART - COURTESY BERMUDA MARKET SOLUTIONS

Plain Speaking on D&O

with Alan Waring, Executive Vice President, Arthur J. Gallagher, Intermediaries (Bermuda) Limited:



Over the last two decades Bermuda has been the main source of capacity when there is withdrawal and pricing hikes in the World Market - the net capacity feature of Bermuda makes it a far easier place for clients to negotiate their renewals. That does not mean that Bermuda is cheap, but it does mean that the pricing of underwriters is driven by their own analysis of a risk and not by the reinsurance capacity they buy.

- The security of Bermuda capacity is second to none and the fact that so much of the capital is new and therefore without legacy issues, really helps clients who are taking a long term view of who will be around to pay their claims.
- In total now, Bermuda has in excess of $200m of available D&O capacity and in addition there is a meaningful spread of capacity throughout the layers in a client's program. Attachments of Bermuda carriers can start as low as $10m.
- For Side A DIC cover, Bermuda can rightfully claim to be a market leader, with CODA having led the way for many years.
- Even though much of the capacity is new, all the underwriting talent is made up of seasoned veterans who know the US clients especially well. That means that for many buyers and retail brokers, when they come to Bermuda, they are dealing with people that they have known for many years and so that adds to the comfort level associated with in depth meetings.

Market Movement

Max Insurance Europe Limited, a subsidiary of **Max Re Capital Ltd.**, has received authorization to conduct non-life insurance business in Ireland from the Irish Financial Services Regulatory Authority. Max Insurance intends to write excess casualty and professional lines business for corporate risk management accounts and will market its capabilities through professional international business intermediaries. Max Insurance is in the process of building its platform in Dublin and is headed by John Boylan as Chief Underwriting Officer. He is supported by Colin Shaw and Joseph O'Dea as Underwriting Managers for the Casualty and Professional Lines operations, respectively. Walker Rainey also recently joined Max Insurance as Chief Financial Officer.

XL Capital Ltd has entered into a capital markets transaction to increase its capital resources and capacity to provide reinsurance financial statement credit to its U.S. property and casualty insurance operations. Through the transaction, XL obtained an unconditional right to put up to $500 million of its preference ordinary shares to a high quality asset-backed trust for a period of up to 30 years. The securities issued by the trust were rated "A-" by Standard and Poor's Ratings Group and "A3" by Moody's Investor Services, Inc. The transaction was privately placed.

AXIS Capital Holdings Limited now provides Directors & Officers Liability Insurance and other financial lines coverages through its Bermuda-based subsidiary, AXIS Specialty Limited. AXIS Specialty Limited is offering limits of liability up to $25 million for financial lines coverages underwritten on an excess basis. John Charman, AXIS President and CEO, said, "There is a heavy demand for greater insurance capacity in the D&O arena, with insurance brokers looking to Bermuda companies to provide the additional limits their corporate customers need. As a financially strong company with no legacy exposures, we are well positioned to leverage our expertise in this area and capitalize on new business opportunities in the Bermudian marketplace."

The Bermuda Insurance Index Advisory Committee Insurance Index has added Axis Capital Holdings Ltd.to the Index's constituent base. The total number of Index constituents now stands at twelve, with a combined market cap of $37.9 billion.

The Bermuda Stock Exchange has listed 73,526,150 Common Shares of Montpelier Re Holdings Ltd. The Common Shares began trading on the New York Stock Exchange under the symbol 'MRH'. The BSX listing is a secondary listing.

AXIS Capital Holdings Limited's IPO of 21.5 million common shares, including 13.4 million common shares offered by the Company and 8.1 million common shares offered by its selling shareholders, were priced priced at $22.00 per share. The shares, representing approximately 15 percent of the Company's equity, trade on the New York Stock Exchange under the symbol "AXIS".

RenaissanceRe Holdings Ltd. and its subsidiary companies, Renaissance Reinsurance and Renaissance Underwriting Managers Ltd., have made these promotions and appointments: John D. Nichols, Jr. has been promoted to Executive Vice President - Structured Products and will also retain his position as President of Renaissance Underwriting Managers Ltd. Nichols, a C.P.A, joined Renaissance in September 1995 and is responsible for the management of the Company's joint venture relationships, including Top Layer Reinsurance Ltd. and DaVinci Reinsurance Ltd. Prior to joining Renaissance, Nichols held various positions at Hartford Steam Boiler Inspection and Insurance Company. Peter C. Durhager has joined RenaissanceRe as Senior Vice & Chief Administrative Officer. Durhager has responsibility for the Company's Human Resources & Organizational Development, Marketing, Client Relations, and Information Technology. Prior to his appointment at Renaissance, Durhager was President and Chief Operating Officer of Promisant Ltd., where he was instrumental in setting the strategic vision of the company. Other senior management positions previously held include Chairman and CEO of Logic Communications Ltd. and President and CEO of Millennium International Limited.

The current television campaign for **XL Capital Ltd**, describing the company's fundamental strength in capital and people has won international recognition in the U.S. business film and video advertising industry. The prize-winning commercial, which reflects the findings of XL's customer and broker research, contrasts a range of narrowly-defined business risk management functions against the company's more broadly-based holistic approach to helping customers achieve their business objectives and is a key component of XL's "Fundamental Strength-Capital and People" global advertising campaign. The 45- second production, which currently airs on CNN and CNBC in the early morning and evening, was voted best in its category in the 36th Annual Awards Competition organized by the U.S. International Film and Video Festival. Picked from among 1,500 entries from 28 countries, XL received a first place 'Gold Camera Award' on June 6th during the Festival's International Awards Banquet at the Manhattan Beach Marriott Hotel in Manhattan Beach, California.

AXIS Capital Holdings Limited has established a London branch of its European insurance subsidiary, AXIS Specialty Europe Limited. AXIS Europe is licensed and domiciled in Ireland and able to provide insurance business throughout the European Union. The company carries the AXIS group rating of "A" (Excellent) from A.M. Best and "A" (Strong) from Standard & Poor's. John Charman, President and CEO, said, "The addition of a London underwriting presence enhances the AXIS franchise built up over the last eighteen months and gives us a key presence in each of the significant insurance marketplaces globally. The branch will complement our Irish head office and will assist us with servicing the London broker community."

PartnerRe Ltd. has appointed Kevin Twomey to its Board of Directors. Mr. Twomey, 56, is the President and Chief Operating Officer of The St. Joe Company, a New York Stock Exchange (JOE) listed real estate operating company engaged in residential, resort and commercial development and Florida's largest landowner. Prior to joining St. Joe in 1999, Mr. Twomey held various senior finance positions during his 20-year career in the financial services industry. Prior to that, Mr. Twomey was an officer in the U.S. Navy. PartnerRe President and CEO, Patrick Thiele, commented, "Our Chairman joins me in welcoming Kevin to PartnerRe.

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For more on the Bermuda Insurance Market call the Information Office: (441) 292-9829

THE BERMUDA INSURANCE INSTITUTE

Mailing Address:
P.O. Box HM 2911
Hamilton
Bermuda
Tel: (441) 295-1596
Fax: (441) 295-3532
Email: bii@bii.bm

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