

3rd Medical Indemnity Forum  
Medical indemnity issues for 2009



# Dynamics of the Reinsurance Market

James Beedle  
Chief Operating Officer  
Willis Reinsurance Australia Ltd

## Interesting Times ....

The U.S. Federal Government has pledged more money to bail out the financial services industry than it spent on:

- the Louisiana Purchase
- the New Deal
- the Marshall Plan
- the Apollo program to the Moon
- the Savings and Loan Crisis
- Operation Iraqi Freedom
- and NASA's lifetime budget...

**Combined**





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# Today

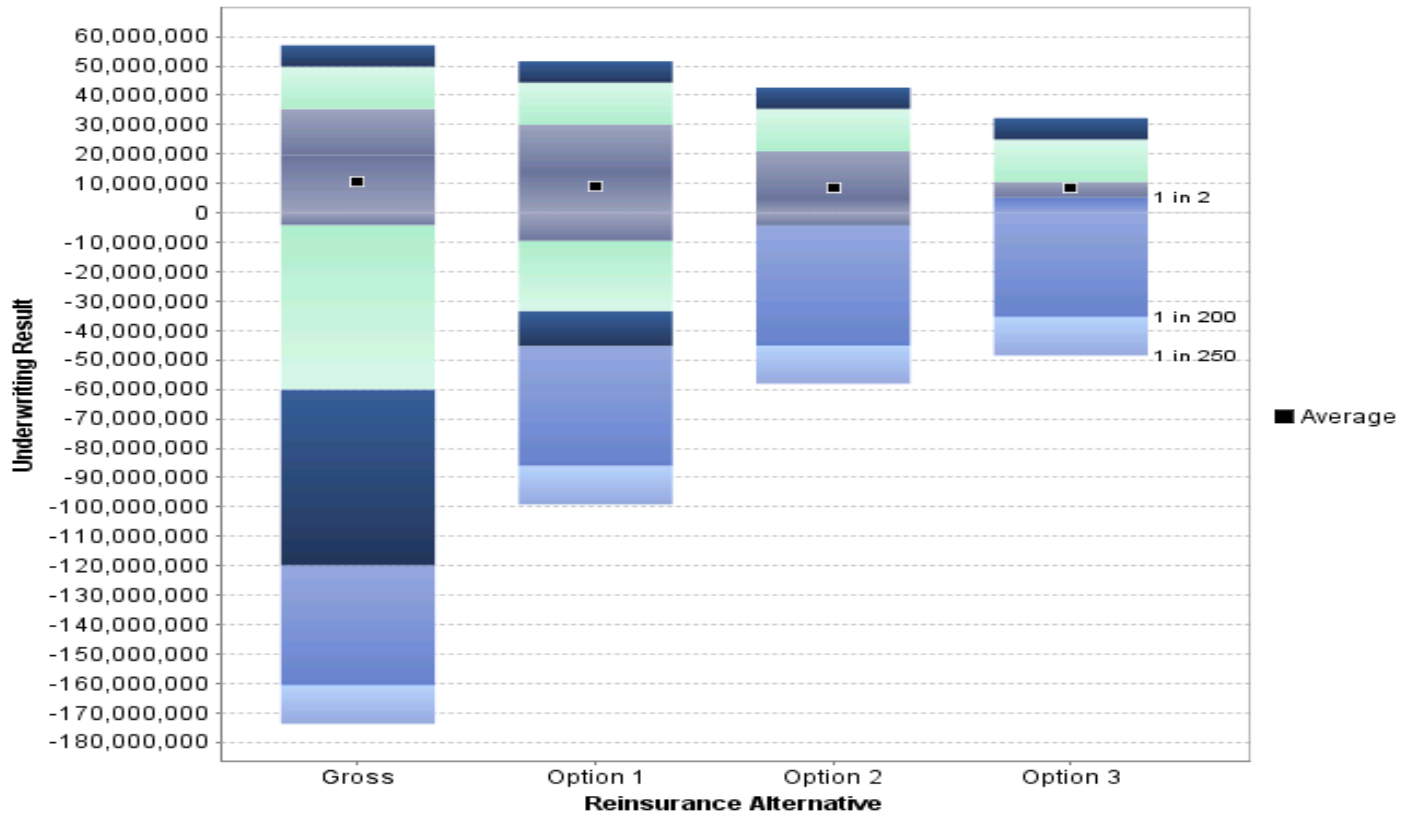
- **Reinsurance 101**
- **Technical Considerations**
- **Demand for Reinsurance**
- **Supply of Reinsurance**
- **Near Future**
- **Implications for Insurers**



# Reinsurance 101

Willis *i*FM

Variability in Underwriting Result

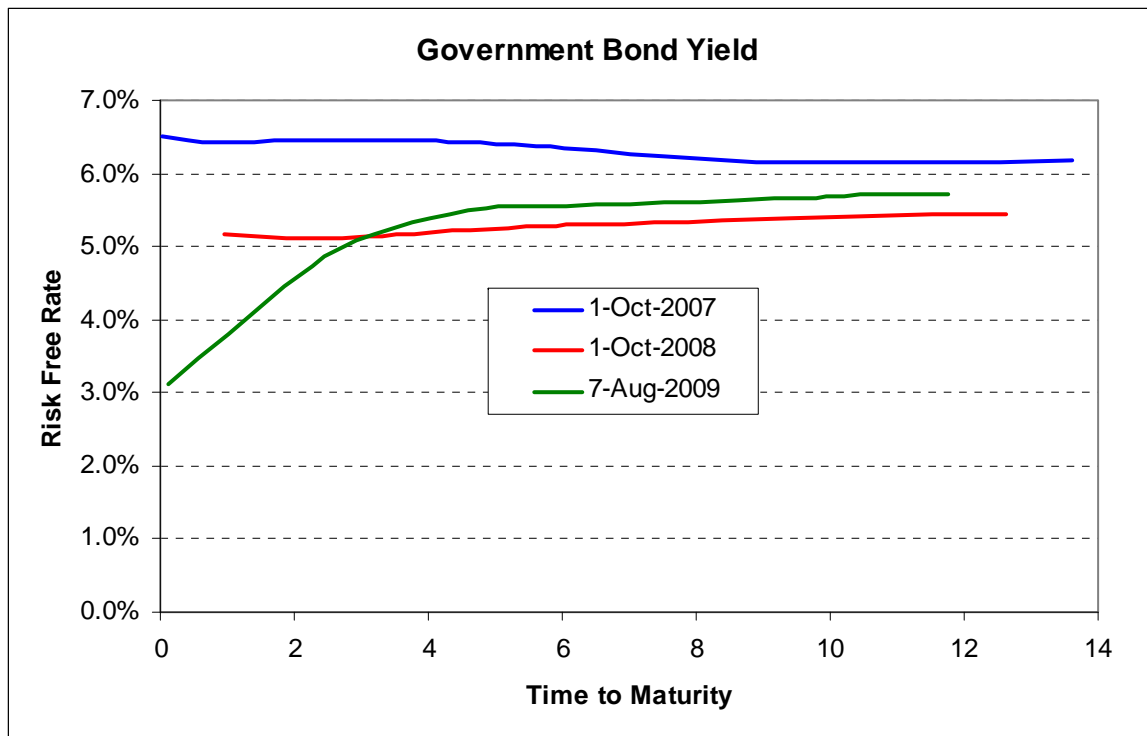


# Technical Considerations

## REINSURANCE ....

- Longer claims tail than direct business
- More uncertainty around pricing
- Leveraged impact of large claims
- Lag nature of proportional business
- Larger exposure to systemic risks

## Technical Considerations



- Yield at time of pricing more important than time of treaty inception during periods of significant yield movement. Example: consider a 1 October treaty renewal versus early August pricing & underwriting of treaty.
- Single rate versus duration specific to reflect mean settlement term (MST) of liability claims of given portfolio

## Technical Considerations

Example: \$5M xs \$5M medical malpractice layer

Assume Mean Settlement Term of 6 years

Actuarial risk premiums (i.e. expected ultimate claims cost of layer, fully discounted and subject to Index Clause):

