

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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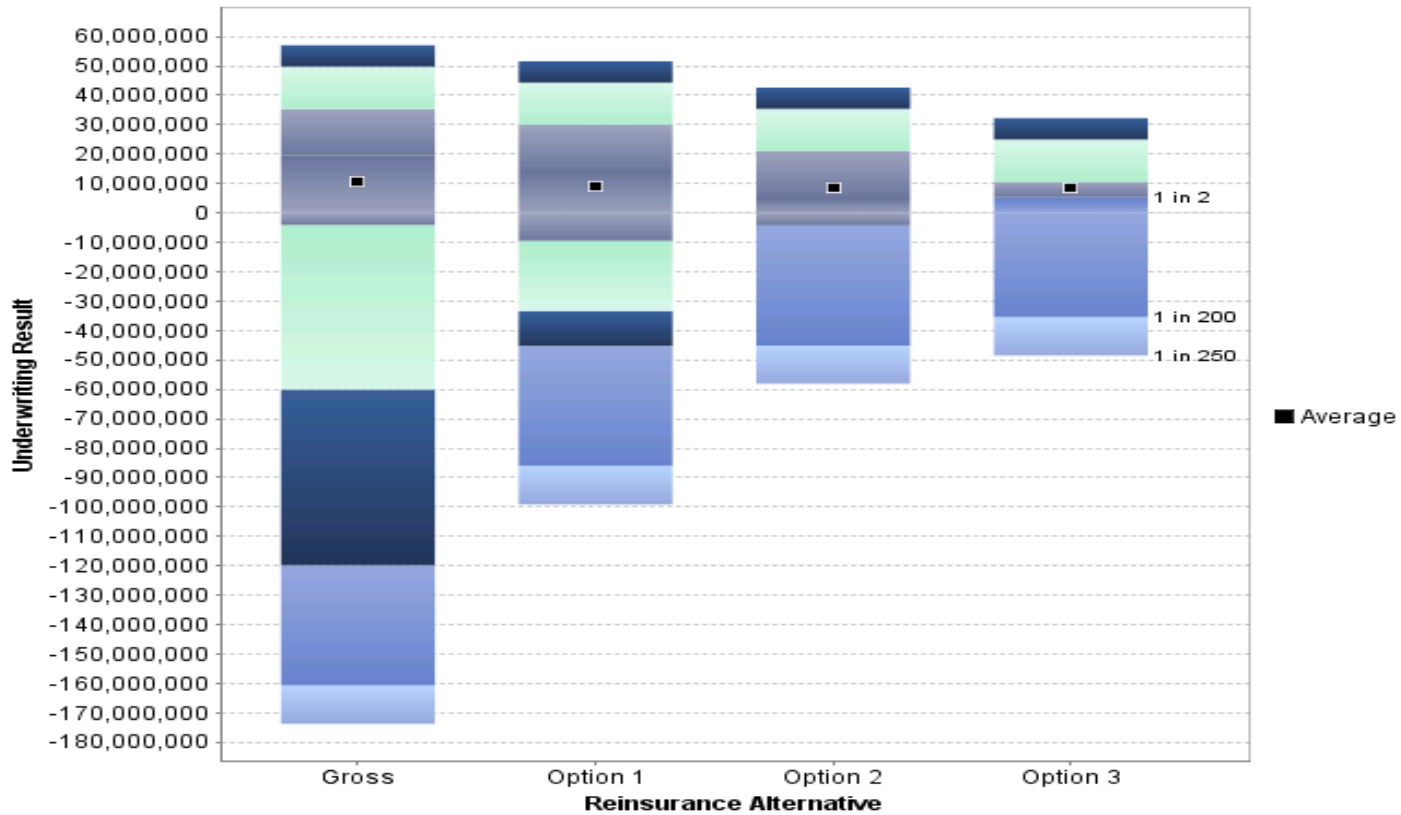
Today

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

Reinsurance 101

Willis *i*FM

Variability in Underwriting Result

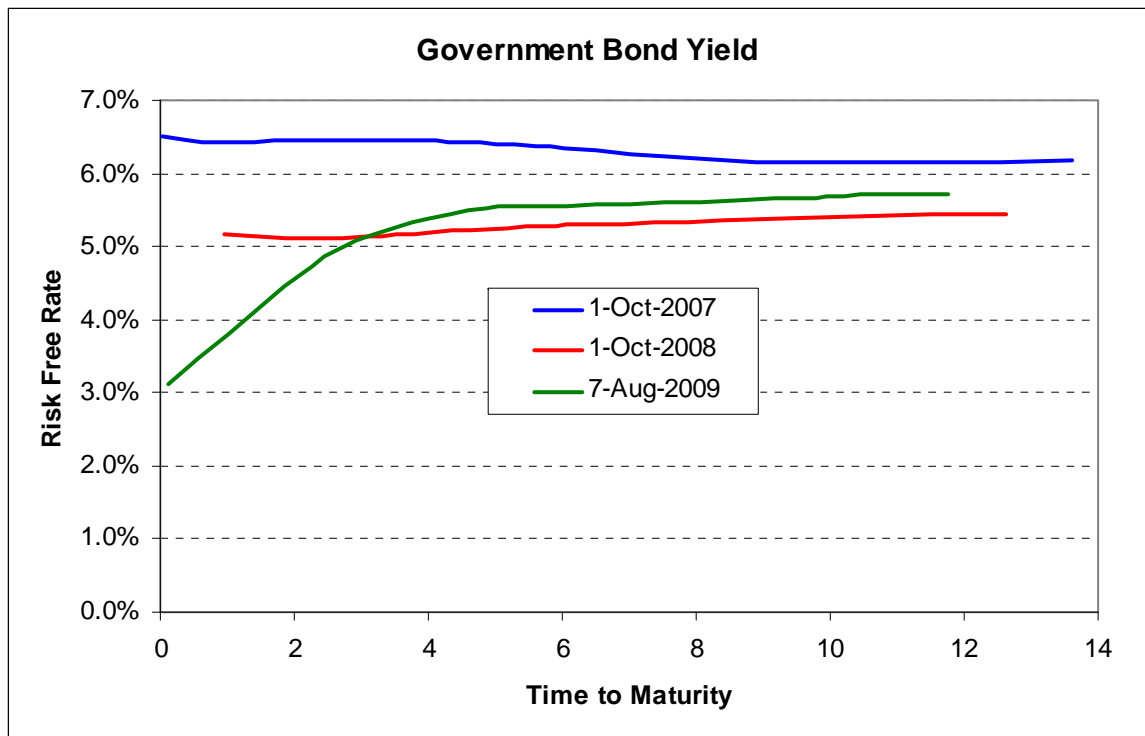


Technical Considerations

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):

