

Medical Indemnity Forum

24th August



Reinsurance – State of the Market

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Willis Reinsurance Australia Limited**

Overview

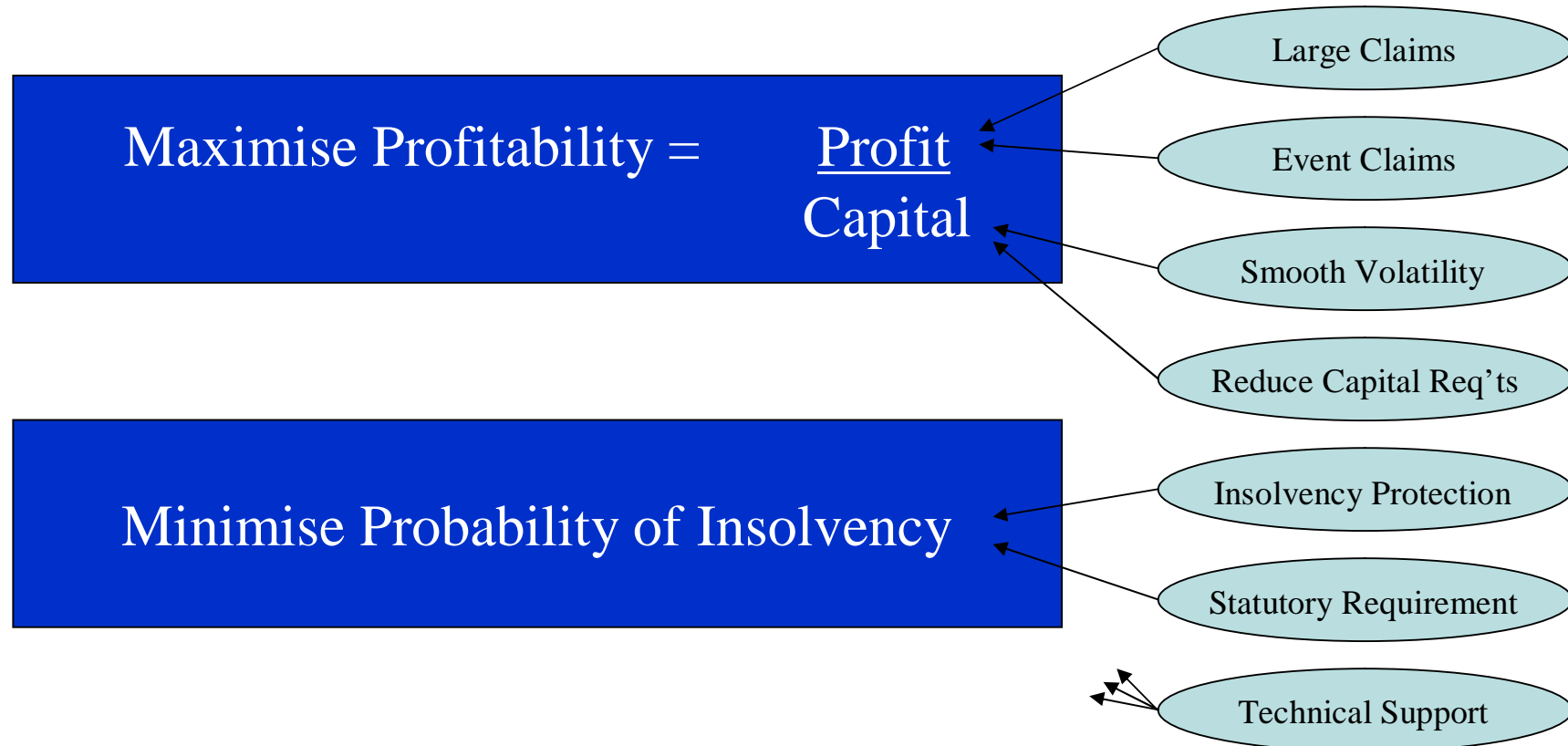
- Purpose of Reinsurance
- The Market in Recent Years
- The Future

Purpose of Reinsurance

Reasons Given for Buying Reinsurance

- Protection from large individual claims
- Protection from large event claims
- Smooth volatility of results
- Reduce capital requirements
- Protection from insolvency
- Statutory (APRA) requirements
- Technical support / expertise

An Insurance Company Wants to ...



