

HOLBORN PERSPECTIVES

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# **The Mid-Year 2009 Market**

July 1, 2009

**HOLBORN**

## The Mid-Year 2009 Market

### Overview

**The collapse of credit and equity markets cost reinsurers large capital losses in 2008 and early 2009.** There were some losses in mortgage and bond insurance operations and professional liability lines, but **underwriting results overall remain profitable.** Credit market troubles have reduced the availability of alternative sources of reinsurance capital, including Cat bonds and collateralized capacity.

**Worldwide reinsurance market capital shrank** for the first time since 2001. Leverage ratios increased for most reinsurers. UK reinsurers also had their capacity (in dollars) fall at year-end due to exchange rate swings and many tried to raise new capital early in 2009. Reinsurers' earnings fell sharply due to investment write-downs, earlier price reductions and an increase in large losses. First half underwriting profits improved and the pound strengthened in the second quarter, **partly easing these pressures.**

After falling for two years, **reinsurance prices for U.S. ceding companies began to rise at year-end.** In 2009, catastrophe prices increased further as some reinsurers reduced capacity and some buyers sought to buy more. Per program capacity was at record levels in 2008, and remains at or above that peak.

**After an active catastrophe year in 2008, the worldwide markets had benign loss experience in the first half.** But 2008's Hurricane Ike has been surprisingly slow to develop.

**Despite recent rate increases, Holborn expects reinsurance market volume to grow moderately, if at all, in 2009.** We expect the market's capital to stabilize and reinsurers' leverage ratios to fall. Partner Re has purchased Paris Re, IPC Re and Chaucer at Lloyd's will likely be acquired during 2009, and other potential acquisitions are rumored. Holborn expects an increased level of mergers among both reinsurers and primary companies. Mergers generally reduce capital and capacity.

#### Section A. Current U.S. Market Conditions

- *Property Catastrophe*
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## **A. Current U.S. Market Conditions**

Placements in 2007 and 2008 were stable in the amount of limit placed, and prices fell. However, prices for most classes of reinsurance began to rise after the mid-year 2008 renewals. E&O and D&O, especially for financial institutions, had been rising earlier. Previous decreases had been the result of increased supply and flat — or even downward — demand in the reinsurance system. Following 2006 increases, buyers sought to shed exposures, especially for coastal property.

By last year-end, reinsurers' capacity in peak zones (the supply of reinsurance) was down, and many renewals approached the market with losses from spring storms, Hurricane Ike or fires. In many cases, Ike losses had gone well beyond first Cat layers, with some totaling program limits. Almost all January cat renewals saw increases. Pricing for other lines was mixed, and largely driven by individual experience. However in all classes, contracts with increases significantly outnumbered those with decreases. Partly offsetting this, by July:

- The UK pound has significantly strengthened against the dollar in the last sixty days, creating more capacity at Lloyd's.
- XL was accepted for more business at mid-year than they had been in January. Recent improvements in results have stabilized XL's rating.
- Reinsurers are anticipating upcoming reductions in catastrophe model loss estimates in California, and recent moderate reductions in Atlantic hurricane outlook.
- Large, diversified reinsurers offered more capacity, especially for national accounts. Some are offering more Cat support for working layer clients than they had in the past.
- The overall recession has reduced premiums and softened some ceding companies' desire for limit increases. The primary market has not yet passed higher reinsurance costs along as rate increases. As a result, insurers have seen their profit margins tighten, and pushed harder on reinsurance terms.

### **Property Catastrophe Mid-Year Renewals**

Catastrophe contract premium generally increased around 15%, or a bit more for larger programs requiring broad market support, and in the 5% – 10% range for smaller, non-coastal players. Prices on non-peak zone property contracts were also up, but not as significantly. Accounts with Gustav and Ike losses had larger increases.

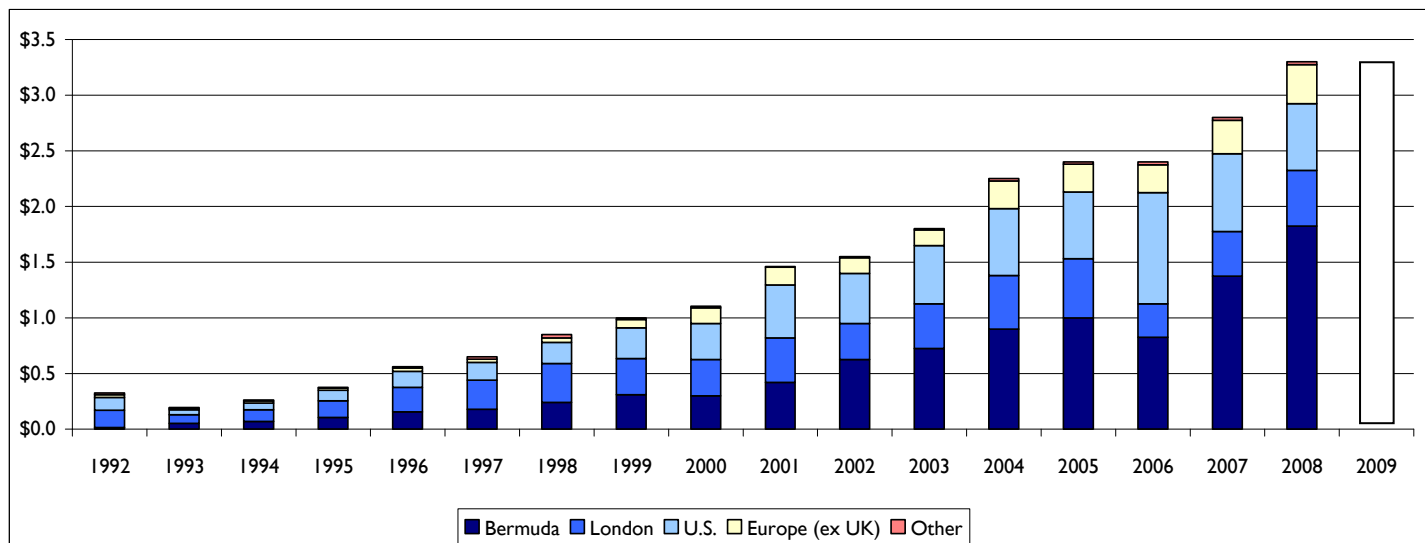
**Property catastrophe cost increases**

	With recent loss	Coastal, no loss	Non-coastal
January, 2006	+25% to 100%	+10% to +25%	+5% to +15%
April – July, 2006	+60% to 300%	+30% to 100%	Few placements
January, 2007	+15% to +40%	0% to +20%	-10% to 10%
April – July, 2007	-10% to 0%	-20% to -10%	Few placements
January, 2008	-20% to -10%	-20% to -10%	-15% to +5%
April – July, 2008	-15% to -5%	-20% to -10%	Few placements
January, 2009	+15% to +50%	+5% to +20%	0% to +10%
April – July, 2009	+15% to +40%	+10% to +20%	Few placements

Note: Measured in dollar amounts or ROLs.