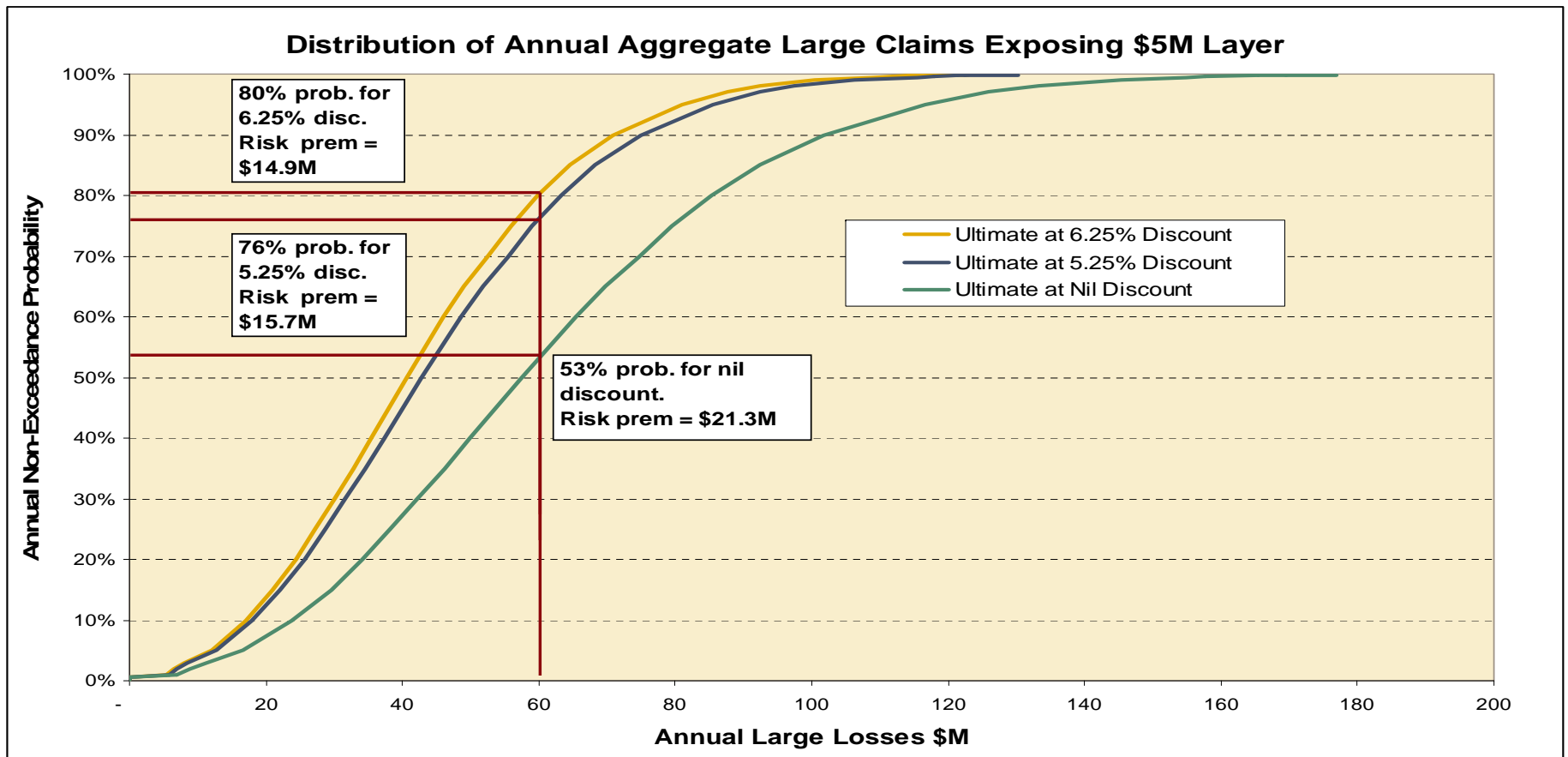
Based on selection of 6.25% discount = \$14.9M

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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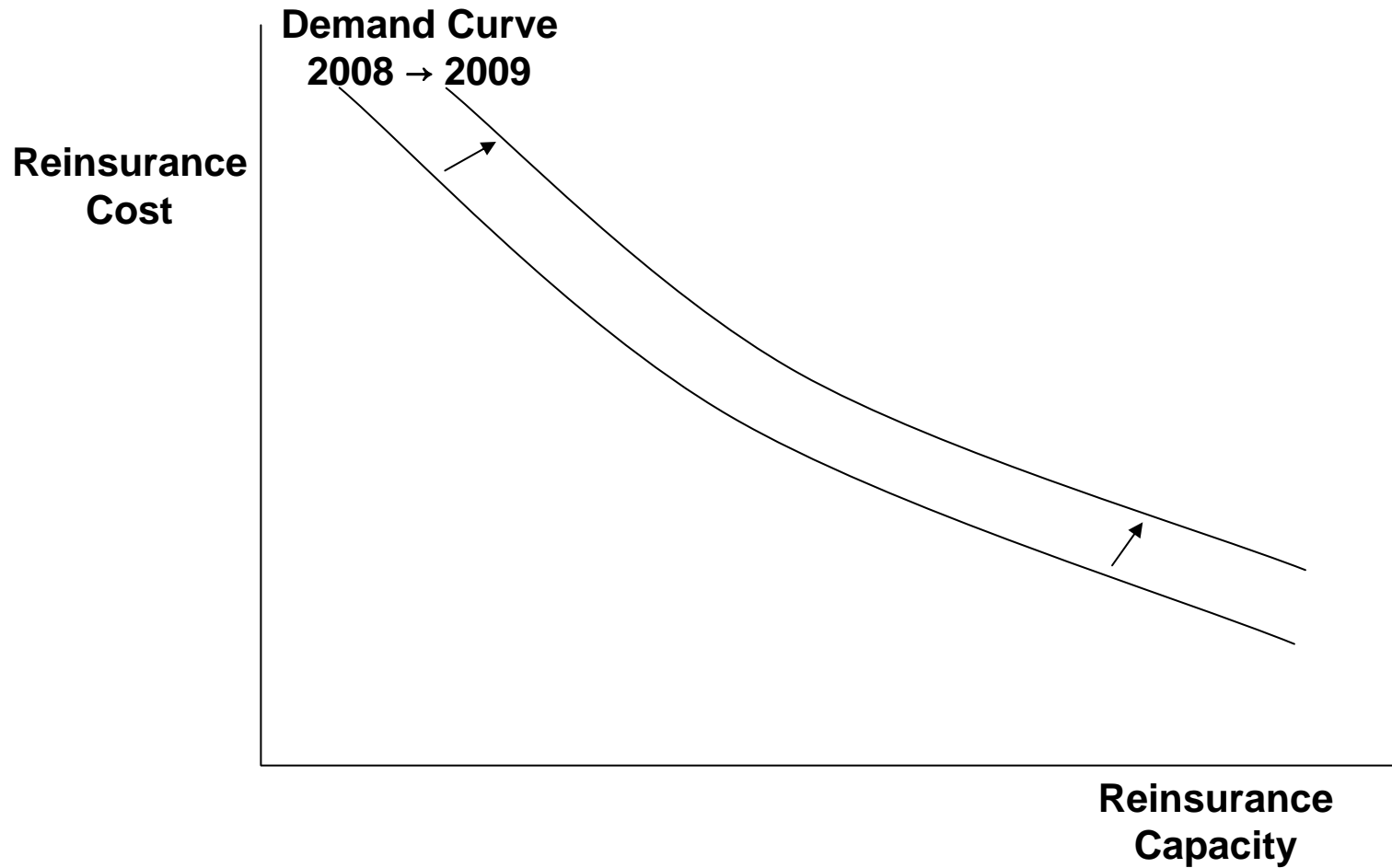
So What Are the Other Drivers of Price?