Conflicting Risk Objectives ...

- Want to hold more capital to:
 - “Minimise probability of insolvency”
- Want to hold less capital to:
 - “Maximise profitability”
- Primary purpose of reinsurance is as a tool for CAPITAL MANAGEMENT

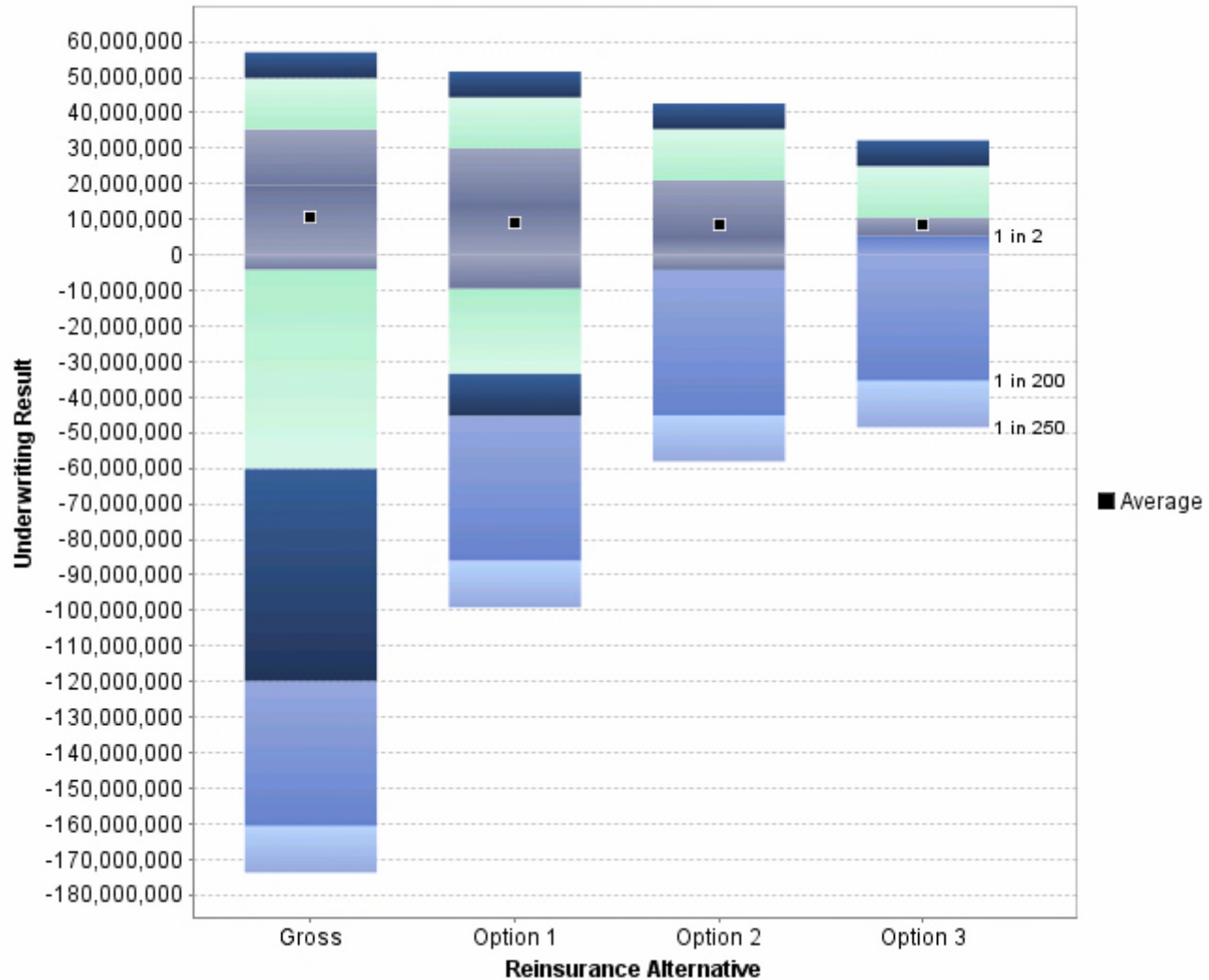
Always Clearer with an Example ...