2009 catastrophe increases following Ike and Gustav were less than the 2006 increases following Katrina, Rita and Wilma. Capacity available for large individual programs remained at or near record levels.

**Property catastrophe capacity**



Note: Size of largest U.S. program in \$Billions, based on maximum amount exposed in any zone by a single ceding company program, including aggregate excess contracts. Excludes Cat bond capacity or side cars; includes Berkshire Hathaway. Market regions are separated by office location, not ownership.

### **Coastal property business**

Some large programs were substantially increased in 2009 to replace Cat bond and FHCF capacity. Reinsurers have lower capital and adjusted their business plans, significantly reducing capacity. No renewals saw reductions and accounts with Ike or Gustav losses had large increases. Prices rose more than at January renewals.

Surplus lines companies generally shrank in coastal areas, as this business migrated to the admitted market at lower pricing. This eased their need for capacity.

### **Florida**

The FHCF relied on its ability to issue bonds after a loss. That capacity has now been slashed, and A.M. Best will not give ceding companies the same credit for FHCF protection in the higher "TICL" layer. Demotech rates most Florida domestics and is individually reviewing their capital plans. Florida-exposed companies, at least out-of-state companies, bought larger backstops from the market. Even with the FHCF taking up a large piece of the risk, Florida was still the largest commitment of reinsurers' capacity in the world at about \$70Bn in 2008.

Citizen's Insurance writes 40% of the Florida personal wind market (as either homeowners or wind-only policies) and over 60% in the more-exposed southern counties. Citizen's now has no protection placed in the private reinsurance market. With the FHCF's capacity impaired, Citizen's could fall many billions short of being able to pay claims as due, exposing private market policyholders to large assessments over several years. The FHCF also approached the market again this spring, but could only afford a fraction of what their exposure is worth. Their 2008 liquidity facility from Berkshire Hathaway was not renewed for 2009.

### **Other zones**

Following Ike, reinsurers have re-examined hazard levels for inland risks. Since the models understated the inland loss potential of Ike, reinsurers are re-considering this exposure going forward. Capacity remains ample for all non-coastal accounts.

### **National accounts**

Most national accounts renew between April 1<sup>st</sup> and July 1<sup>st</sup>, and all are exposed in Florida. Many insurers have reduced or dropped their Cat bond placements and bought additional limit in the reinsurance market. Nationals use peak capacity in several zones and have faced larger increases than regional carriers.

### **Involuntary markets**

2004-2006 saw state residual markets absorb significant amounts of coastal risk, in some cases, taking historical market shares from the low single digits into the teens. Unpredictable buying habits of these facilities have given some reinsurers pause. There was growing demand in 2009 from some residual market plans (Massachusetts, Rhode Island, New York, North Carolina and South Carolina) as most of these facilities continue to grow.

TWIA in Texas sustained a total loss on Ike and exhausted its surplus, but no longer buys reinsurance. For 2009, Texas has opted to fund losses up to \$2.5Bn with post-event bonds. It is unclear how losses above this level would be funded. The California Earthquake Authority also has a large market share, weighted toward the most exposed counties and a large reinsurance placement. A.M. Best is paying increased attention to insurers' involuntary exposures to peak zone events.

### **Retrocession and ILWs**

Late reporting of Ike losses has delayed recovery from some industry loss warranty contracts increasing attention to basis risk, and spurred changes in the way those contracts are structured.

The retrocessional market has begun to stabilize after being impacted by the departures of CIG, Lehman Brothers and others. Prices were up sharply in January, and have subsequently fallen. At current prices there is limited supply.

### **Collateralized reinsurance**

Fund managers and "alternative asset" investors have invested directly in insurance risk by providing fully-funded limits, largely in peak zones and for retrocessions. Most of these funds are losing capital (and investors). Their minimum ROLs are moving closer to their target ROEs. But several multi-strategy funds remain interested in insurance risk and can move quickly if opportunities meet their appetites. They cannot compete on layers that pay ROLs less than 10%, including LIBOR, or 7%-8% paid by the ceding company.

### **Casualty and Working Business Conditions**

Most working and casualty contracts renewed with higher rates. On lower subject bases, this was occasionally at lower premium amounts. Individual account experience was a key factor. These classes of business do not depend on capital as much as catastrophe covers. The effect of reduced industry capital has been less significant on these contracts.

### **Policy-exposed (WC, Umbrella, Risk) and Clash cost increases**

	<b>Working</b>	<b>High Excess With Recent Losses</b>	<b>High Excess With No Loss</b>	<b>Clash, WC and Life Catastrophe</b>
January, 2006	0% to +10%	+15% to +25%	0% to +15%	-5% to +5%
April – July, 2006	0% to +30%	+25% to +50%	+5% to +15%	-10% to 0%
January, 2007	0% to +40%	+10% to +25%	-10% to 0%	-10% to 0%
April – July, 2007	-10% to -5%	0% to +10%	-10% to 0%	-10% to -15%
January, 2008	-10% to -2.5%	-0% to +10%	-10% to 0%	-15% to -10%
April – July, 2008	-5% to +5%	-0% to +10%	-10% to 0%	-20% to -10%
January, 2009	-5% to +10%	+25% to +50%	0% to +10%	-3% to +5%
April – July, 2009	-5% to +10%	+25% to +50%	0% to +10%	-5% to +3%

Note: Measured in dollar amounts or ROLs.

### **Property per risk**

A run of losses to large risks (often fires) worldwide and to many U.S. middle market accounts in 2008 and 2009 drove rate increases in many cases at year-end. The increased frequency may be related to housekeeping and maintenance issues in this depressed economy. We have not yet seen an uptick in arson. The increased frequency reverses a favorable trend that has helped the industry's profitability despite falling prices. Insurance to value is also currently a challenge.

### **Casualty**

Reinsurers express concerns about much lower interest rates, falling pricing in the primary market, medical inflation and decreasing reserve adequacy. Many also assert that increased capital requirements and general economic concerns justify rate increases. Buyers generally do not accept this logic for working layers, and this has caused tension on recent renewals.

There is some spillover from the hardening property market to casualty classes. Reinsurers' appetites get diverted to the business with increases, making it easier to reduce participations in the other classes. Pricing expectations are raised for both buyers and sellers, but this may be a temporary effect. A number of new players (AWAC, Catlin, Wellington) entered the on-shore casualty market in 2007 and 2008.