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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

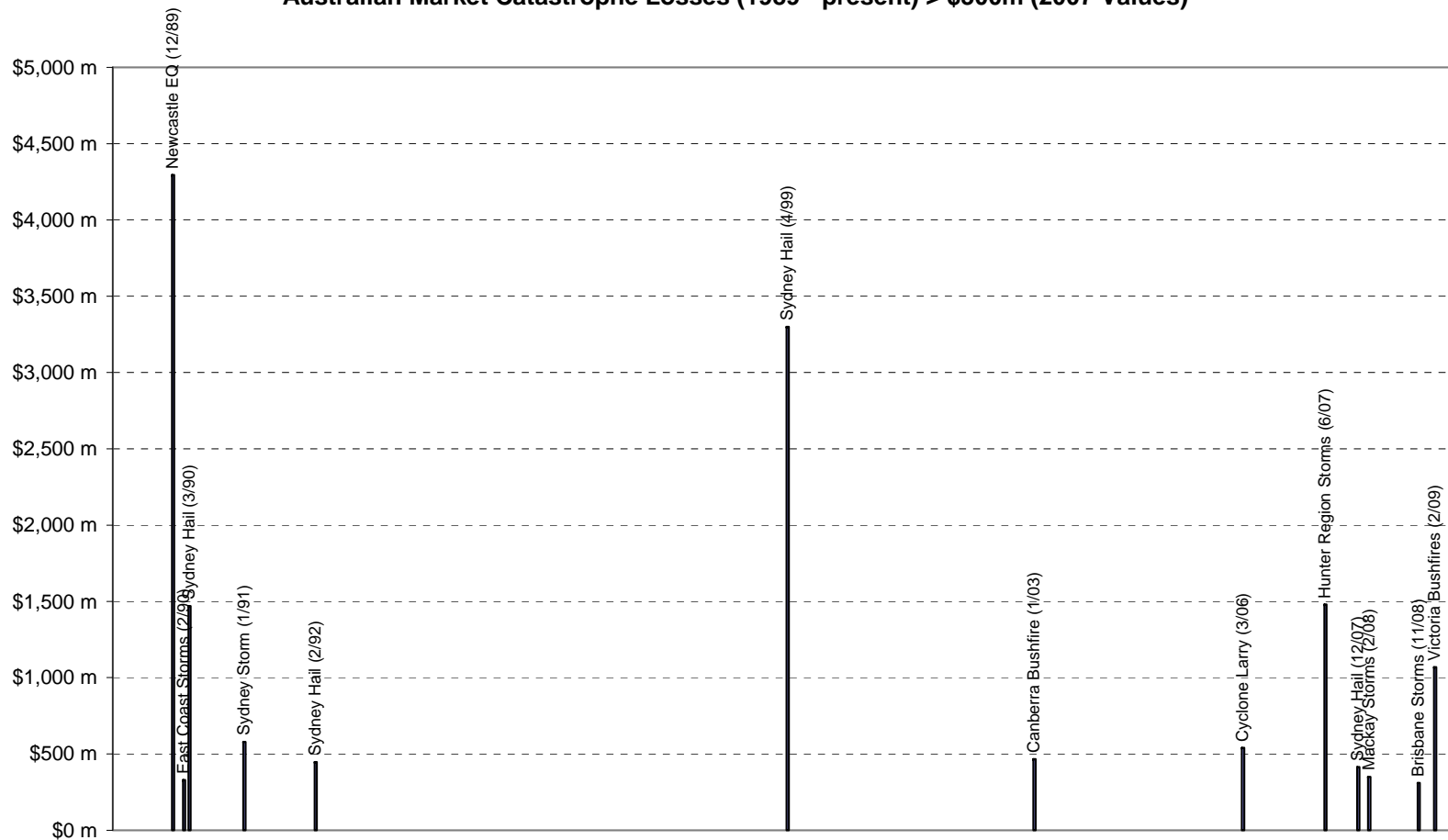
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Demand ↑ - non-GFC Impacts