Based on selection of 6.25% discount = \$14.9M

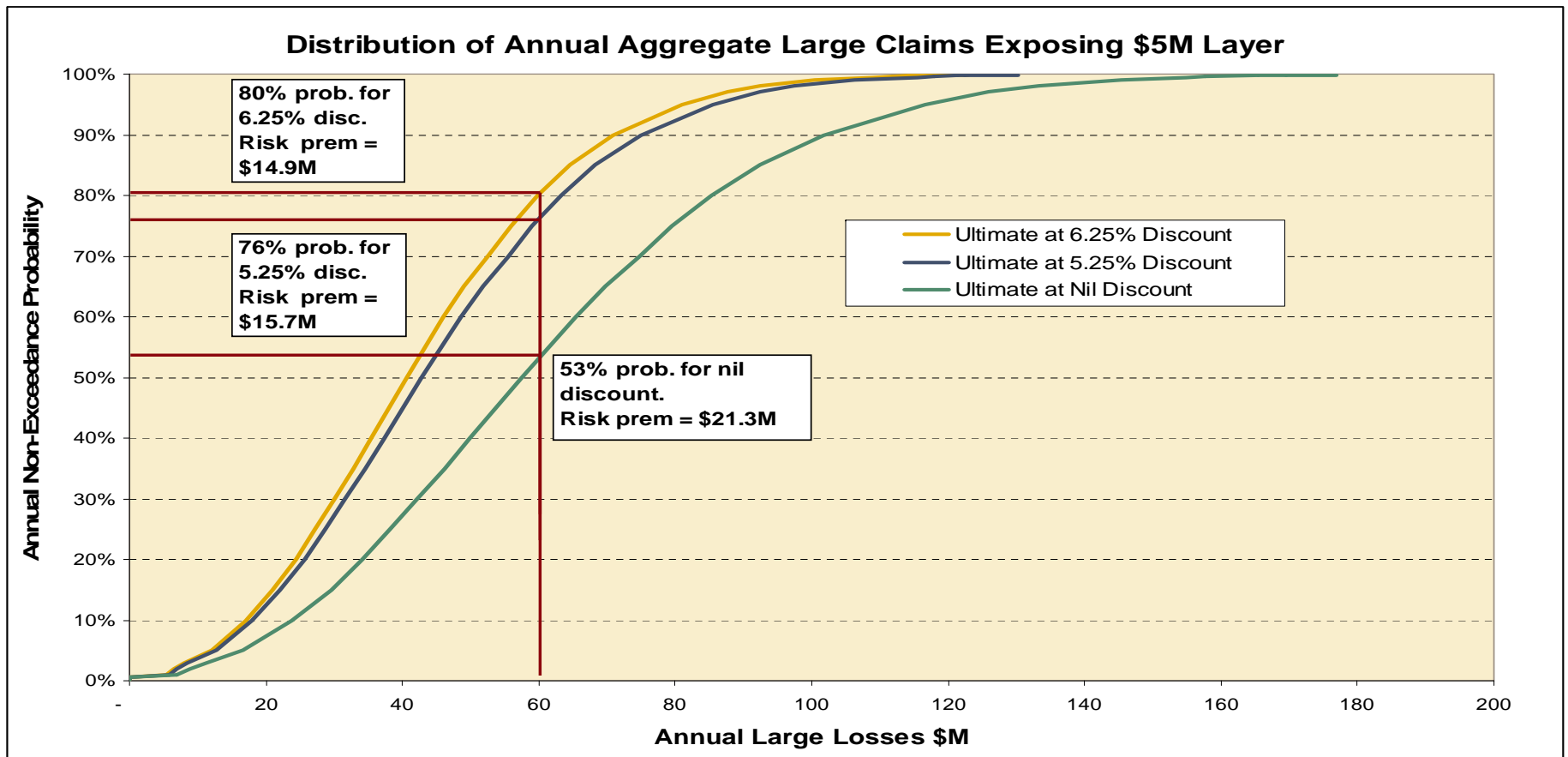
Based on selection of 5.25% discount = \$15.7M

6.25% selection during 2007 strong economic cycle, versus say, 5.25% selection during weak economic cycle = 20% discount rate reduction, but gives only 5% increase in price.

Reasonably sensitive but is it a driver of price?



# Technical Considerations



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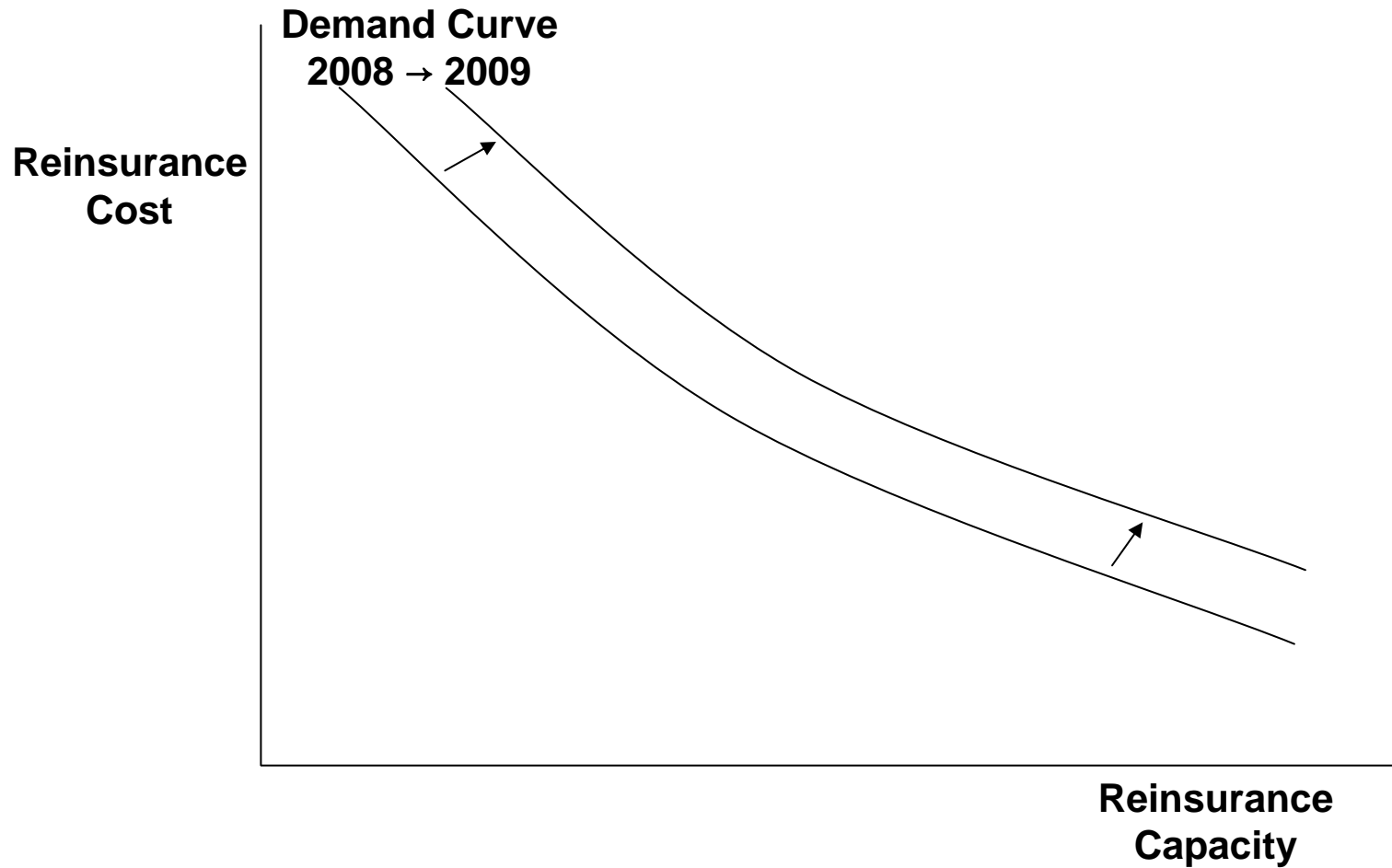


**So What Are the Other Drivers of Price?**

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# Demand ↑



## Demand ↑

### **Demand for Capital or Need for Preservation**

- Asset-side Impairment
  - Equity and fixed interest
- Increased volatility
- Reduced risk appetite
- Increased regulatory scrutiny
- Potential increase losses