- \$100 million of business
- \$60 million of capital
- Profit
 - Want to achieve a 15% return on capital
- Solvency
 - Capital sufficient so that probability < 1 in 250 yrs
- Consider a range of reinsurance options

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Variability in Underwriting Result



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	Gross
Gross Premium	\$100.000 M
Net Premium	\$100.000 M
Average Profit	\$ 10.441 M
1 in 250 Capital	\$173.690 M
Return on Capital	6.01%

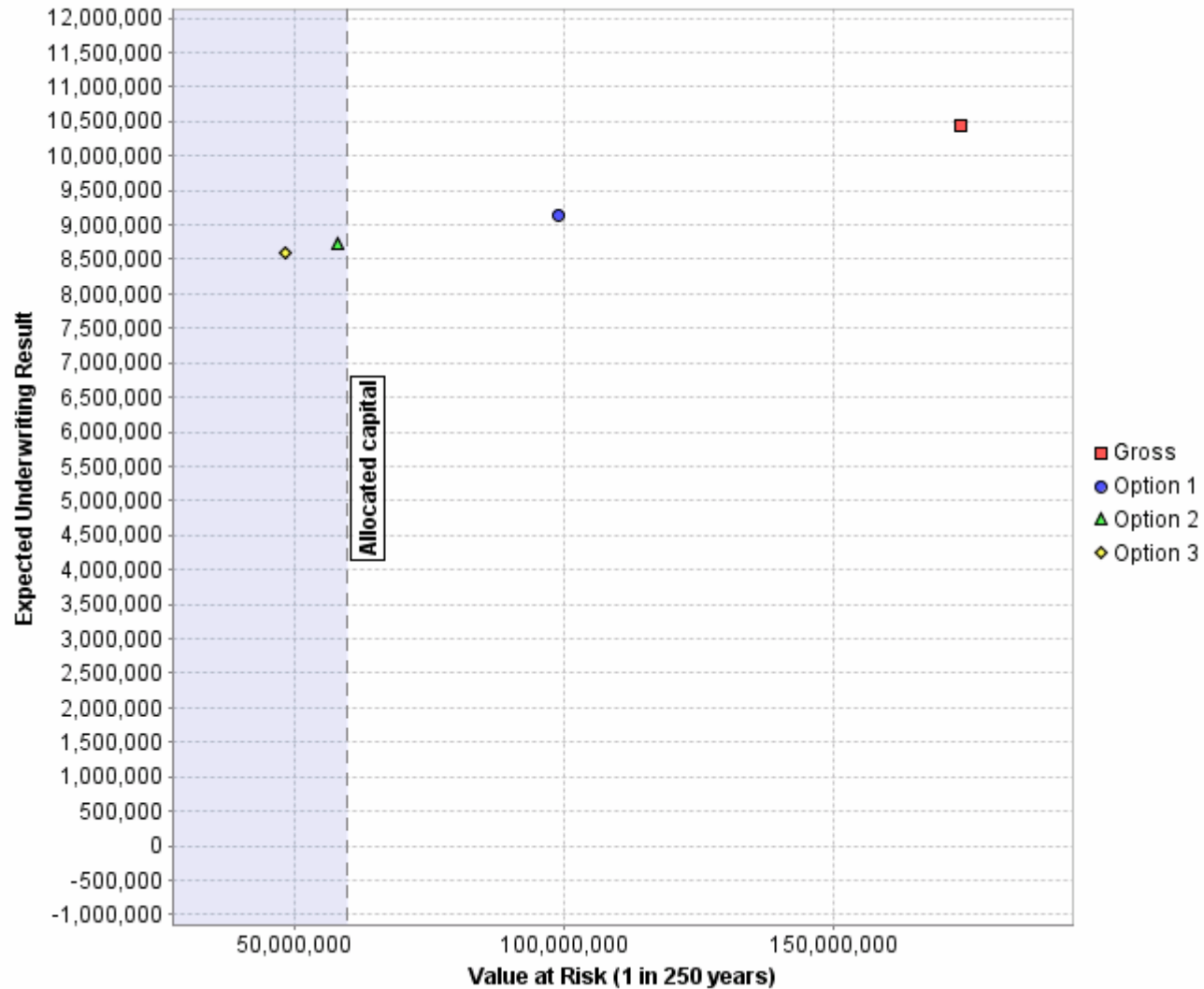
Neither Gross or Option 1 meet objectives (\$60m, 15% RoC)
Option 2 and Option 3 meet objectives
Option 3 gives better return on capital