Larger D&O and financial institutions professional lines are quite distressed now, as reinsurers look to avoid the next wave of claims to be made from the credit, banking, mortgage and hedge fund troubles. Market estimates are well over \$10Bn of direct losses. The impact on reinsurers will be less, and will be spread over the approximately \$7Bn per year in D&O/E&O reinsurance premiums ceded by U.S. insurers. On an all-lines basis, we estimate that reinsurers will have a one point increase in overall loss ratio per year due to reinsured D&O/E&O sub-prime and related claims.

### **Clash, Life and WC catastrophe**

Overall market capacity for peak zones has decreased, but costs for lower layers continued to fall through year-end, as reinsurance prices are impacted by lower subject premium and underlying exposures. Higher layer ROLs are consistent with market minimums, which have been flat or increased moderately. Capacity for California exposure tightened in 2009, as it uses the same regional aggregate limits as property accounts. Some large new programs were placed for 2009, and there is an increased appetite to place per person covers, but limited capacity is available. MAOL's had risen in 2007 and 2008 but were generally stable at mid-year.

### **Terrorism coverage**

Reinsurers retain their terrorism exposures net (often competing for capacity with affiliates' direct operations), and so their limited capacity still requires meaningful ROLs. Some market trends are:

- Ceding companies often have similar occurrence retentions on terrorism and natural catastrophes, so retention levels have also tended to increase. At the top-end, TRIA retentions have fallen due to lower subject premium income, and the exclusion of Auto in 2007.

- Significant capacity is available (over \$1Bn per ceding company, less in “Tier I” cities) which is ample for most regional carriers, but not for nationwide accounts with multi-billion TRIA retentions. Some commercial nationals buy no terror protection beyond TRIA. Regional carriers tend to have broader coverage in underlying programs and purchase more vertical limit.
- NBCR coverage is more constrained at \$500Mn (less for key cities) and it remains expensive. It is more common in regional account placements.
- Companies exposed in the Northeast, and especially in Metropolitan New York, find capacity limited for both Windstorm and Terrorism reasons and often chose to limit their terrorism coverage to maximize windstorm protection.

## *B. Investment Losses and Write-downs*

The 2008 problems in the credit markets and banking industry changed the economic balance of reinsurance supply and demand in 2008 and 2009:

- Through March, equity markets fell by over 50% from year-end 2007, causing surplus losses to almost all reinsurers. Increased interest spreads also mean that longer term and corporate bonds are underwater, limiting flexibility in the event reinsurers need to liquidate assets.
- Many reinsurers owned AIG, Lehman and FNMA investments, among others, and wrote off most of these assets as permanent impairments.
- All financial institutions have limited access to new capital. So a “reload” after a major loss would be costly. Reinsurers describe their current mood as “no tolerance for errors”.
- D&O and E&O losses on bankers, lenders, hedge funds and other asset managers affected the 2007 through 2009 years of claims-made coverage.
- Lower levels of business activity and insured values have reduced direct premiums worldwide and caused downward adjustments on treaties.

### Reinsurers' asset exposures are still large relative to capital

Asset price declines create larger percentage declines in capital levels. This is especially true for European reinsurers who often have higher leverage ratios, and also stricter IFRS accounting rules for reflecting current declines in bond values.

	<u>Year-End 2008</u>		<u>Asset Leverage</u>	
	<b>Total Assets</b>	<b>Total Capital</b>	<b>Year-end 2008</b>	<b>Year-end 2007</b>
U.S. Reinsurers	\$46.75	\$19.72	2.4x	2.4x
Offshore U.S. GAAP Reporters	248.91	66.65	3.8x	3.4x
IFRS Reporters	622.22	60.41	10.3x	8.5x
Lloyd's Syndicates, not included above	93.90	22.23	4.0x	3.7x
<b>Worldwide Market</b>	<b>\$1,011.78</b>	<b>\$169.01</b>	<b>6.0x</b>	<b>5.3x</b>

Notes: Professional reinsurers only. Excludes Berkshire Hathaway and Equitas.

### Structural issues with Cat bonds

Cat bonds require interest rate swaps in order to pay LIBOR-based returns to investors. Bonds pay as the ceded losses are paid, so they do not have a definite settlement date, and may have several partial payments. They also cannot settle until the losses are finally known, creating a potential extended term that cannot be pre-funded. Those double contingent features create a complex option-within-an-option that does not have a standard pricing approach.

Investment banks took that risk on themselves. First, they earned a fee to guarantee that the Cat bond would earn LIBOR. Then, they managed the assets. Lehman, and also others, used Cat bond assets to buy CDOs, other Cat bonds and high yield debt. When the bond markets collapsed, Lehman-managed assets took roughly a 40% hit and the Cat bond investors had a worthless guarantee. Beside the hit to bond investors, these defaults impair the assets available to pay any further losses. Most bonds provided retrocessional protection, not reinsurance of primary companies.

In 2009 Cat bond contracts rely on simpler and more transparent swap investments, but that raises their costs. Investors are also now charging for the credit risk of swap counterparties, further raising overall costs. At least four solvent Cat bonds were cancelled, called or non-renewed in late 2008, and the total Cat bond market shrank significantly. There have been fewer as well as, in some cases, reduced, issues in 2009.

## C. 2009 Market Losses

Catastrophe experience to date in 2009 has been far below average levels. Holborn has been tracking the following events, none of which are a major loss to reinsurers.

### Major 2009 market losses (Worldwide events over \$1Bn to direct market)

Event	Date	Description	Reported Deaths	Direct Loss	Reinsured Loss
Klaus	January 24-25	Windstorm in Spain and France	16	>2Bn Euro	
Kentucky Freeze	January 26-28	PCS event number 62	36	\$2Bn	
Australia Fires	February 7		210	>\$1Bn (U.S.)	
Italian Earthquake	April 6	Magnitude 6.3 in Abruzzo Region	283	>1Bn Euro	
Air France 447	June 1	A330 lost over South Atlantic	228	\$500Mn	
<b>Five Events</b>	<b>1st half, 2009</b>		<b>&gt;750</b>	<b>\$8Bn - \$9Bn</b>	<b>&lt;\$1Bn</b>

Note: Estimates include WC, Life and energy classes, and loss adjustment.

### Hurricane outlook for 2009

Water temperatures along the U.S. coast in June have been slightly below seasonal averages. The Bermuda High has generally been in an easterly position in June, which correlates with relatively more exposure along the Atlantic coast and less along the Gulf Coast. The El Niño cycle is currently in a neutral phase and that is expected to persist or perhaps transition to weak El Niño conditions by the active portion of this season. A new El Niño phase would tend to decrease storm activity near the U.S.

Dr. Bill Gray's team at Colorado State released an updated hurricane season forecast on June 2, slightly decreasing their April prediction. They now forecast 11 named storms; five of which will reach hurricane strength and two will be at least Category 3.