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# Demand ↑

EQUITY

TOUGH TO SOURCE

DEBT

EXPENSIVE

REINSURANCE

RELATIVELY CHEAP  
EASY TO SECURE  
BUT VOLATILE



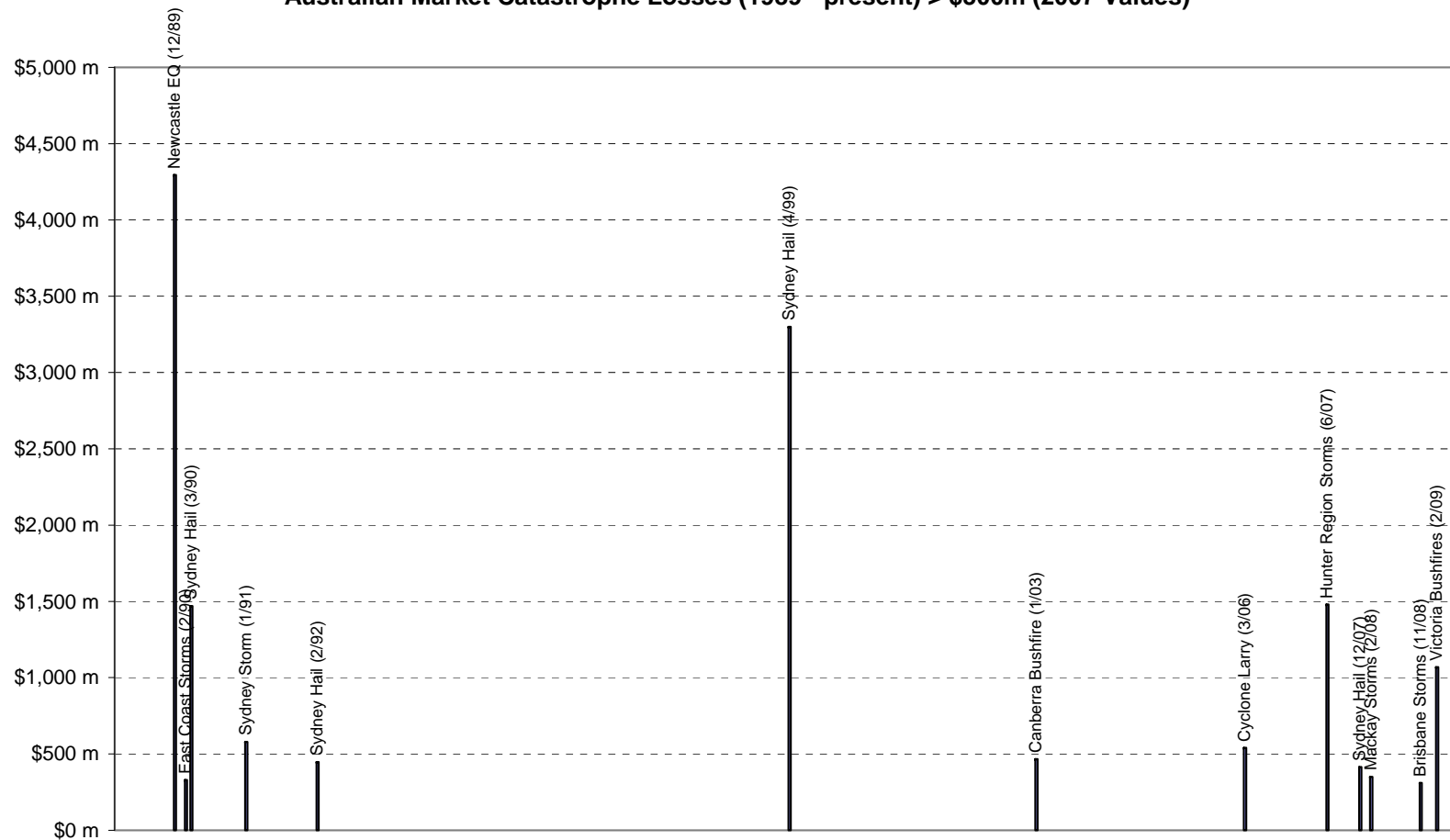
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# Demand ↑ - non-GFC Impacts

Australian Market Catastrophe Losses (1989 - present) > \$300m (2007 Values)

