

## CONFERENCE HIGHLIGHTS

### 2006 SPRING CONFERENCE—APRIL 2-4, 2006

Firstly, many kudos to the IRU's Executive Director, Mary K. Clancy, and whoever else might have been responsible for selecting and implementing Bermuda as the venue for the IRU's Spring Conference which was held April 2-4 at the Wyndham Resort. Not only did the weather enhance the scenic beauty of the island itself, but more importantly, there is really no venue more appropriate for a discussion of reinsurance issues than "where the action is" at the moment.

Not only was the venue first rate, but the similar quality of our speakers was considerably enhanced by the involvement of Bermuda's top governmental officials, including the Premier, the Honorable W. Alexander Scott, who addressed and welcomed the IRU delegates during Sunday's opening dinner.

The Sunday gathering was also notable for the presentation of the Roy G. Nelson Memorial Award for outstanding service to past President, John Reinman. Well deserved, John!

During his remarks at the outset of the opening session, IRU President, Tony Joseph, dedicated the meeting to the memory of Edd Erickson, former President who was instrumental in establishing the IRU as a professional industry organization, and taking the former Midwest Reinsurance Underwriters Association well beyond its loose knit, predominately socially oriented character of its earliest days.

On a sad note, Tony also announced the passing of Bob McSwan who was well known to many IRU veterans.

In more positive vein, Tony extended a hearty welcome to the IRU's newest members; namely, Cooper Gay & Cashman, Flagstone Re, G.J. Sullivan, GMAC Re, and SCOR Re. He also profusely thanked Arch Re, AXIS Specialty, XL Re, Renaissance Re, the BMS Group, Endurance, Guy Carpenter, RMS, American Ag, and the EMC Companies for sponsoring various elements of the Spring Conference.

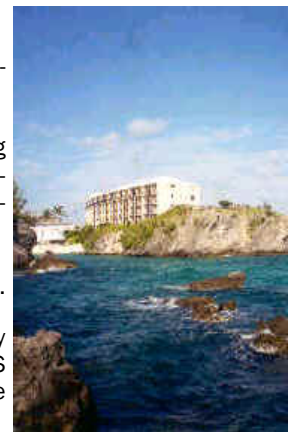
Tony's remarks further emphasized the IRU's interest in new members, and invited current members to volunteer for service on the various IRU Committees, including standing for election to the Board itself.

With thanks to Program Chair, Jay Johnson, and his very able front man, Matt Rose, the official program got off to an impressive start with a **presentation from Jeremy Cox, head of the Bermuda Monetary Authority** which is responsible the regulation of Bermuda companies. Mr. Cox commented that 10 new "Class 4" companies (meeting Surplus requirements of more than \$100 million) have been established in the wake of the 2005 storms, and that invested assets on the island now total more than \$290 billion. The primary focus of the "New BMA", which includes an expanded staff and the adoption of higher regulatory standards, is to achieve a balance between effective regulation and fostering an attractive environment and framework for business interests. In addition, Mr. Cox emphasized that the BMA's regulatory effort is intended to be practical, enlightened and risk-based, consistent with international standards, but appropriate to Bermuda.

During her subsequent comments, **Paula Ann Cox, Minister of Finance** also emphasized Bermuda's commitment to maintaining a strong partnership between government and business, and the need for Bermuda to remain sensitive to changes on the international front. She further pointed out the important need for regulation to be effective, but not burdensome.

**Post TRIA (renewal) scenarios was the very topical concern of Lloyd Dixon, Senior Economist at the Rand Corporation.** During his very informative talk, Mr. Dixon reviewed the extension terms of the TRIA legislation, and commented about the lack of progress in establishing an appropriate role of the federal government in covering terrorism exposures. He went on to emphasize that the government's policy from an insurance perspective should be part of an overall national strategy in fighting terrorism, including a focus on national solidarity and social cohesion.

According to Mr. Dixon, the big issue is whether to pre or post fund terrorism catastrophes, followed closely by a related issue; namely, a



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cost/benefit determination which also needs to be part of the debate.

A highlight of most IRU conferences tends to be the lively interaction among distinguished panelists discussing issues of the day, and the interaction of this year's Bermuda panel did not disappoint. **Moderated by Matt Rose, the Spring panel included James Bryce – IPC Re; Robert Cooney – Max Re; Marc Grandisson – Arch Re; Ken LeStrange – Endurance; and Brian O'hara – XL Capital who discussed emerging market issues within the global landscape.** The panel dialogue included the following observations:

- No expected abatement of capital raising which includes the expanded application of cat bonds and other special purpose vehicles.
- "Reputational risk" has emerged as a consideration factor in using hedge funds for expansion purposes.
- The reinsurance business has become more qualitatively than quantitatively focused.
- Catastrophe models did not contemplate expanded loss from Katrina, and the measurement of downside risk from multiple occurrences is extremely important.
- The industry is one or two events away from a total change in the risk-taking landscape.
- The cost of capital is expensive and needs to be reflected in insurance rates.
- The impact of major claims on investment returns also needs to be modeled in some fashion.
- Decisions are being made for reinsurers by the rating agencies, the SEC, etc. which is making management's own strategizing efforts more difficult and onerous.
- Finding and employing "wet ware"; i.e., talented personnel, is a critical concern for emerging companies.

Asian markets, especially China and India, are expanding dramatically, a situation which raises related questions concerning catastrophe exposures, transparency issues, and rules of law.

**John Kapitan led off the Tuesday session with a very informative presentation dealing with the impact of Cat Modeling updates for 2006.** During the course of his remarks, Mr. Kapitan opined that while cat modelers deserved "some blame" for understating loss estimates from Hurricane Katrina and the other storms of '05, there was, and is no substitute for the management "judgment" factor. He went on to suggest that last year's storm activity represented a "wake up" call for industry executives to better understand the limitations of cat models and to refine "data" into usable "information."

At the same time, the modelers have taken to heart the shortcomings in the original estimates, and have made important strides to improve their formulas, including ways in which to improve data capture at lower cost.

**In explaining the role of hedge funds in today's reinsurance environment, Chris McKeown of CIG Reinsurance Ltd.,** commented that hedge funds, which can be defined as "diversified financial institutions," actually have a worse reputation than the insurance industry. Nevertheless, hedge funds' reason for being is "to make money," and to realize a 20% return on equity. As it happens, such returns have been difficult to achieve in recent years, but of late, there is renewed optimism, at least in the short term, to generate those results in the reinsurance arena by making additional capacity available to the market community.

Wrapping up an extremely informative program, **Jay Cohen of Merrill Lynch discussed the key forces driving investor interest in the insurance industry.** During his opening remarks, Mr. Cohen stated that interest rates and fundamentals, including a changing perception of risk, drive the market for insurance stocks. His view of the future included the following observations:

- More mergers and a further concentration of market share
- A downturn in rates, especially in those lines and geographic areas relatively unaffected by hurricane exposures.
- A 16% return for the industry in '06, but questions whether that return will be sustainable.

Although industry returns generally underperform the S&P, there are times to own insurance stocks, as those investments are relatively immune to economic variables.

Once again, the IRU faithful were treated to an excellent program and a terrific venue, thanks to the hard work of Matt Rose and Mary K. Clancy and those they pressed into service in making the Spring Conference of '06 one of the best ever.

Make sure you all mark your calendars to attend the Fall gathering which will take place from September 10-12 at [The Sagamore Resort](#) located in Bolton Landing in New York. Let's be optimistic that the winds of '06 will be mere breezes compared to the gales of '05.