### Colorado State University Forecasts

Storm Activity	2009 Forecast (June Update)	2009 Forecast (April Update)	Long Term Average	2008 Actual
Named Storms	11	12	9.6	16
Hurricanes	5	6	5.9	8
Intense Hurricanes (> Cat 2)	2	2	2.3	5
Net Activity Level	90%	105%	100%	164%
<i>Probability of intense landfall</i>				
Entire US Coastline	48%	54%	52%	
East Coast: FL to ME	28%	32%	31%	
Gulf Coast: TX to Panhandle	28%	31%	30%	

## D. Worldwide Reinsurance Industry Results

The worldwide reinsurance industry is:

- **Moderately profitable** overall (a 7.5% compound ROE since year-end 2000)
- With **volatile results** (calendar year ROE's ranging between -9% and +20%)
- **Shrinking** (the 2009 market is smaller than 2003's)
- **Stronger** (leverage ratios down over 25% since 2001, even after losses in 2008)
- **Moving out of the U.S.**

Holborn performs an on-going analysis of the worldwide industry, adjusting national data for foreign affiliates and exchange rates. 2008 results showed:

- Net Earned Premiums – \$169.4 Bn. (down 6.1%)
- Combined Ratio – 89.4% (up 5.9 points)
- Net Income – \$5.5 Bn. (down 83.1%)
- Return on Equity – 2.7% (down by 14.1 points)
- Year-end Capital – \$168.0 Bn (down 17.9%)
- Assets – \$1,009.6 Bn. (down 7.0%)
- Leverage ratios: gross premiums-to-capital 115%, assets to capital 604%. (Both up over '07, but still lower than in '04)

Results are GAAP, except for RAA company capital amounts. The companies included are listed in Appendix 3.

Industry net income was worse than underwriting profits in 2008, so investments returned a loss of \$10Bn to \$12Bn pre-tax. Total capital fell by over \$40 Bn more than after-tax losses. Exchange rates were part of that, but there were close to \$50 Bn in pre-tax unrealized capital losses, most notably mark-to-market adjustments by Europeans that report under IFRS rules. Investment returns were about minus 7% of invested assets.

Though Ike was the third largest insured loss in history and Gustav added to it, the year was actually at about the ten-year average level for worldwide large losses (>\$1Bn gross), at an estimated \$11.5 Bn ceded to reinsurers. 2001 and 2005 were both over twice that amount in ceded losses. Large industry events in 2008 added about nine points to reinsurers' property loss ratios. In the first half, large losses only contributed about one point.

Based on current levels in currency markets and investments, Holborn estimates that the 2009 global reinsurance market results will show:

- Moderate underwriting profits, driven by prior rate decreases, but helped by improved large loss activity to date

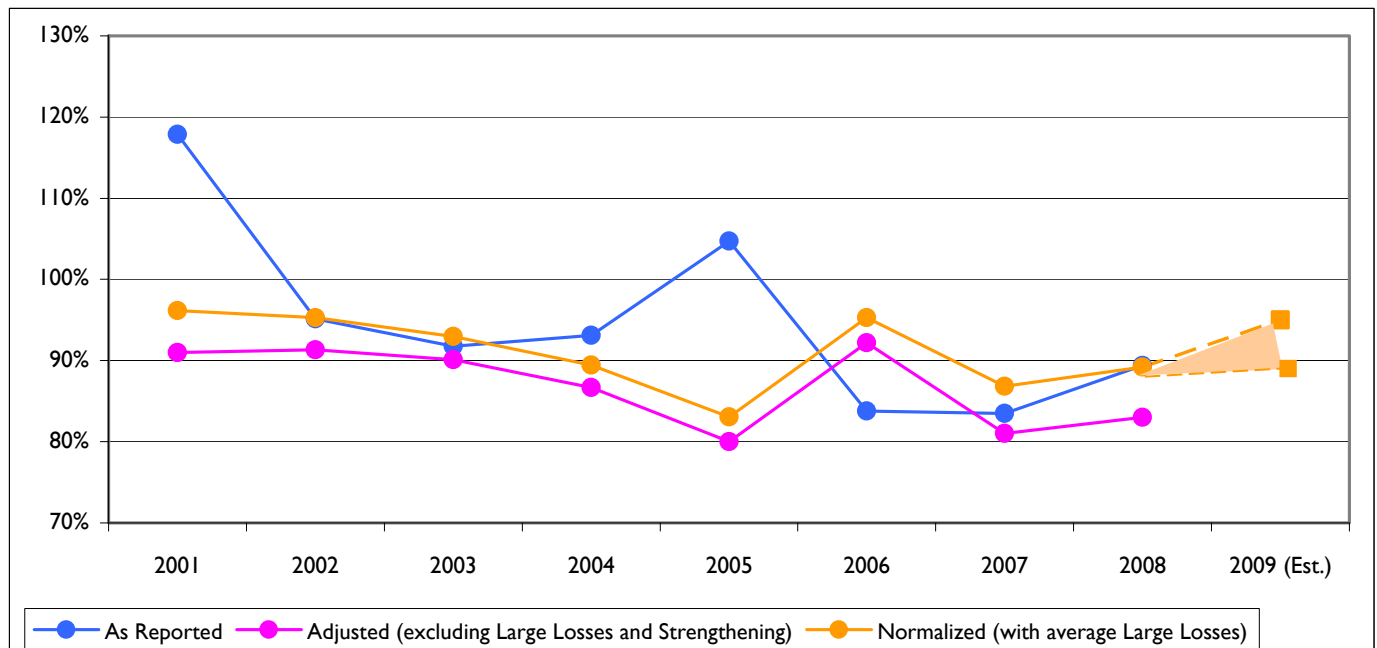
- Further realized capital losses, causing falling capital bases
- Modest premium growth if rate increases outpace the declines in subject premiums.

**Worldwide reinsurance industry results**

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/Loss	Capital Funds	Return on Equity
2001	\$125,655	\$97,047	(\$17,328)	117.9%	(\$7,148)	\$74,422	-9.2%
2002	156,393	125,691	6,117	95.1%	4,169	80,271	5.6%
2003	203,412	173,934	14,349	91.8%	11,314	126,905	14.1%
2004	203,781	181,778	12,582	93.1%	14,151	145,110	11.2%
2005	185,901	164,895	-7,726	104.7%	2,264	150,762	1.6%
2006	195,961	166,176	26,882	83.8%	30,604	193,915	20.3%
2007	206,423	180,345	29,777	83.5%	32,611	204,750	16.8%
2008	193,563	169,363	18,034	89.4%	5,527	168,008	2.7%
2009(est.)	\$185Mn-\$200Mn	\$160Mn-\$175Mn	\$10Mn-\$15Mn	90%-95%	\$10Mn-\$20Mn	\$195Mn-\$210Mn	7%-11%
2001-2008	\$1,471,089	\$1,259,232	\$82,687		\$93,491	\$1,145,143	
Average	\$183,886	\$157,404	\$10,336	93.4%	\$11,686	\$143,143	7.5%

Notes: \$000's. Gross premiums include retrocessions. 2009 estimates assume average second-half catastrophe loss.