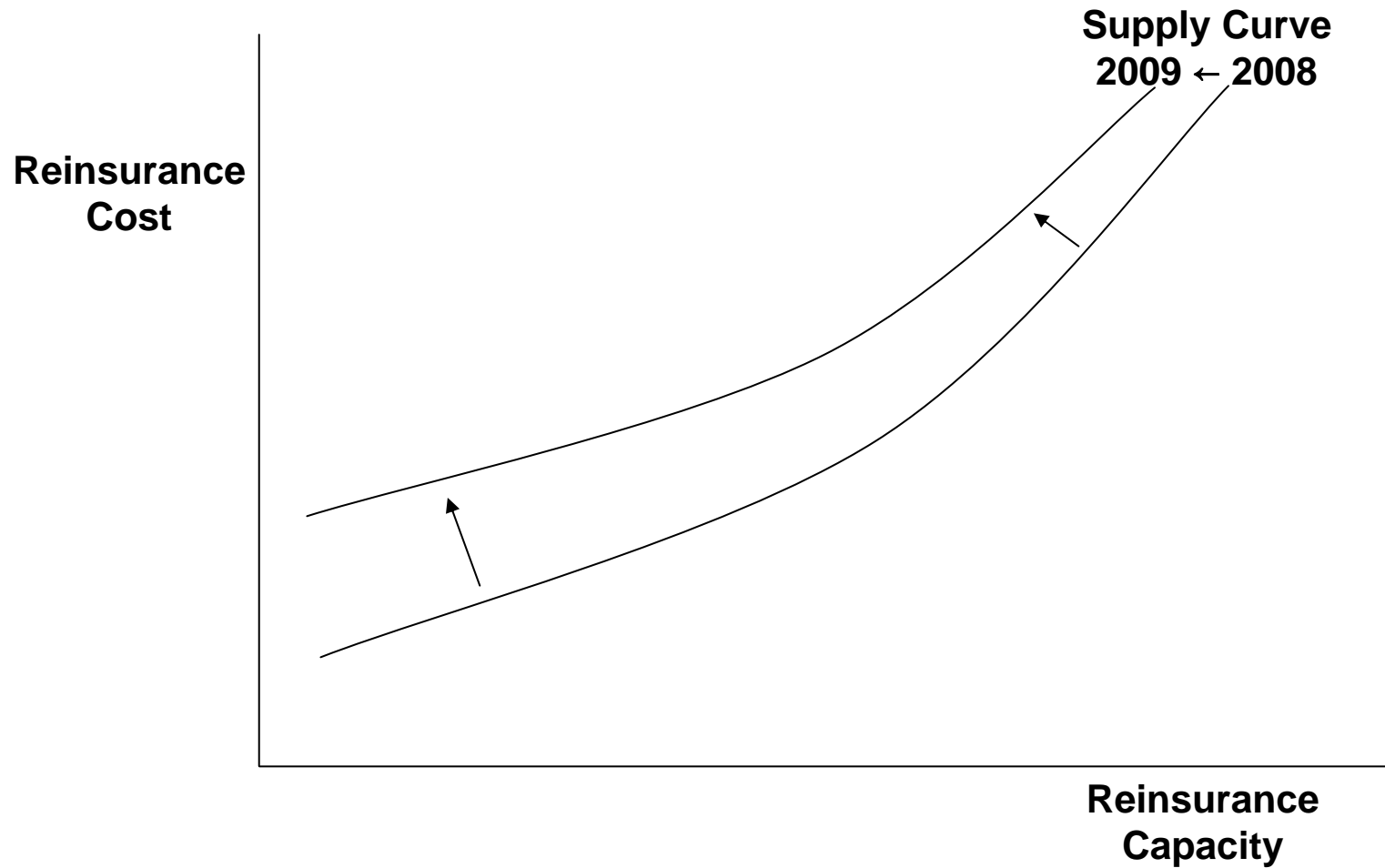


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# Supply ↓



## Supply ↓

### **Demand for Capital or Need for Preservation**

- Asset-side Impairment
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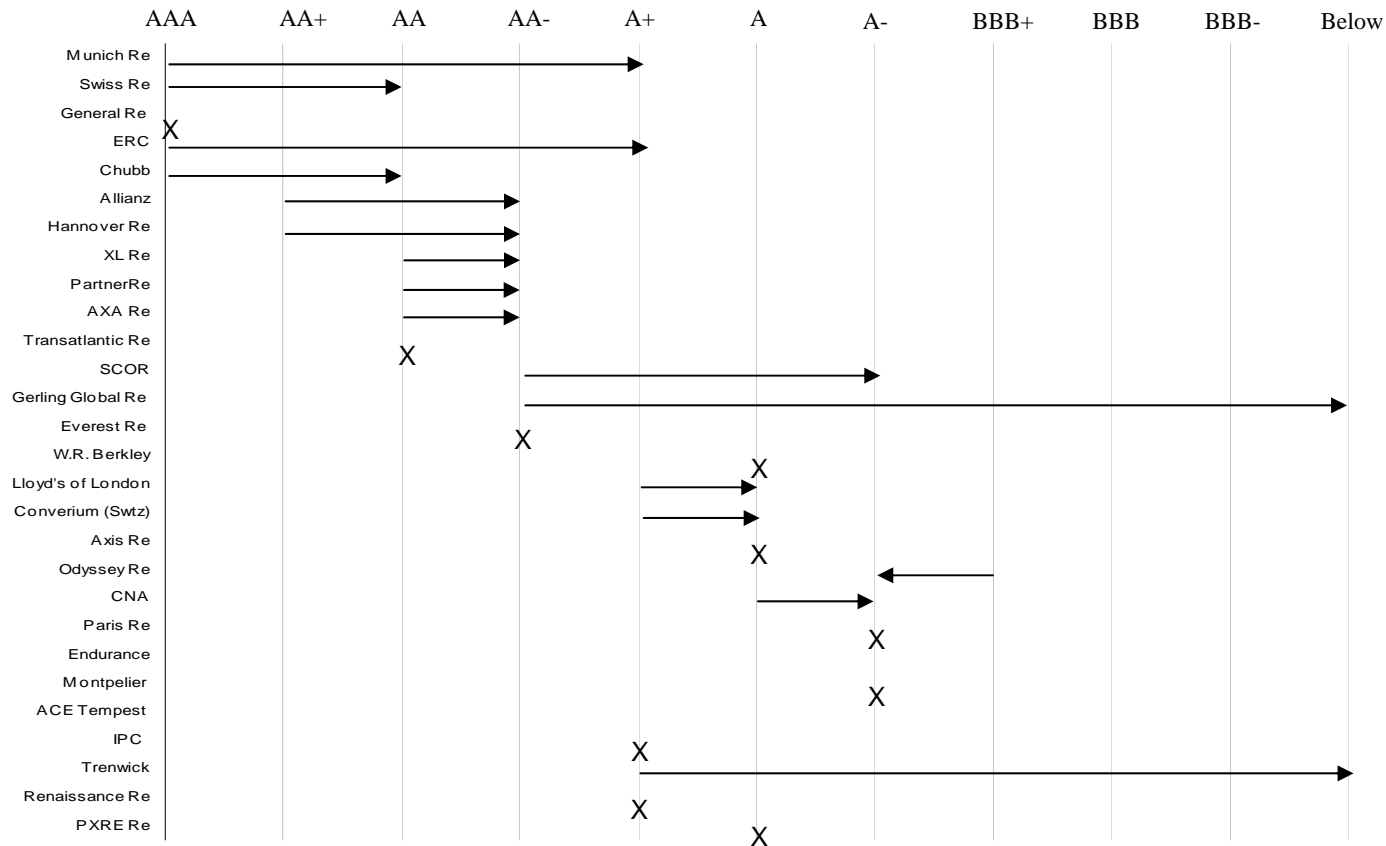
**SAME ISSUES FOR REINSURERS!**

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# Supply ↓ - Quality



→ Black lines denote movement between 9/11 and Sept 03

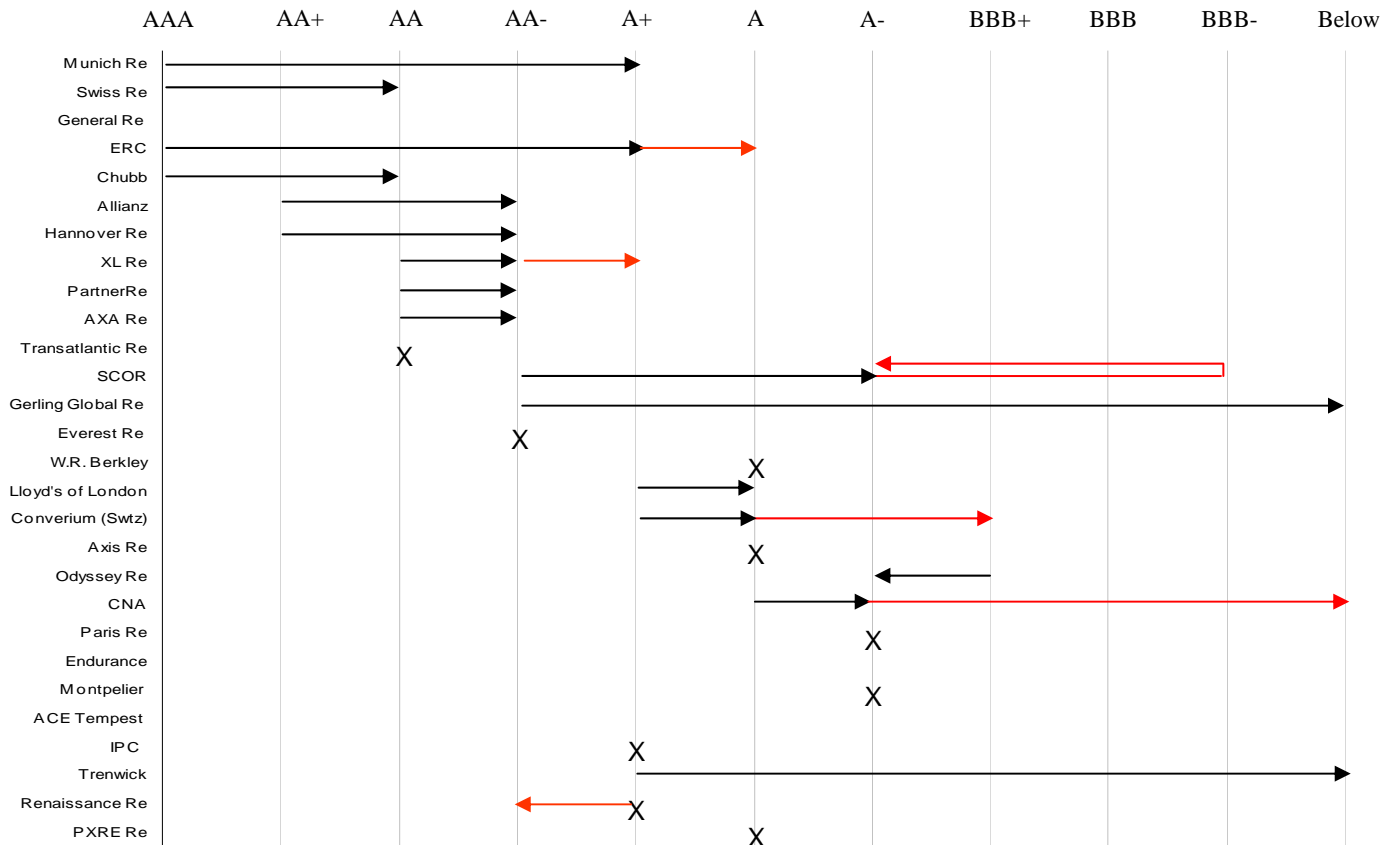
Standard & Poor Ratings

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# Supply ↓ - Quality



Black lines denote movement between 9/11 and Sept 03  
 Red lines denote movement between Sept 03 and Aug 05