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

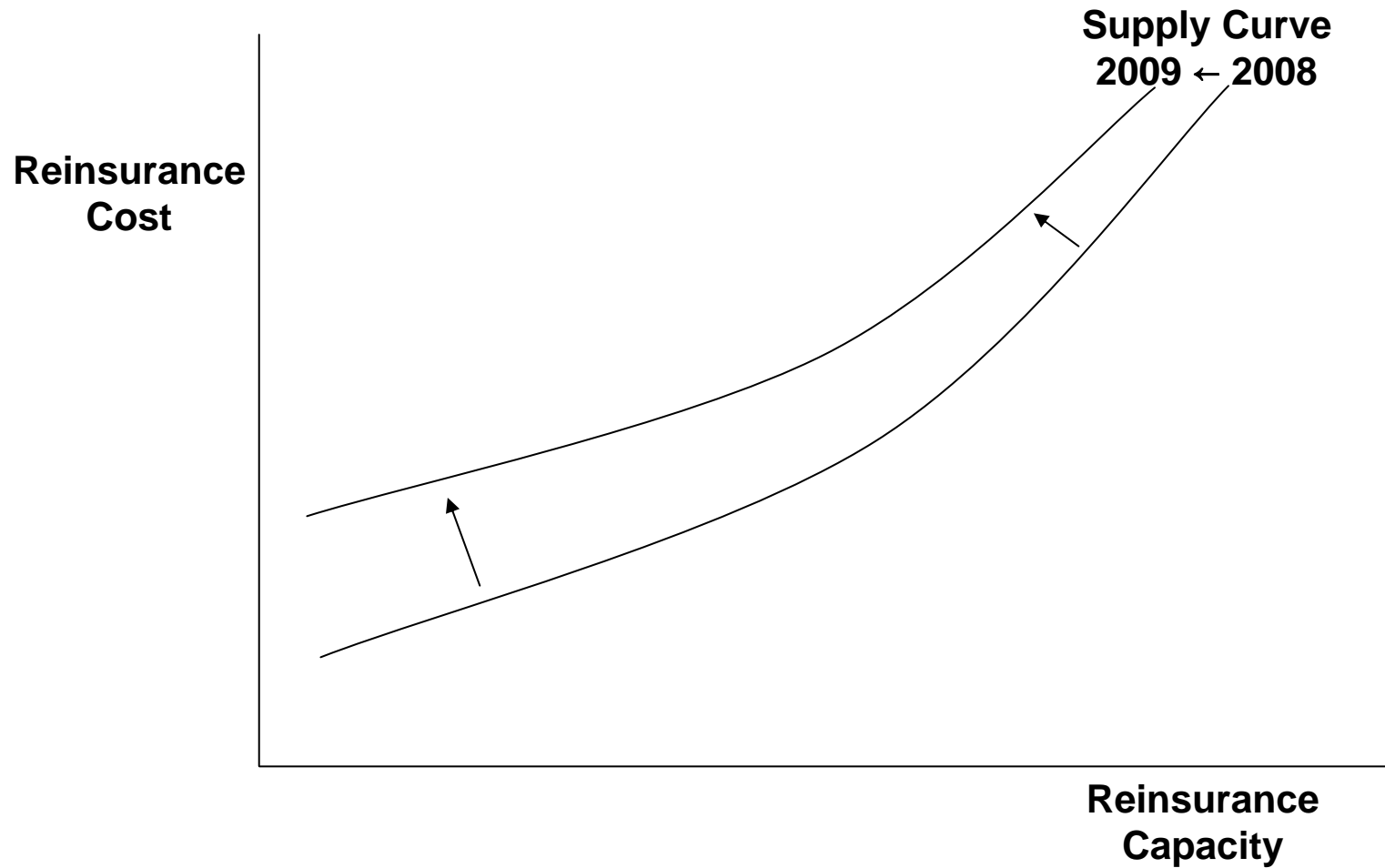


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Supply ↓



Supply ↓

Demand for Capital or Need for Preservation

- Asset-side Impairment
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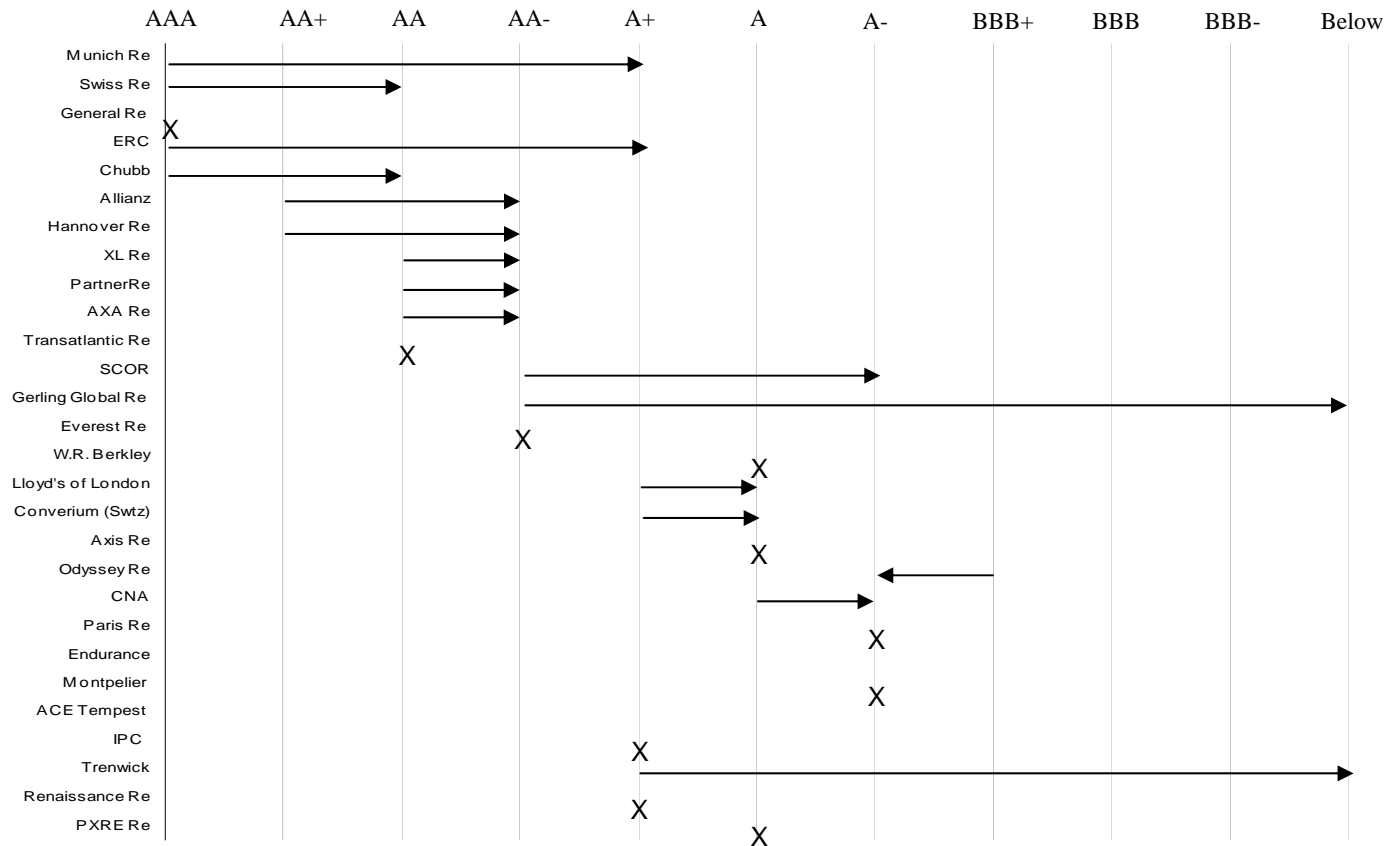
SAME ISSUES FOR REINSURERS!