**Reinsurance industry combined ratios**



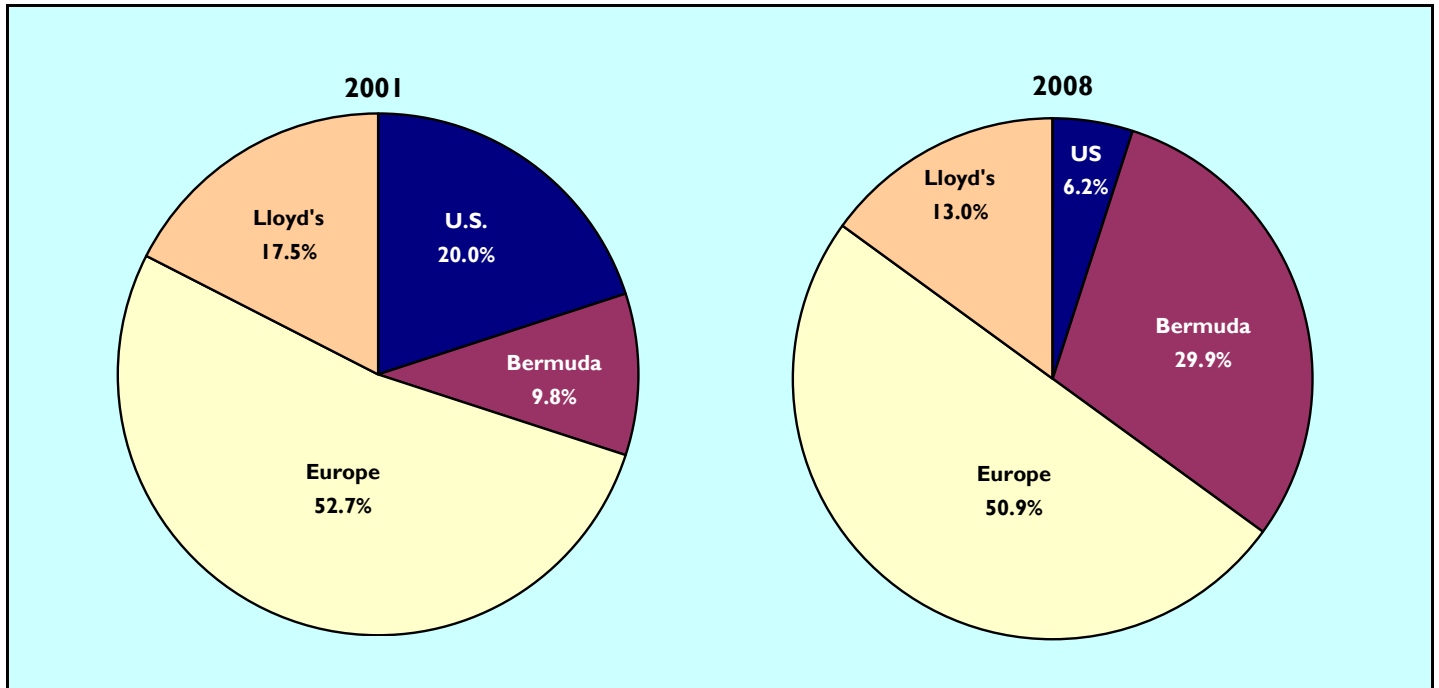
Notes: Trade basis, calendar year. Details in Appendix 2

On this normalized basis, with large losses smoothed at the ten-year average level and without casualty reserve strengthening, recent results are much less volatile. Much of the remaining volatility is reporting lags on large losses: 9/11 booked during 2004 and Katrina booked during 2006.

**Domicile market shares  
(Based on group parents)**

Bermuda-based companies have been gaining market share consistently, as much new capital has been invested there, most recently by UK companies. Since Bermuda-based reinsurers generally trade through brokers, the broker market's share has increased, as well.

The domestically-owned reinsurance industry has lost much of its share. The continued move to Switzerland is an interesting trend as some Bermuda-based companies are concerned about their U.S. tax treatment in the future.



Note: Bermuda includes ACE, Flagstone and Partner, who are largely managed from Bermuda but domiciled in Switzerland. They wrote a 12.6% share of the worldwide market in 2008.

**Growth in premiums and capital**

	Gross Premiums Written	Premium Growth Rate	Adjusted For Exchange Rates	Capital Funds	Premium Leverage Ratio	Asset Leverage Ratio
2001	\$125,655			\$74,422	168.8%	7.71x
2002	156,393	24.3%	17.5%	80,271	194.8%	7.81x
2003	203,412	29.8%	18.8%	126,905	160.3%	6.30x
2004	203,781	0.1%	-3.9%	145,110	140.4%	6.30x
2005	185,901	-8.8%	-1.8%	150,762	123.3%	6.19x
2006	195,961	5.4%	-2.3%	193,915	101.1%	5.50x
2007	206,423	5.3%	3.2%	204,750	100.8%	5.48x
2008	193,563	6.2%	-3.0%	169,008	114.5%	6.25x
<b>2001 -2008</b>	<b>\$1,471,089</b>			<b>\$1,145,143</b>		
<b>Average</b>	<b>\$183,886</b>	<b>6.3%</b>	<b>3.7%</b>	<b>\$143,143</b>	<b>135.9%</b>	<b>6.08x</b>