Standard & Poor Ratings

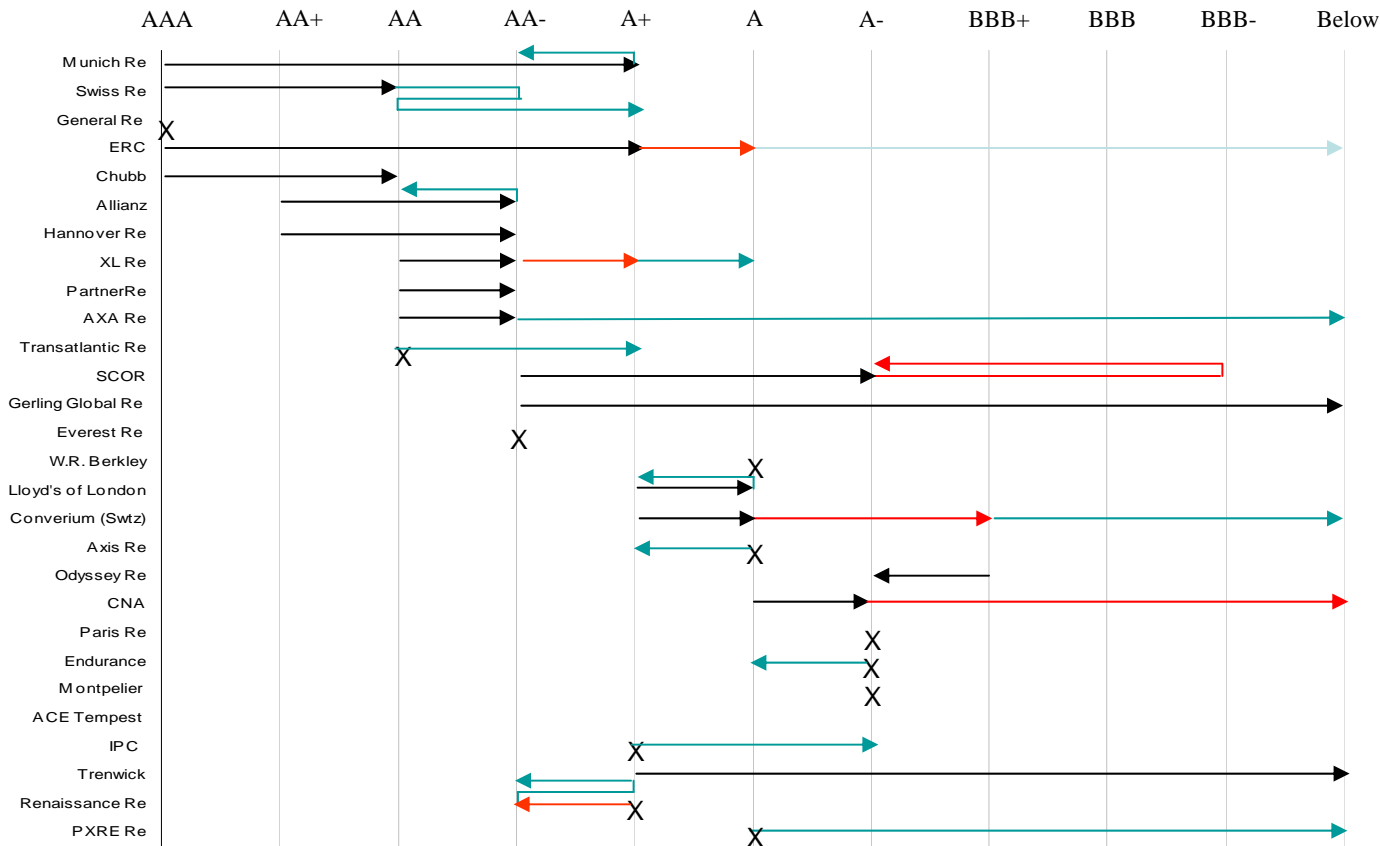


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# Supply ↓ - Quality



— Black lines denote movement between 9/11 and Sept 03  
 — Red lines denote movement between Sept 03 and Aug 05  
 — Green lines denote movement post-Katrina to March 09

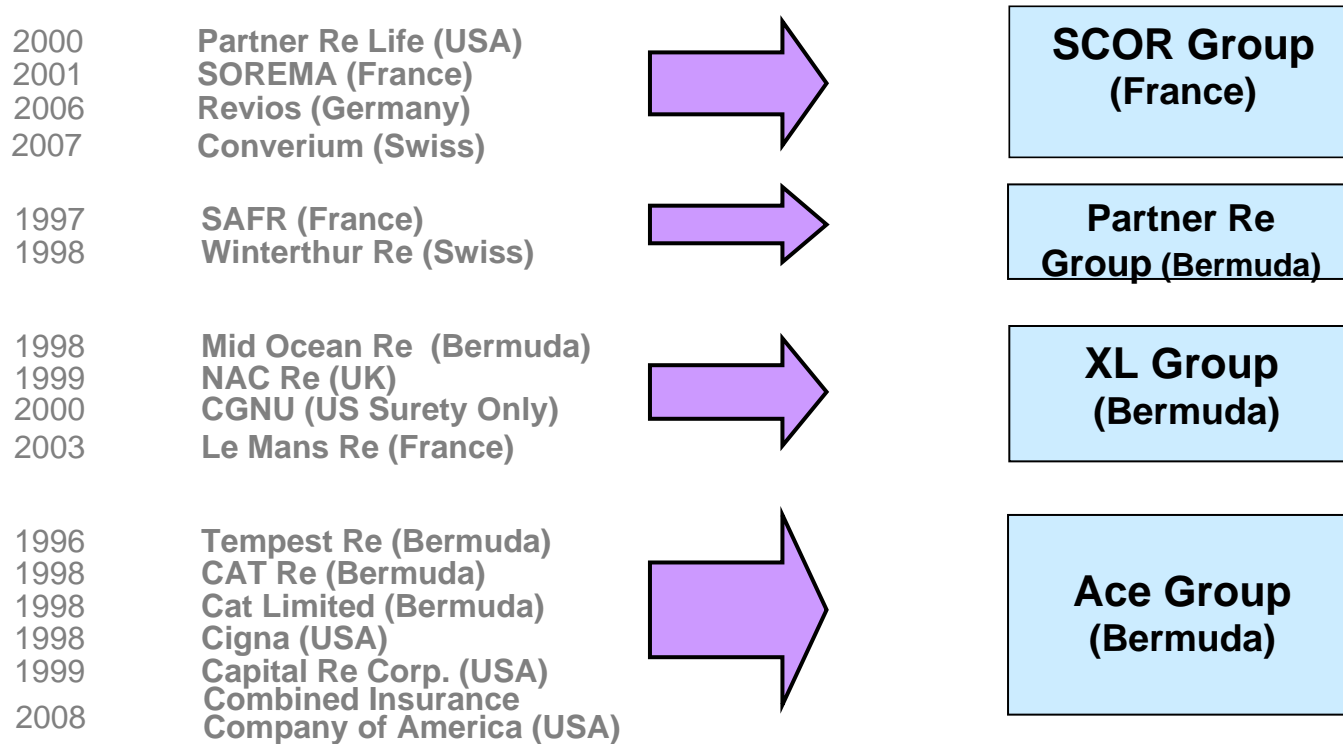
Standard & Poor Ratings

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### Supply ↓

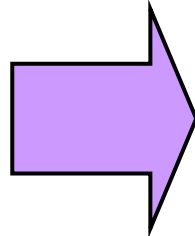


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## Medical indemnity issues for 2009

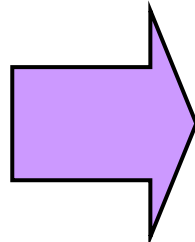
### Supply ↓

1996 American Re (USA)  
 1997 Reale Riassicurazioni S.p.A  
 1999 New Re (Swiss)  
 2000 CNA Life Re (USA)  
 2007 MSP Underwriting Ltd (UK)  
 2007 Bell & Clements (USA)  
 2008 Sterling Life Insurance (USA)  
 2008 Midland Company (USA)  
 2009 Hartford Steam Boiler (USA)



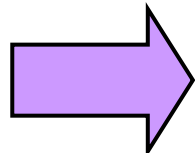
**Munich Re Group  
(Germany)**

1996 M & G Re (UK)  
 1997 Union Re (Swiss)  
 1997 Unione Italiana (Italy)  
 1999 Underwriters Re (USA)  
 201 Bavarian Re (Germany)  
 2006 GE Insurance Solutions (USA)  
 2008 Barclays Life (UK)