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Supply ↓ - Quality



Black lines denote movement between 9/11 and Sept 03

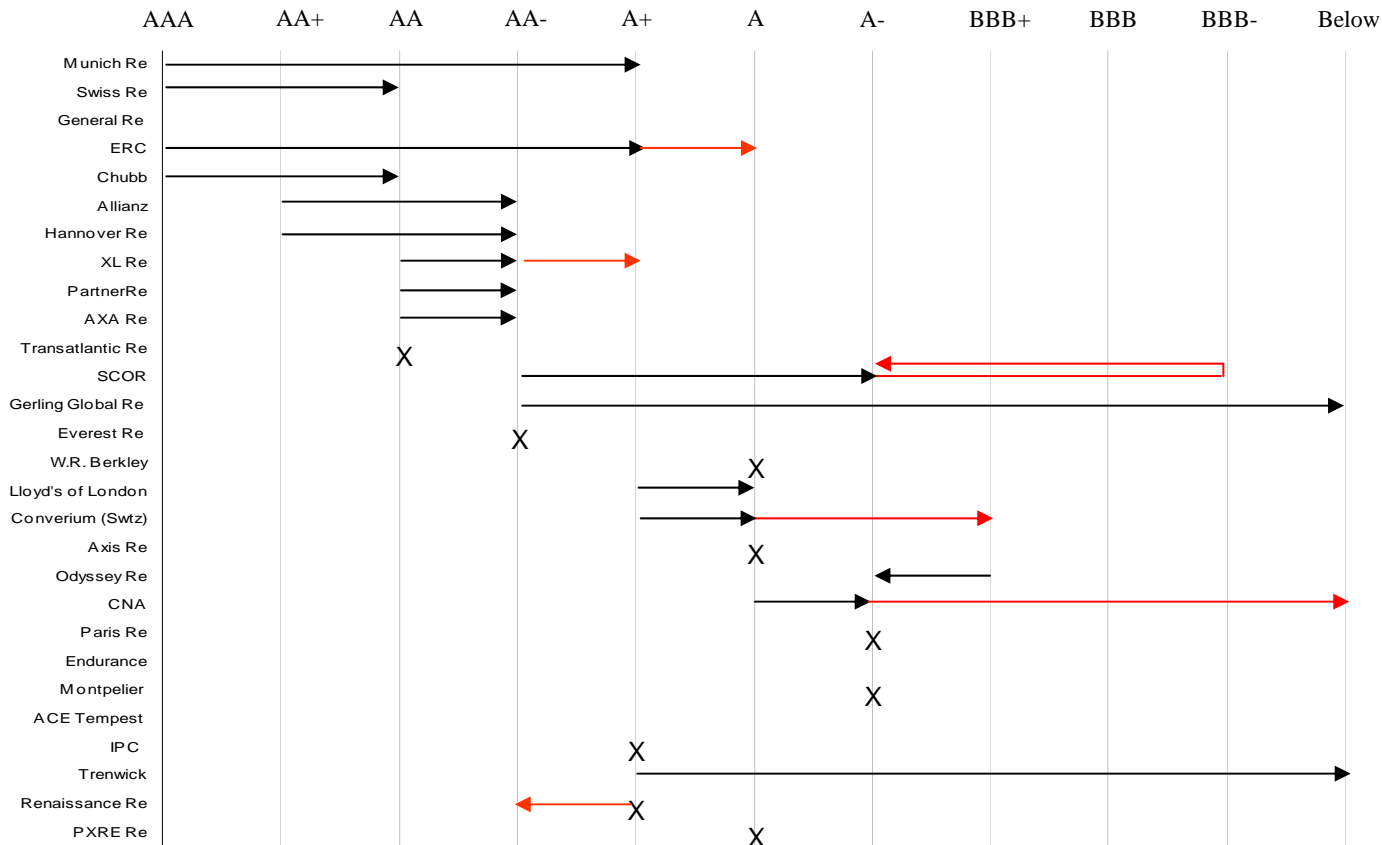
Standard & Poor Ratings

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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

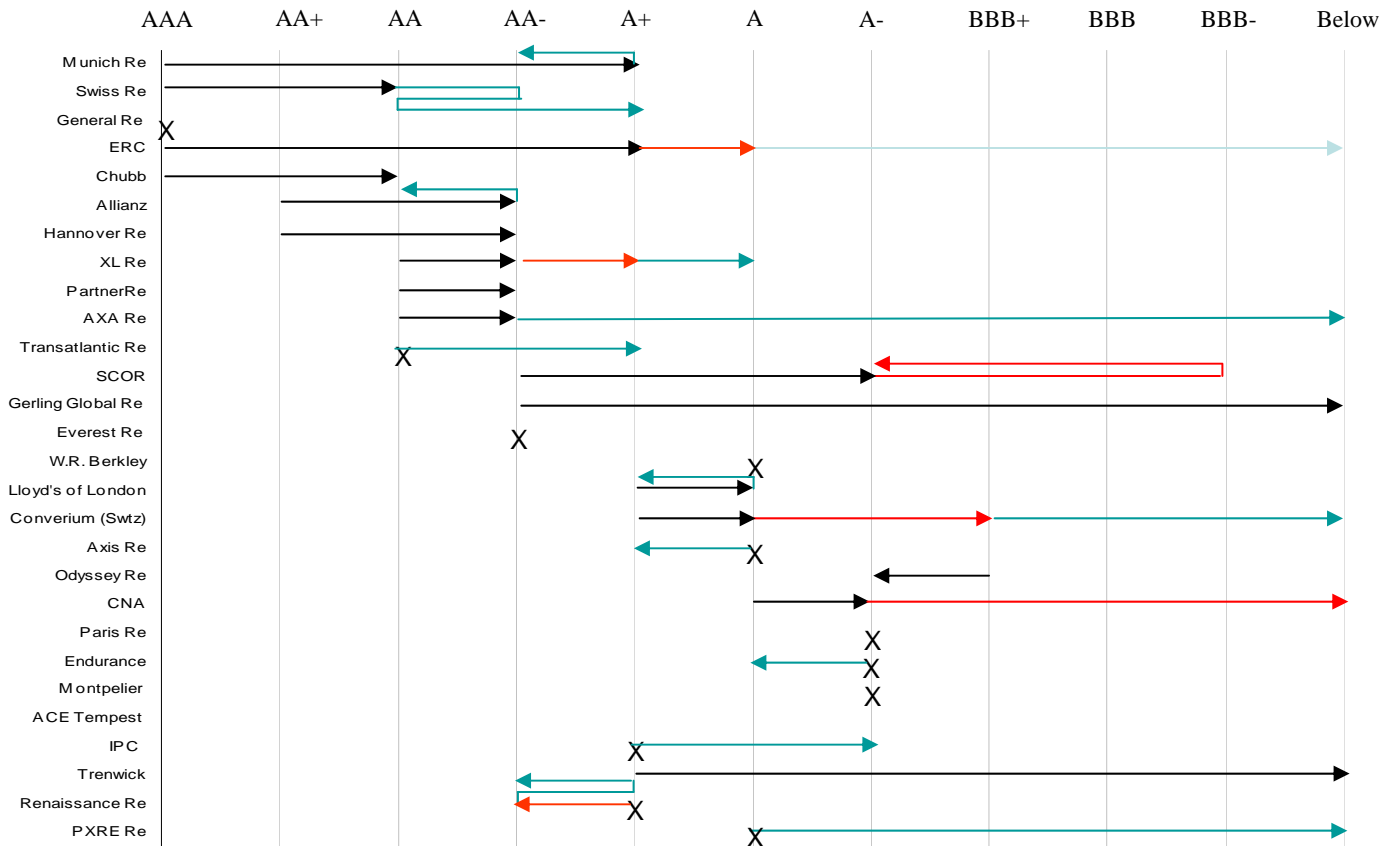
Standard & Poor Ratings

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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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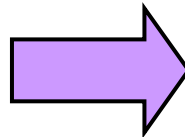
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Supply ↓

2000
2001
2006
2007

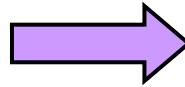
Partner Re Life (USA)
SOREMA (France)
Revios (Germany)
Converium (Swiss)



**SCOR Group
(France)**

1997
1998

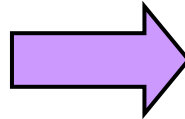
SAFR (France)
Winterthur Re (Swiss)



**Partner Re
Group (Bermuda)**

1998
1999
2000
2003

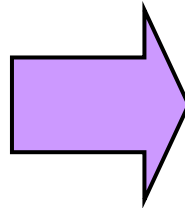
Mid Ocean Re (Bermuda)
NAC Re (UK)
CGNU (US Surety Only)
Le Mans Re (France)



**XL Group
(Bermuda)**

1996
1998
1998
1998
1999
2008

Tempest Re (Bermuda)
CAT Re (Bermuda)
Cat Limited (Bermuda)
Cigna (USA)
Capital Re Corp. (USA)
Combined Insurance
Company of America (USA)



**Ace Group
(Bermuda)**

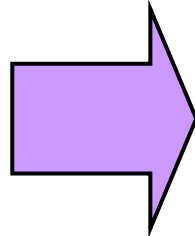
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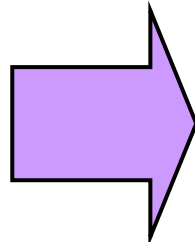
Supply ↓

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)



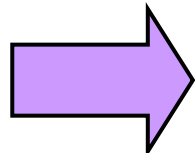
**Munich Re Group
(Germany)**

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)



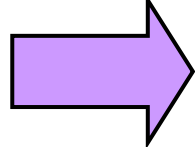
**Swiss Re Group
(Switzerland)**

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



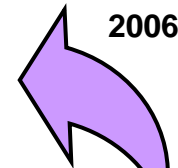
**Employers Re Group
(member of GE Cap)**