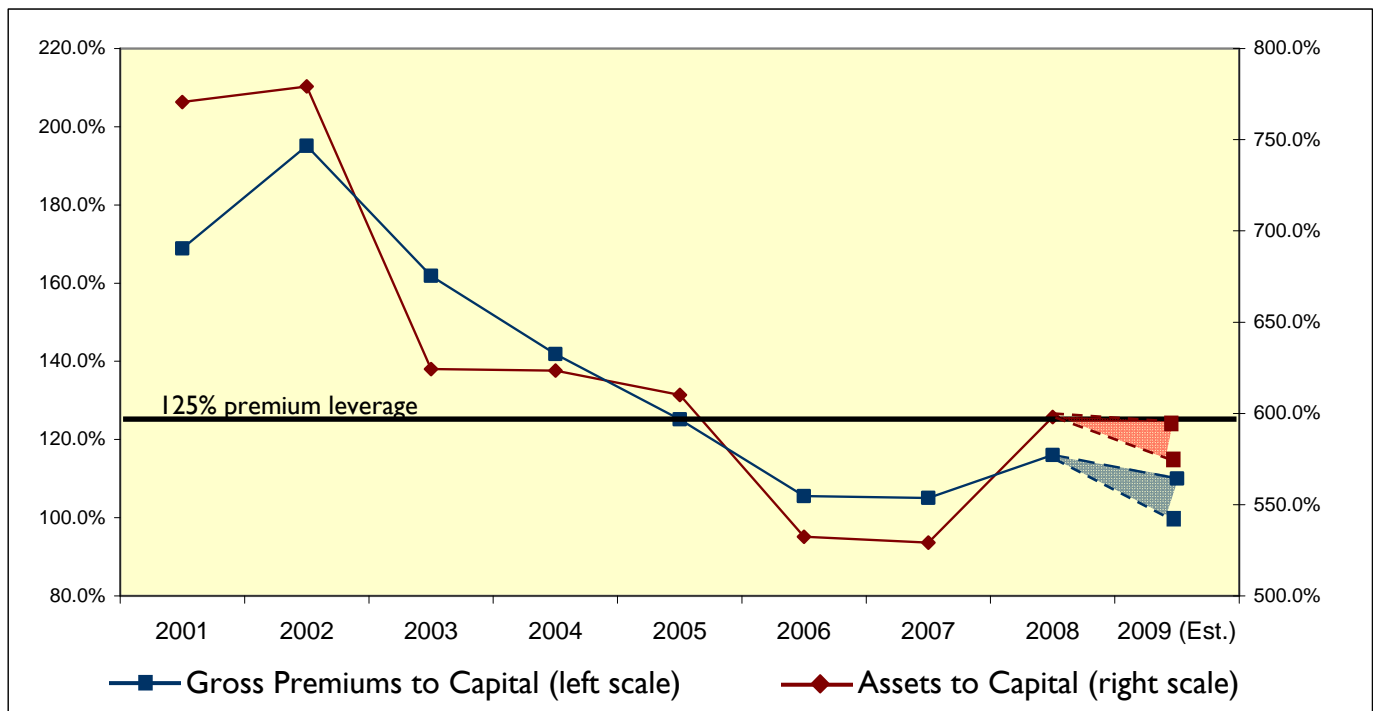
\$/Mns.

Clash, working, program, facultative and retrocessional placements shrank drastically after the 2001 terror attacks. Many property catastrophe retentions rose after Katrina, reducing the size of the global market. The economic slow-down also reduced industry premium. A weaker dollar tends to increase the market, as non-U.S. revenue converts to a higher dollar amount.

**Market leverage ratios**

**Gross premiums to capital**

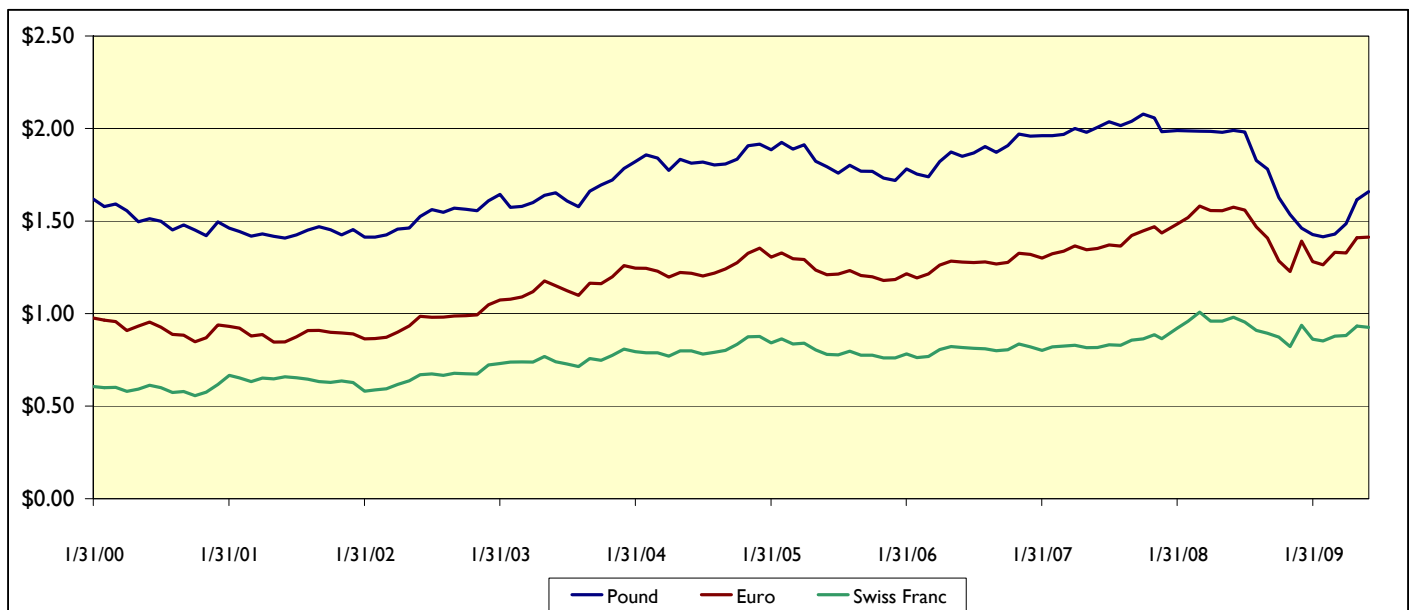
**Assets to capital**



Holborn estimates that at a market average premium-to-capital ratio above 125% (shown as a black line above), some reinsurers will be constrained by leverage and need to reduce capacity. A reduction in reinsurance market capital of \$20Bn would be required for this to happen, at least a Katrina-sized event. However, even a further 5% drop in the value of reinsurers' investment portfolios in 2009 would produce a larger decline in capital levels than Katrina.

The growth in global premiums since 2006 has mostly been caused by the weaker U.S. dollar. Business written in Pounds, Euro or Swiss Francs shows extra growth when reported in dollars. The dollar has strengthened against the Pound and Franc during 2008 overall, and that increases industry leverage.

**Foreign currencies appreciated against the U.S. dollar, but fell sharply in late 2008, then rebounded in 2009.**



**2008 was the industry's first reduction in capital since 2001**

	Net Income/Loss	Increases from Exchange Rates	Reductions from Restructuring and Mergers	Mark to Market Losses (After-tax)	Net Capital Increases	Changes in Capital Funds
2001	(\$7,148)	(\$1,810)	\$0	\$0	\$5,472	(\$3,485)
2002	4,169	6,875	(6,800)	0	1,605	5,849
2003	11,314	6,253	7,100	0	21,967	46,634
2004	14,151	4,734	0	0	(681)	18,204
2005	2,264	(8,688)	0	0	12,077	5,652
2006	30,604	8,045	(5,000)	0	9,505	43,153
2007	32,611	6,804	0	0	(28,581)	10,834
2008	5,527	(8,039)	(1,500)	(35,000)	3,270	(35,742)
<b>2001 – 2008</b>	<b>\$93,491</b>	<b>\$14,174</b>	<b>(\$6,200)</b>	<b>(\$35,000)</b>	<b>\$24,635</b>	<b>\$91,100</b>
<b>Average</b>	<b>\$11,686</b>	<b>\$1,772</b>	<b>(\$775)</b>	<b>(\$4,375)</b>	<b>\$3,079</b>	<b>\$11,388</b>

Notes: \$Mns. Restructurings involve: Munich-Allianz, Hannover-DHI, Converium-SCOR, Swiss-ERC and XL-SCA. Negative amount shown as capital increases in 2007 is largely stock repurchases. Net capital increase are calculated to balance to change, and include miscellaneous items.