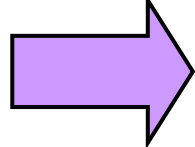
**Swiss Re Group  
(Switzerland)**

1988 Nordisk Re (Norway)  
 1995 Frankona Re (Germany)  
 1995 Aachen Re (Germany)  
 1996 First & Excess Re (USA)



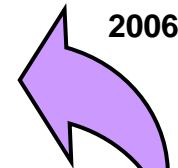
**Employers Re Group  
(member of GE Cap)**

1998 Eagle Star Re (UK)  
 1998 Kemper Re (Belgium)



**GECapital  
(USA)**

**GE Insurance Solutions  
(USA)**



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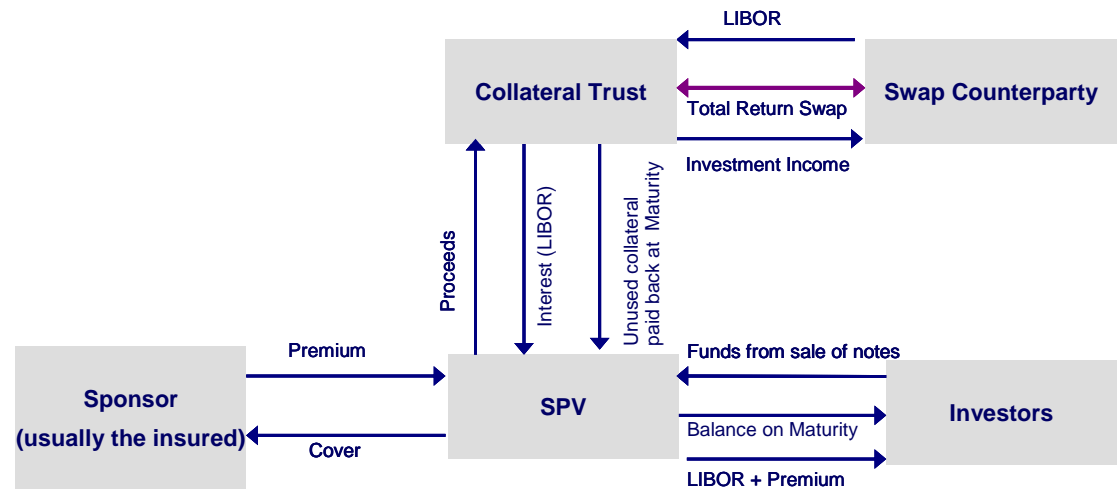
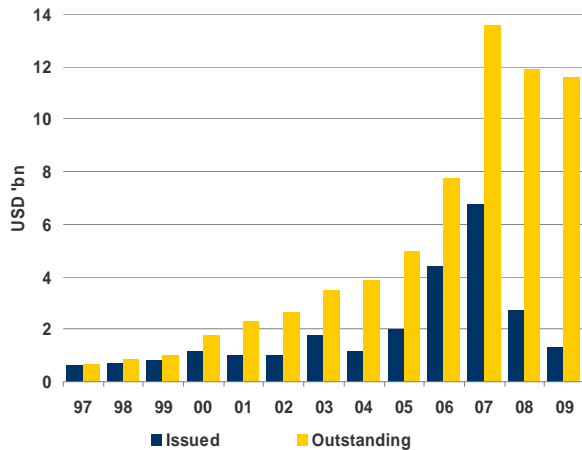
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# Supply ↓

## Reduction in Alternate Sources

**Value of Catastrophe Bond Capacity**

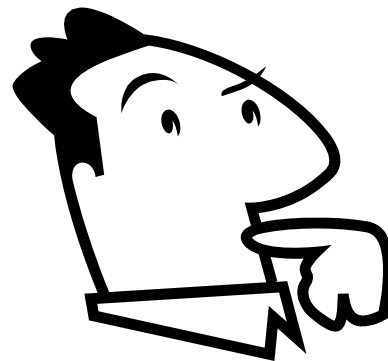


- Role of Investment Banking
- Withdrawal of Hedge Fund capacity
- “Capital Reload” occurred in mid-90s, 2001 and 2005. 2008/09 ?

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# What Are The Reinsurers Thinking





# Participants

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Domestic / Bermuda	A.M Best Rating
Ace Property & Casualty Insurance Company	A+
Allied World Reinsurance Company	A
American Safety	A
Arch Reinsurance Company	A
Axis Reinsurance Company	A
Catlin Insurance Co. Ltd.	A
Endurance Reinsurance Corporation of America	A
Everest Reinsurance Company	A+
IAT Reinsurance Company Ltd.	A-
Max Re Ltd.	A-
Montpelier Reinsurance Ltd.	A-
Munich Reinsurance America, Inc.	A+
Odyssey America Reinsurance Corporation	A
Partner Reinsurance Company of the U.S.	A+
Platinum Underwriters Reinsurance, Inc.	A
Signet Star (Berkley Insurance Company)	A+
Swiss Reinsurance America Corporation	A+
Transatlantic Reinsurance Company	A
XL Reinsurance America Inc.	A

# Participants

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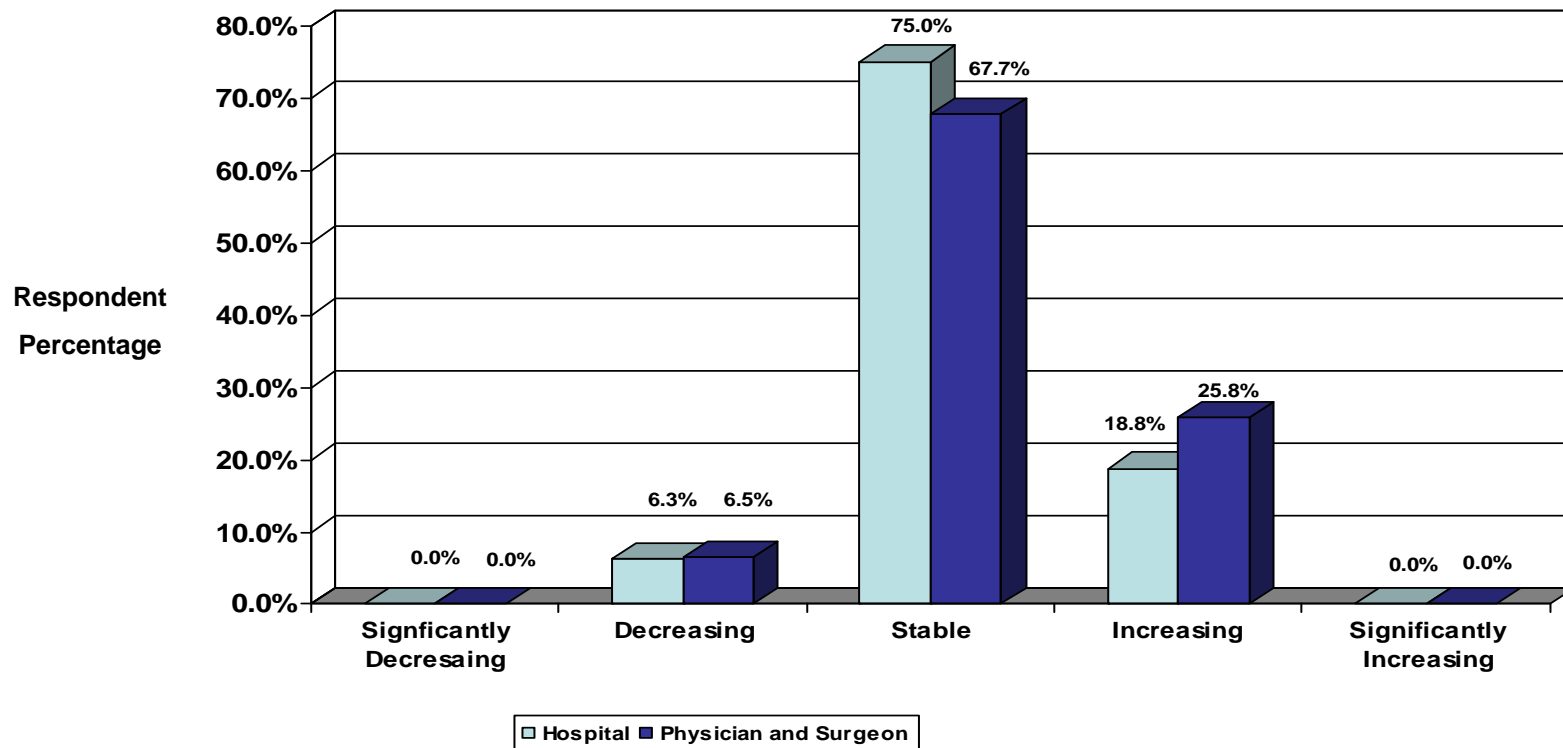
London / European	A.M Best Rating
Ace London – Syndicate 2488	A (1)
Amlin PLC – Syndicate 2001	A+
ARK Underwriting Management – Syndicate 4020	A (1)
Aspen Re	A
Atrium- Syndicate 570	A
Beazley – Syndicates 2623 / 623	A
Catlin Insurance Co. Ltd. – Syndicate 2003	A
Chaucer PLC	A
Faraday – Syndicate 435	A (1)
Hannover Re	A
Heritage – Syndicate 1200.	A (1)
Liberty Syndicate 4472	A (1)
Limit Underwriting – Syndicate 566	A (1)
Managing Agency Partners, Ltd. – Syndicate 2791	A (1)
Paris Re	A-