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



**GECapital
(USA)**

**GE Insurance Solutions
(USA)**



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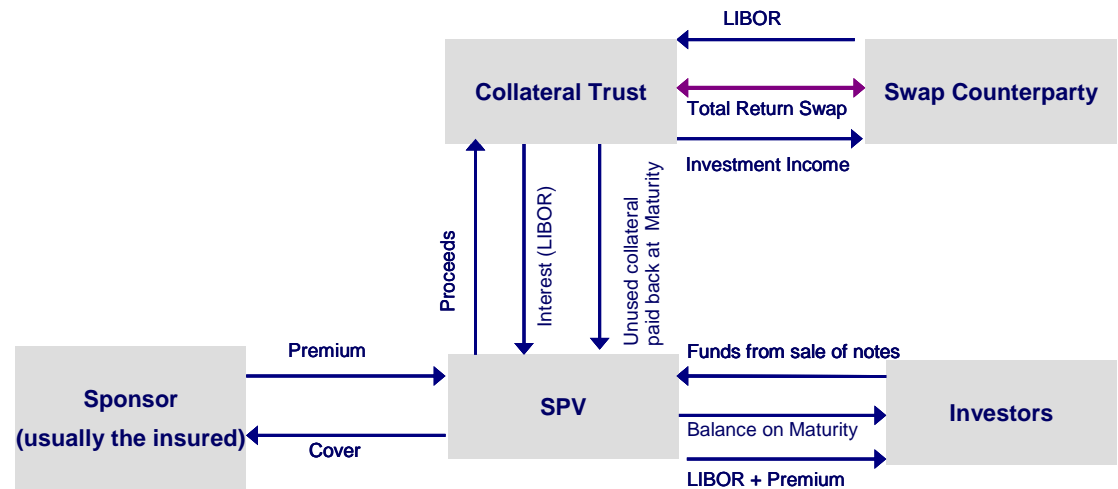
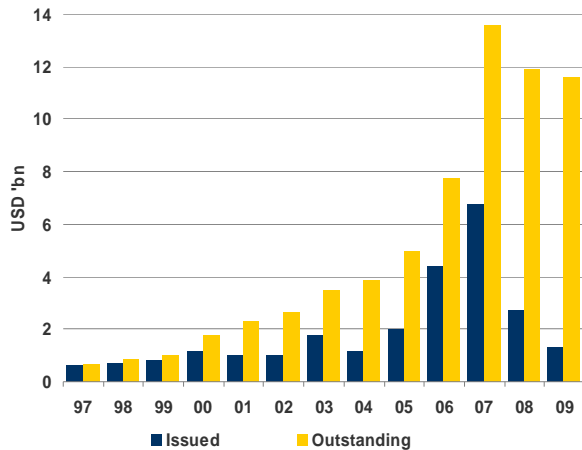
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Supply ↓

Reduction in Alternate Sources

Value of Catastrophe Bond Capacity

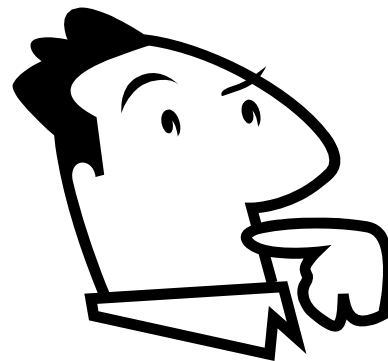


- Role of Investment Banking
- Withdrawal of Hedge Fund capacity
- “Capital Reload” occurred in mid-90s, 2001 and 2005. 2008/09 ?

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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

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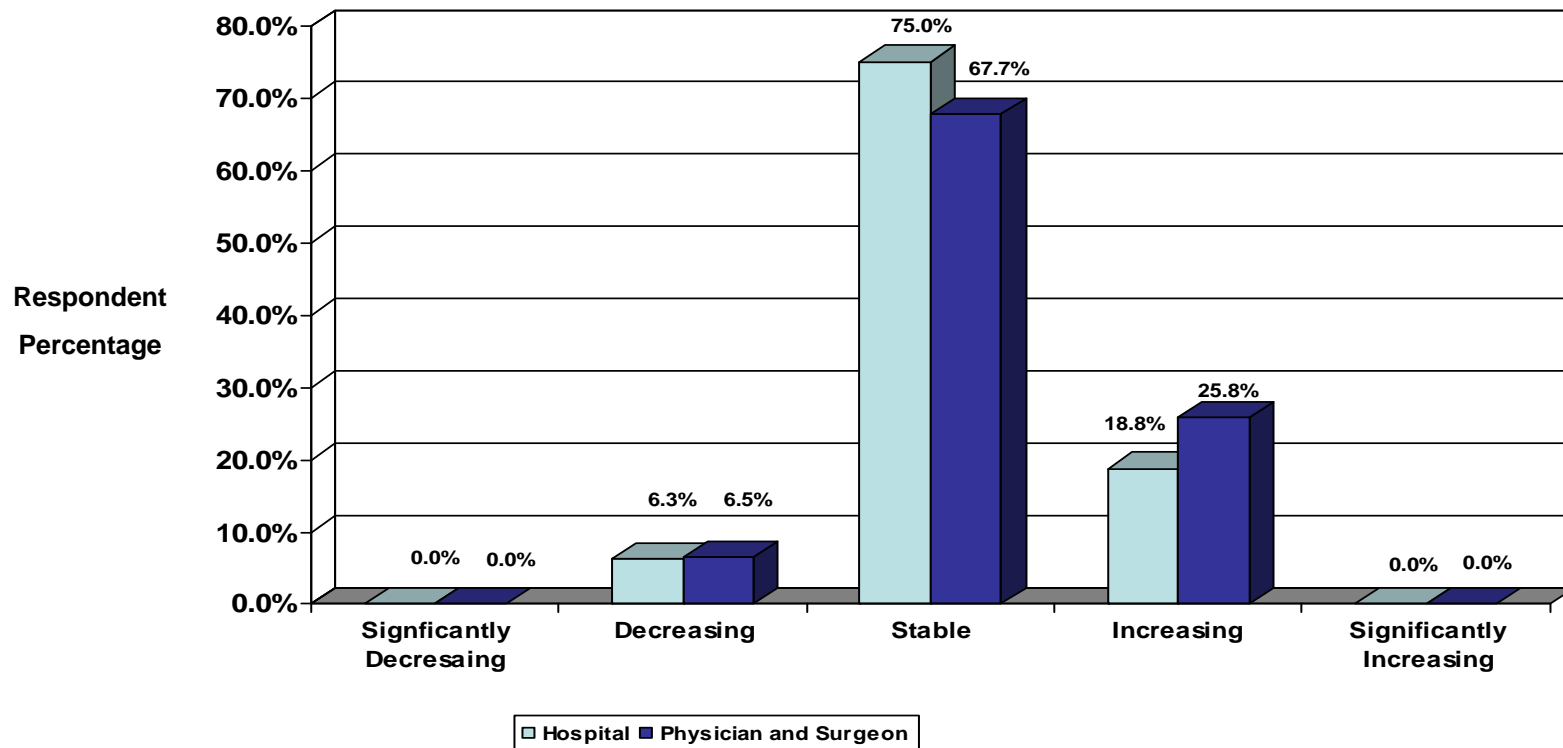
London / European	A.M Best Rating
Ace London – Syndicate 2488	A (1)
Amlin PLC – Syndicate 2001	A+
ARK Underwriting Management – Syndicate 4020	A (1)
Aspen Re	A
Atrium- Syndicate 570	A
Beazley – Syndicates 2623 / 623	A
Catlin Insurance Co. Ltd. – Syndicate 2003	A
Chaucer PLC	A
Faraday – Syndicate 435	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?