**2009 Forecasts**

Holborn forecasts the market will show moderate, if any growth and falling premium leverage.

	Gross Premiums Written	Combined Ratio	Net Income	Net New Capital	Change in Capital	Year-end Capital	Gross Leverage Ratio
2009 Low Estimates	\$185,000	90%	\$10,000	\$0	\$10,000	\$180,000	90%
	to	to	to	to	to	to	to
2009 High Estimates	\$200,000	95%	\$20,000	\$10,000	\$25,000	\$210,000	100%
2008 Actual	\$193,563	89.4%	\$5,527	\$3,307	(\$34,742)	\$168,008	114.5%
2001–2008 Averages	\$183,886	93.4%	\$11,686	\$4,855	\$11,264	\$143,143	136.8%

Note: \$millions.

The 2009 estimates assume no individual catastrophes over \$10Bn in insured losses to the direct industry and no new announcements of mergers among major reinsurers. Mergers are increasingly likely and tend to reduce capacity and raise prices. The estimates also assume that the equity and currency markets remain near mid-year levels.

## *E. For More Information*

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Holborn provides the latest information on these issues in a variety of easy-to-use formats. We provide updates on recent and potential catastrophe events for several regions through an e-mail service. We also provide clients a monthly summary of reinsurer financial news and rating information. Holborn's Eye-in-the-Sky<sup>(SM)</sup> data management tool provides real time alerts on events exposing clients' accumulations.

### **About Holborn**

Holborn is the largest independent reinsurance brokerage firm in the U.S., offering advanced analytic tools, global market access and responsive account services to clients. The company was formed in 1920, making us one of the most experienced reinsurance brokers in the world. We are owned exclusively by our employees. This contributes to Holborn's stable client base and noteworthy ability to attract and retain talent.

Please contact Holborn at 212-797-2285 for reprints on this or previous Holborn Perspectives whitepapers, and for more information. They are also available from our website at <http://www.holborn.com/holborn/reports.html>.

## *Appendices*

1. Results by Domicile
2. Normalized Results
3. Reinsurers Included in Study

## I. Results by Domicile

### RAA members (excludes National Indemnity and eliminates foreign-owned companies)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Policyholders' Surplus	Total Assets	Return on Equity
2001	\$25,141	\$18,122	(\$8,025)	143.0%	(\$1,702)	\$17,963	\$97,358	-9.6%
2002	27,630	19,939	(4,716)	121.0%	616	18,754	70,756	3.4%
2003	22,405	17,205	(431)	102.5%	923	20,262	67,507	4.9%
2004	18,665	16,094	(1,340)	108.3%	890	21,214	64,605	4.4%
2005	16,785	13,941	(4,428)	131.8%	(825)	23,951	66,501	-3.9%
2006	12,537	10,799	414	96.2%	2,047	19,273	46,158	8.5%
2007	12,703	11,120	620	94.4%	2,183	21,013	50,399	11.3%
2008	12,003	10,447	(238)	102.3%	1,312	19,717	46,748	6.2%
<b>Average</b>	<b>\$18,484</b>	<b>\$14,708</b>	<b>(\$2,268)</b>	<b>115.4%</b>	<b>\$680</b>	<b>\$20,268</b>	<b>\$63,754</b>	<b>3.0%</b>

### Bermuda reinsurance industry (excludes "sidecars" and Lloyd's capacity not 100% owned, includes Partner, Ace and Flagstone)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Capital Funds	Total Assets	Return on Equity
2001	\$12,263	\$10,369	(\$858)	108.3%	(\$816)	\$15,622	\$76,269	-5.7%
2002	16,996	15,157	2,196	85.5%	1,368	18,186	93,229	8.8%
2003	51,671	46,264	3,206	93.1%	6,287	43,017	168,509	34.6%
2004	58,463	52,387	1,909	96.4%	6,206	49,578	205,576	14.4%
2005	60,778	54,440	-6,889	112.7%	-2,211	53,103	241,919	-4.5%
2006	60,853	54,157	6,904	87.3%	12,681	70,190	263,052	23.9%
2007	57,010	45,373	7,369	83.8%	11,638	75,937	260,147	16.6%
2008	58,494	46,512	3,058	93.4%	-343	66,653	248,907	-0.5%
<b>Average</b>	<b>\$47,066</b>	<b>\$40,582</b>	<b>\$2,112</b>	<b>95.0%</b>	<b>\$4,351</b>	<b>\$49,036</b>	<b>\$194,701</b>	<b>10.2%</b>

### European-owned reinsurance industry (global business of Munich, Swiss, Hannover, Converium, SCOR, Glacier and Paris Re)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Policyholders' Surplus	Return on Equity	Percent of Market
2001	\$66,225	\$55,039	(\$3,229)	105.9%	(\$559)	\$35,070	-1.4%	52.7%
2002	\$87,253	\$74,454	\$8,427	88.7%	977	31,370	2.8%	55.9%
2003	\$101,794	\$90,824	\$9,933	89.1%	1,065	45,651	3.4%	50.2%
2004	\$100,186	\$92,010	\$11,335	87.7%	4,579	51,134	10.0%	49.3%
2005	\$83,891	\$77,347	\$5,765	92.5%	5,330	54,853	10.4%	45.3%
2006	\$95,440	\$86,249	\$15,486	82.0%	9,972	72,585	18.2%	49.2%
2007	\$105,629	\$99,017	\$17,747	82.1%	11,417	79,273	15.7%	51.6%
2008	\$97,970	\$93,155	\$13,483	85.8%	1,847	60,405	2.3%	50.0%
<b>Average</b>	<b>\$92,299</b>	<b>\$83,512</b>	<b>\$9,868</b>	<b>88.2%</b>	<b>\$4,328</b>	<b>\$53,793</b>	<b>7.2%</b>	<b>50.4%</b>