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### Market Conditions - How do you view frequency trends?



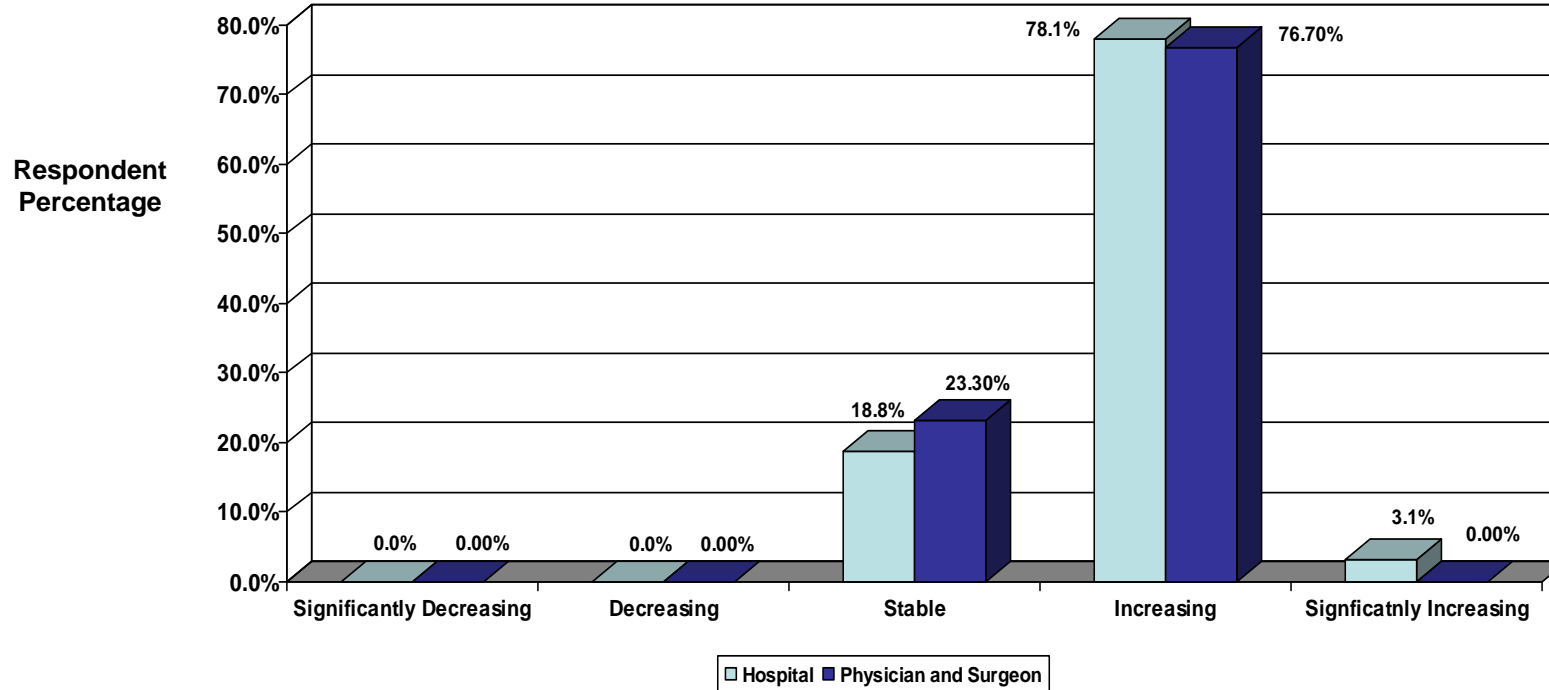
Note: Hospital – 33 total responses Physician & Surgeon – 32 total responses

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### Market Conditions- How do you view severity trends?



Note: Hospital – 33 total responses; Physician and Surgeon – 31 total responses

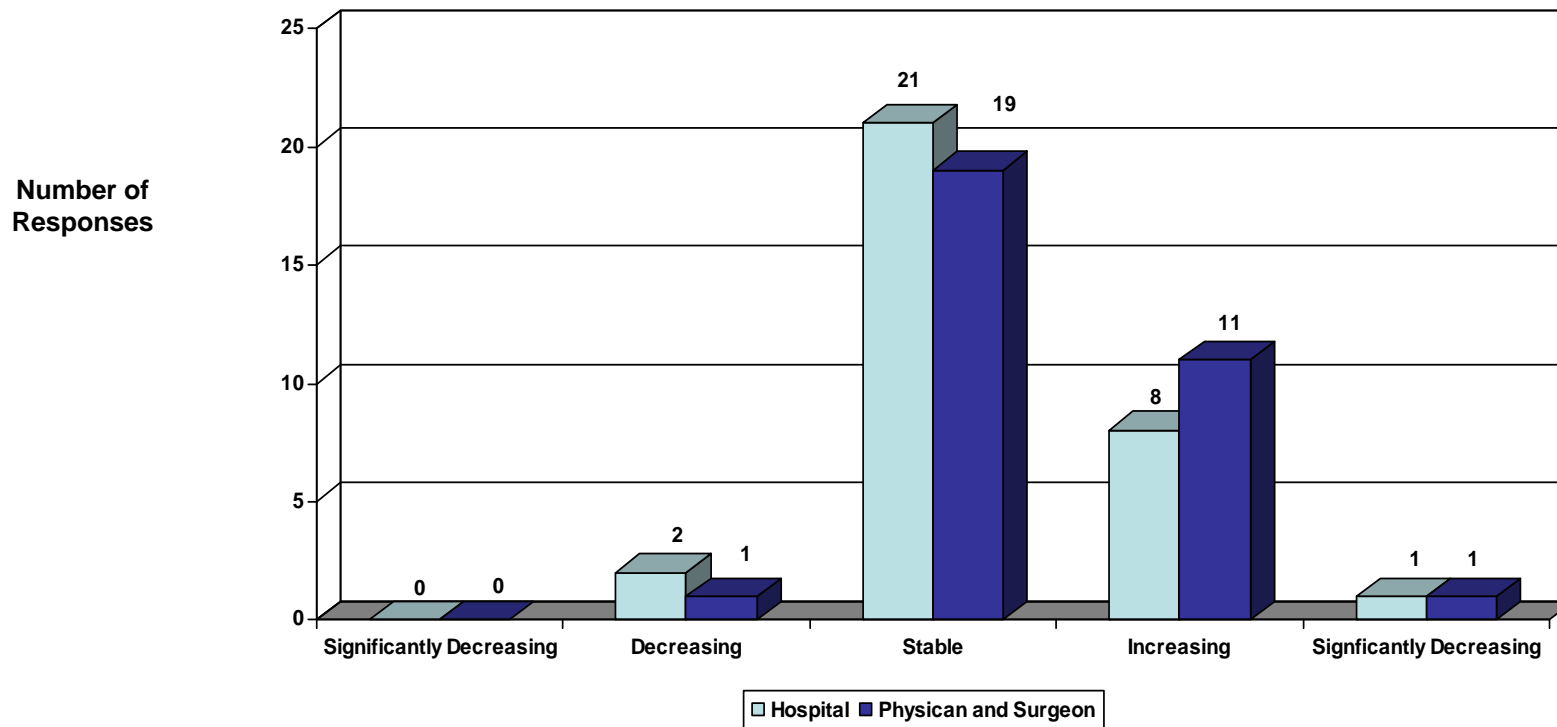
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## Market Conditions

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### Market Conditions How do you view treaty market capacity?