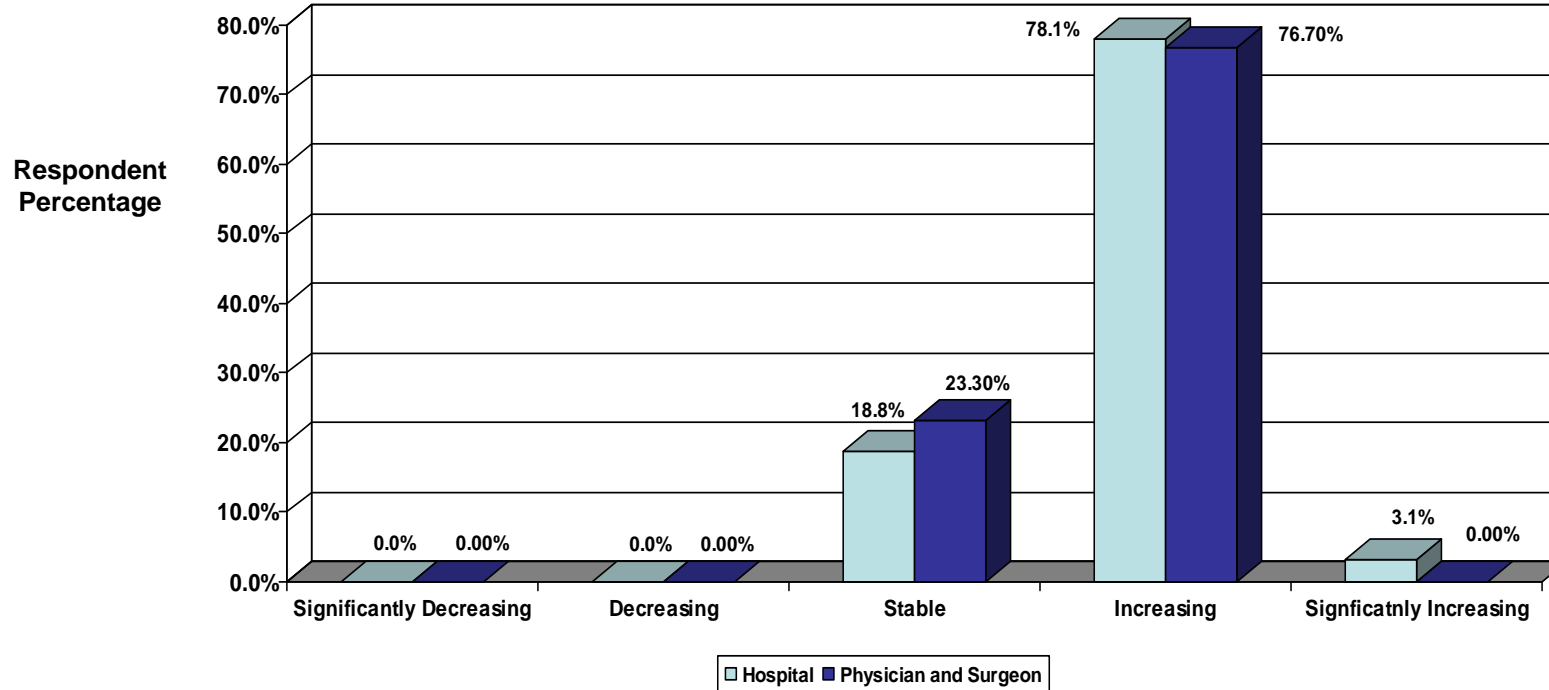
Note: Hospital – 33 total responses Physician & Surgeon – 32 total responses

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Market Conditions- How do you view severity trends?



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

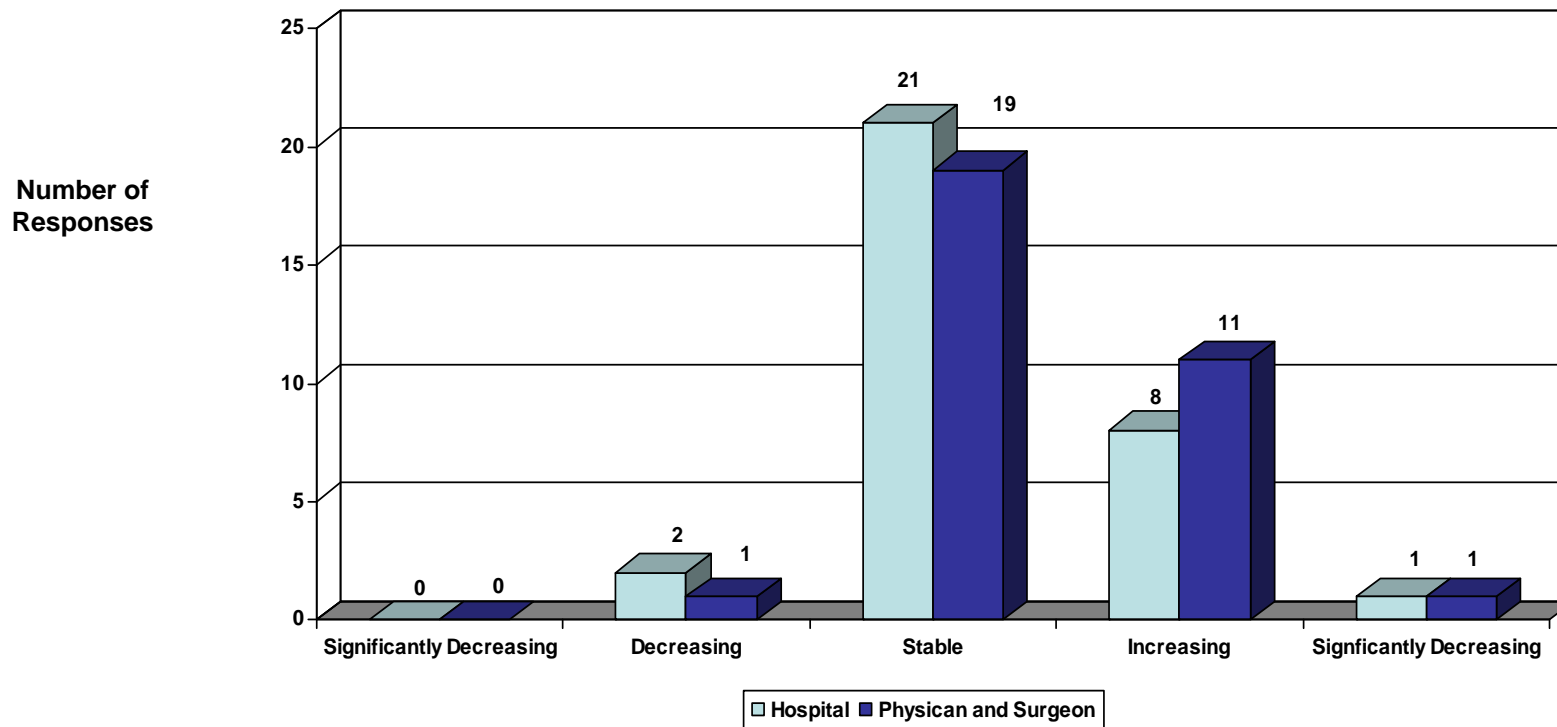
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Market Conditions

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Market Conditions How do you view treaty market capacity?