**Lloyd's market (pre-tax, excludes syndicates 100% owned by other reinsurers)**

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Capital Funds	Return on Equity	Percent of Market
2001	\$22,026	\$13,517	(\$5,216)	138.6%	(\$4,071)	\$5,768	-57.6%	17.5%
2002	24,514	16,141	210	98.7%	1,208	11,961	20.9%	15.7%
2003	27,542	19,641	1,641	91.6%	3,038	17,976	25.4%	13.6%
2004	26,467	21,287	678	96.8%	2,476	23,184	13.8%	13.0%
2005	24,447	19,167	(2,174)	111.3%	(30)	18,855	-0.1%	13.2%
2006	30,973	23,755	4,078	82.8%	6,946	26,120	36.8%	16.3%
2007	31,081	24,835	4,041	83.7%	7,374	28,527	28.2%	15.9%
2008	25,096	19,249	1,730	91.0%	2,711	22,232	9.5%	15.0%
<b>Average</b>	<b>\$26,518</b>	<b>\$19,699</b>	<b>\$624</b>	<b>96.8%</b>	<b>\$2,457</b>	<b>\$19,328</b>	<b>4.3%</b>	<b>14.9%</b>

## 2. Normalized Results

**Results excluding reserve strengthening and industry losses over \$1Bn (direct)**

	Net Income/ Loss	Casualty Reserve Strengthening	Estimated Cat Losses	Tax Effect	Adjusted Net Income/ Loss	Adjusted Return
2001	(7,148)	\$3,853	\$22,500	(\$6,755)	\$12,451	16.0%
2002	4,169	2,750	1,500	(1,085)	7,334	9.9%
2003	11,314	1,722	1,500	(680)	13,855	17.3%
2004	14,151	3,970	8,000	(2,420)	23,700	18.7%
2005	2,264	7,805	27,500	(6,645)	30,924	21.3%
2006	30,604	(9,686)	0	1,749	22,498	14.9%
2007	32,611	1,699	3,000	(978)	36,164	18.8%
2008	5,527	358	11,500	(2,476)	15,096	7.4%
<b>2001-2008</b>	<b>\$93,491</b>	<b>\$12,471</b>	<b>\$75,500</b>	<b>(\$19,292)</b>	<b>\$162,022</b>	<b>15.4%</b>

Notes: \$Mns. No tax-effect on unconsolidated Bermuda companies or Lloyd's syndicates. Reserve strengthening only reflects disclosed amounts for U.S. casualty excess business.

**Results excluding reserve strengthening and with large losses at 10-year average level**

	Adjusted Net Income		Normalized Combined Ratio	Normalized Return
	No Strengthening and No Large Losses	But Average Large Losses		
2001	\$12,451	\$4,890	96.2%	6.3%
2002	7,334	(237)	95.3%	-0.3%
2003	13,855	5,835	93.0%	7.3%
2004	23,700	15,589	89.5%	12.3%
2005	30,924	22,670	83.0%	15.6%
2006	22,667	14,336	95.3%	9.5%
2007	36,334	28,279	86.8%	14.6%
2008	14,919	6,866	89.2%	3.4%
<b>2001-2008</b>	<b>\$162,183</b>	<b>\$98,228</b>	<b>93.7%</b>	<b>8.4%</b>

Note: \$Mns.

### 3. Reinsurers Included in Study

We combined the published experience of the RAA members, Lloyd's, Bermuda public companies and the major European reinsurer groups. We exclude reinsurance departments of insurer groups, such as Liberty Mutual, MAPFRE and Generali, and also Berkshire Hathaway's National Indemnity Co., as we consider it to be principally an investment vehicle and not a reinsurer. However, for consistency, we include insurers' such as Lloyd's, ACE, AWAC and XL that are influential lead markets but may not predominately be reinsurers. We also exclude specialist Life reinsurance and mortgage guarantee companies. Companies now in runoff are excluded from the years after they stopped underwriting. Equitas has no current premiums and we exclude it for surplus, assets and increases in capital. The companies in the study and the years included follow:

ACE (2000 – 2008)

American Agricultural Insurance Company (2000 – 2008)

Amlin (Bermuda) Ltd. (2007-2008)

Arch (2003 – 2008)

Argo Reinsurance Ltd. (2007-2008) / PXR Reinsurance Company (2000 – 2006)

Ariel/Rosemont (2007 – 2008)

Aspen (2003 – 2008)

AWAC (2003 – 2008)

AXIS (2003 – 2008)

Berkley Insurance Company (2000 – 2008)

Catlin (Bermuda) (2003-2008)

CNA Re (2000 – 2002)

Converium (2000 – 2006)

EMC Reinsurance Company (2000 – 2008)

Endurance (2003 – 2008)

Everest Reinsurance Company (2000 – 2008)

Farmers Mutual Hail Insurance Company of Iowa (2000 – 2008)

Flagstone Reinsurance (2006-2008)

GE Insurance Solutions (2004 – 2005) / Employers Reinsurance Corporation (2000 – 2003)  
General Re Group (2000 – 2008)  
Gerling Global Group (2000 – 2002)  
Glacier Re (2006-2008)  
Hannover Re (2000 – 2008)  
Hartford Re Company (2000 – 2002)  
Hiscox Insurance Ltd. (Bermuda) (2006-2008)  
IPC Re, Ltd. (2000 – 2008)  
Lancashire (2006-2008)  
Lloyds (2000 – 2008, Market total GAAP results, eliminating syndicates consolidated into other reinsurers' results.)  
Mapfre U.S. Re (2003 – 2005)  
Max Re (2003-2008)  
Montpelier (2003-2008)  
MS Frontier Ltd. (2007-2008)  
Munich Re (2000 – 2008)  
Odyssey Re Corp. / Odyssey America Re Corp (2000 – 2008)  
Omega (Bermuda) (2006-2008)  
Overseas Partners U.S. Reinsurance Company (2000 – 2002)  
Partner Re (2001 – 2008)  
Paris Re (2006 – 2008) / AXA Re (2004 – 2006) / Axa Corporate Solutions Reinsurance Co. (2000 – 2003)  
Platinum Re (2002 – 2008) / St. Paul Re (2000 – 2001)  
PMA Capital Insurance Company (2000 – 2003)  
QBE Reinsurance Corporation (2000 – 2008)  
Renaissance Re (2000 – 2008)  
SCOR (2000 – 2008)  
Swiss Re (2000 – 2008)  
Toa Reinsurance Company of America (2000 – 2008)  
Tokio Millennium (2003-2008)  
Transatlantic/Putnam Reinsurance Cos. (2000 – 2008)  
Trenwick America Reinsurance Corporation (2000 – 2005)  
White Mountain Re (2007-2008) / Folksamerica Reinsurance Company (2000 – 2007)  
XL Ltd. (2000 – 2008)

*Notes: Berkshire Hathaway's National Indemnity and Equitas unit is excluded. Berkshire's General Re unit and the Faraday Syndicate at Lloyd's are included. Bermuda "Sidecars" do not report comparable figures and are not included.*

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