Note: Hospital – 33 total responses; Physician and Surgeon – 33 total responses

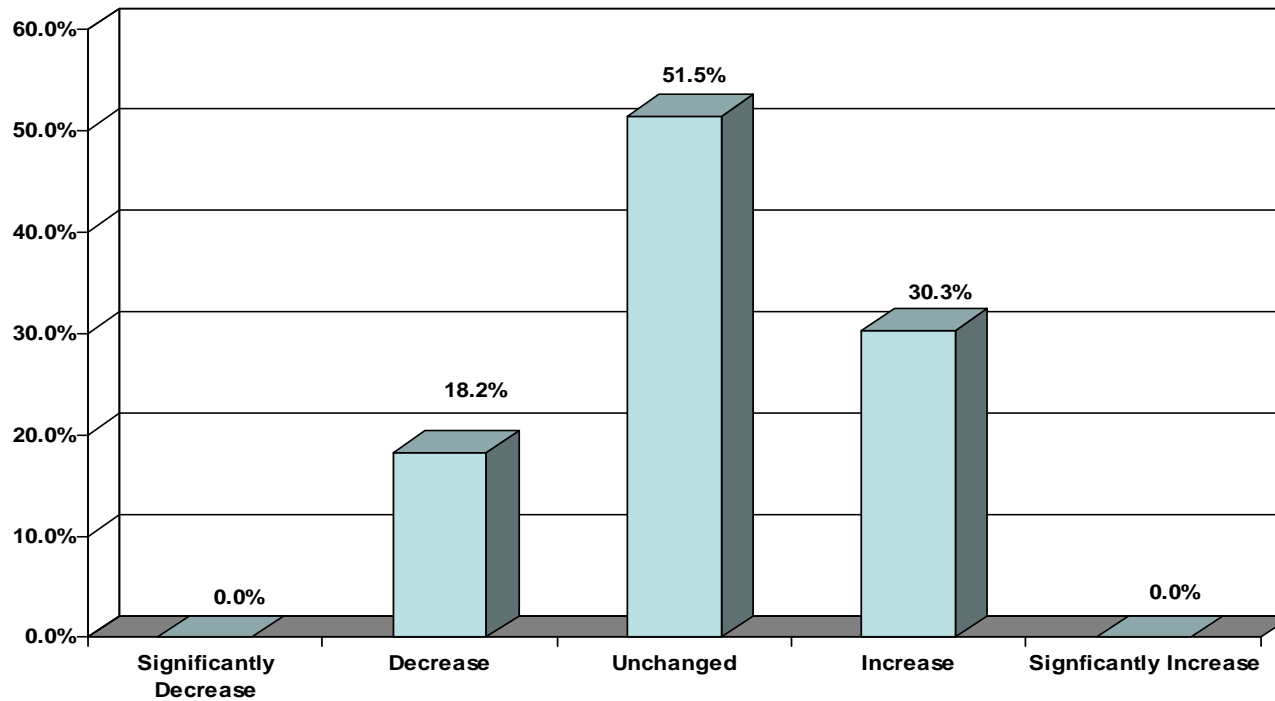


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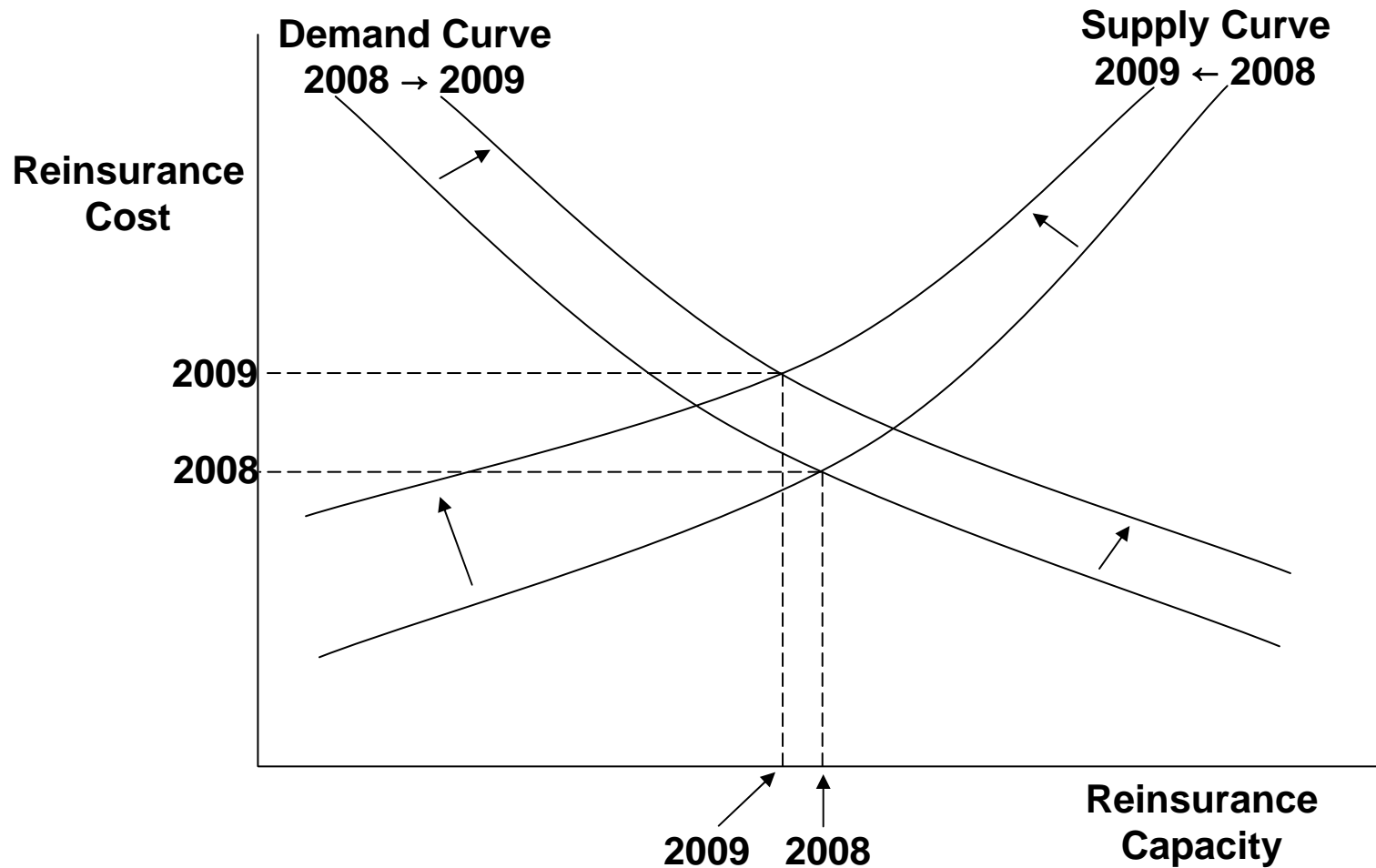


**How do you anticipate the current economic downturn will impact your firm's targeted return on equity in the coming year?**



**Note: 34 total responses**

# Supply and Demand



## Where to From Here?

- Market Hardening
  - GFC
  - Other factors
  - Territory specific
- Market cycle impacted by regular “one off” events
  - LMX, WTC, KRW, GFC, “Swine Flu” etc. etc.
- Flow of future capital key – traditional, alternative, self-generated
- Reinsurance remains a resilient form of capital

## Issues for Insurers

- Capacity for Australia and NZ remains strong

BUT

- Need clear understanding of purpose of reinsurance:
  - Capital, earnings, compliance, etc.
  - Recent years: retain more → manage volatility → capital source
- Locked in well price capacity where possible
- Ensure large loss potential feeds through into pricing
  - all losses not just RI costs

Will remain a key risk / capital management tool