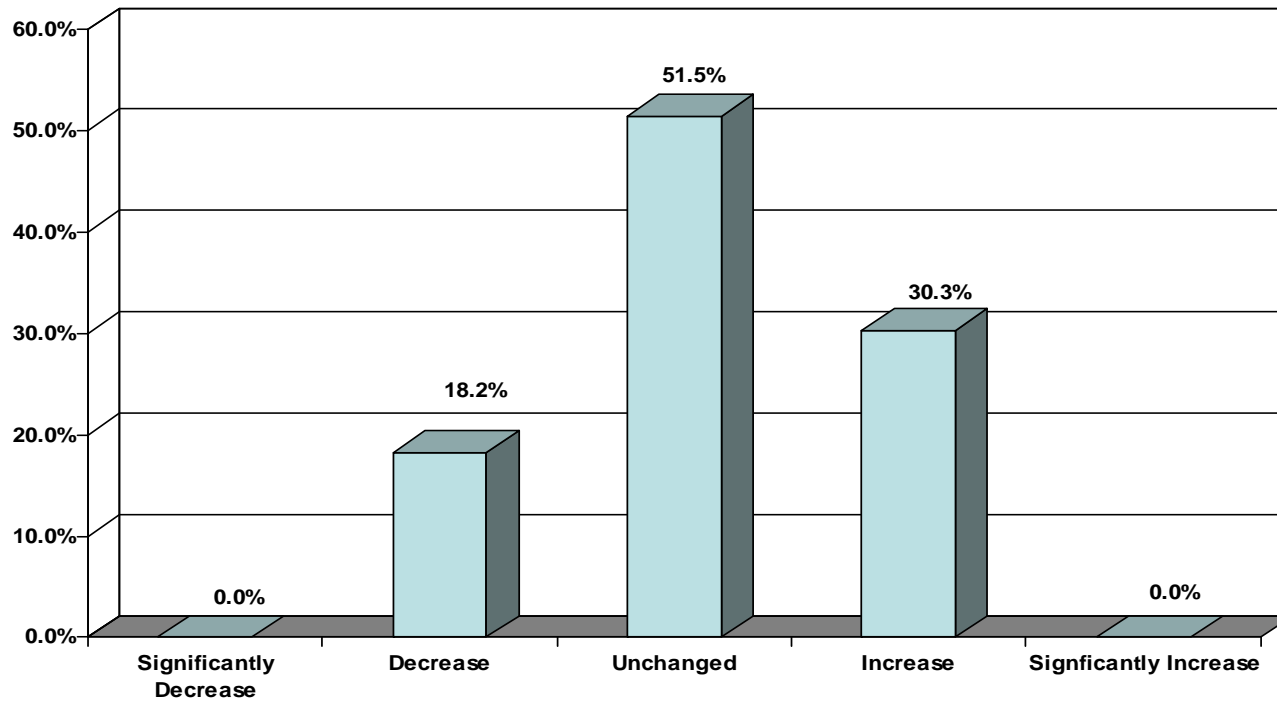
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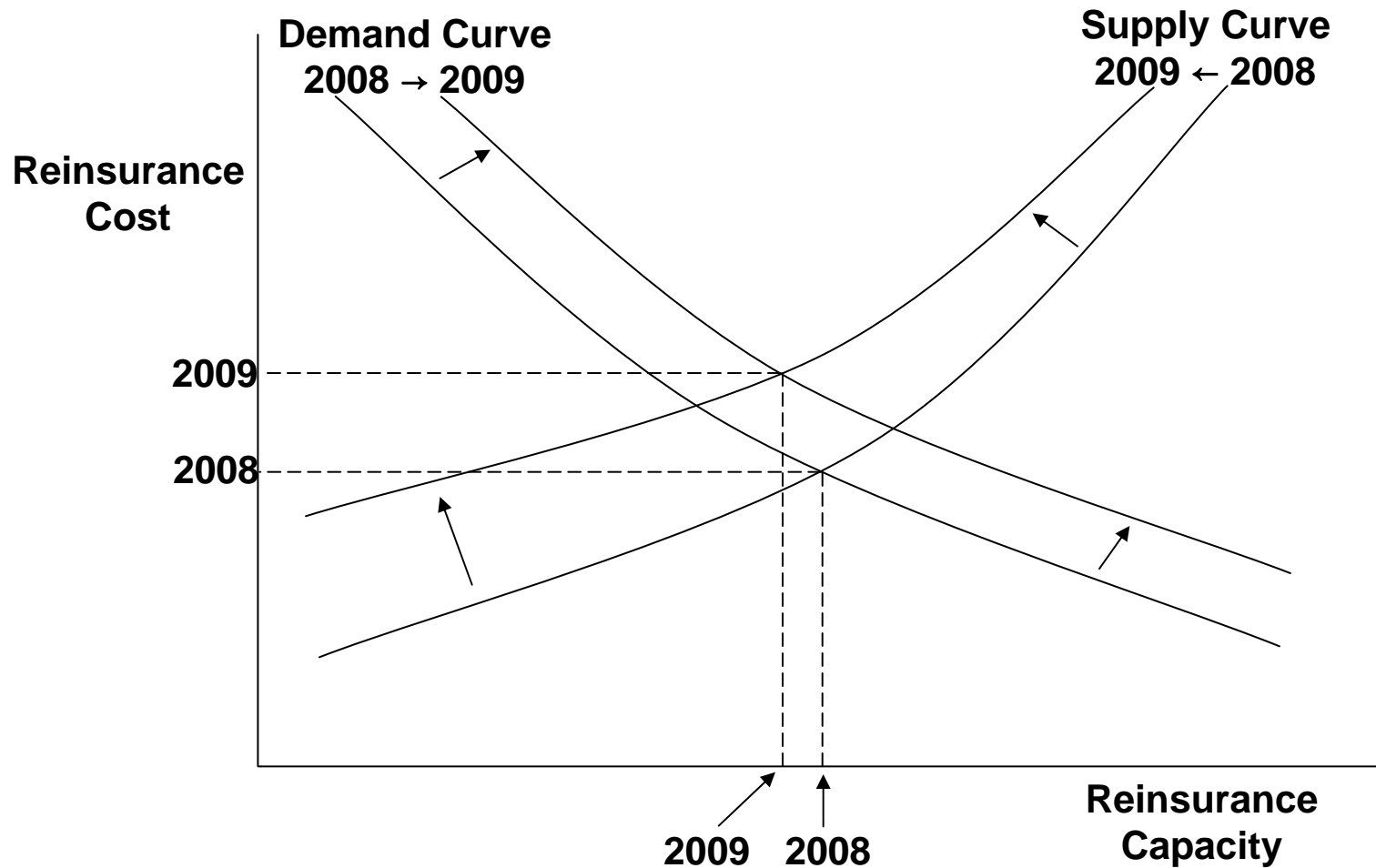


How do you anticipate the current economic downturn will impact your firm's targeted return on equity in the coming year?



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