.... but could you effectively deploy excess capital to get a return

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Reinsurance Efficient Frontier Underwriting Result



Purpose of Reinsurance

- Many reasons given
- Primarily about balancing risk and return
 - Both depend on amount of capital
- Most appropriate approach depends:
 - Financial Criteria (risk metric)
 - Terms and availability of reinsurance
 - View (and modelling) of potential losses

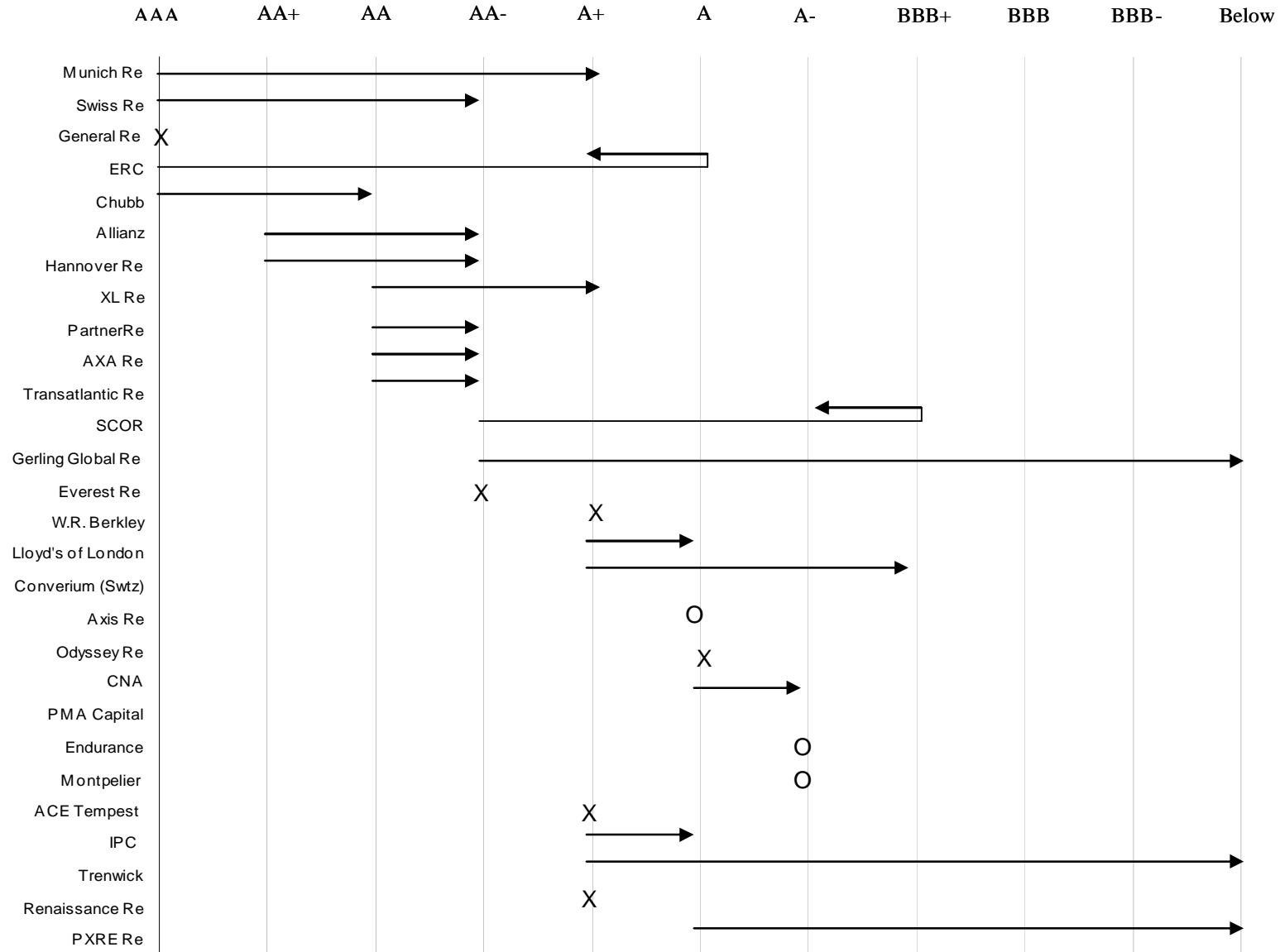
The Market in Recent Years

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■ Swiss Re ■ Munich Re



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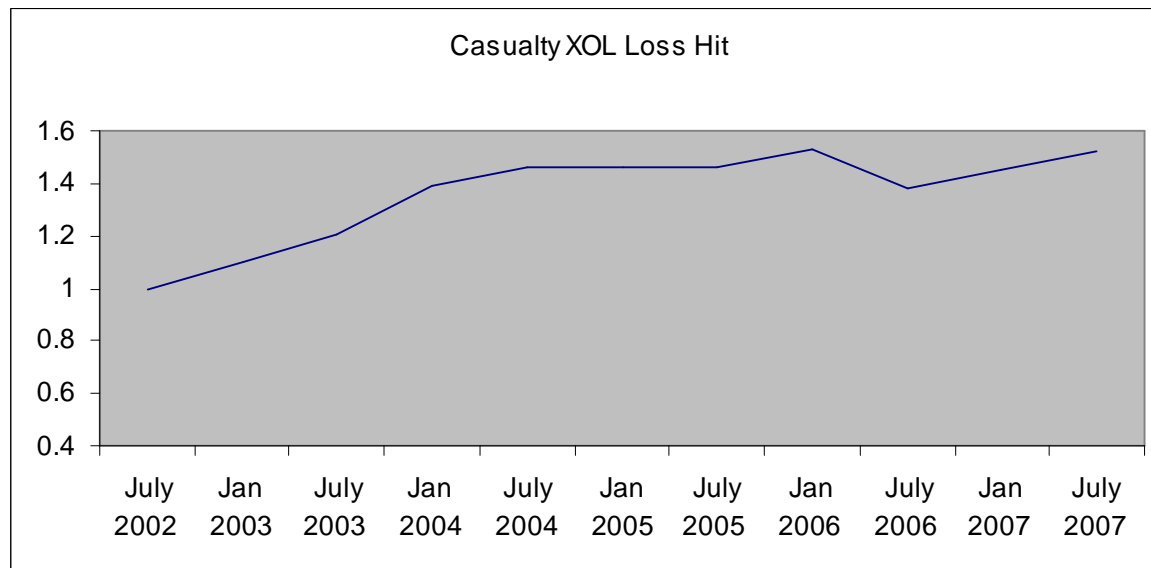
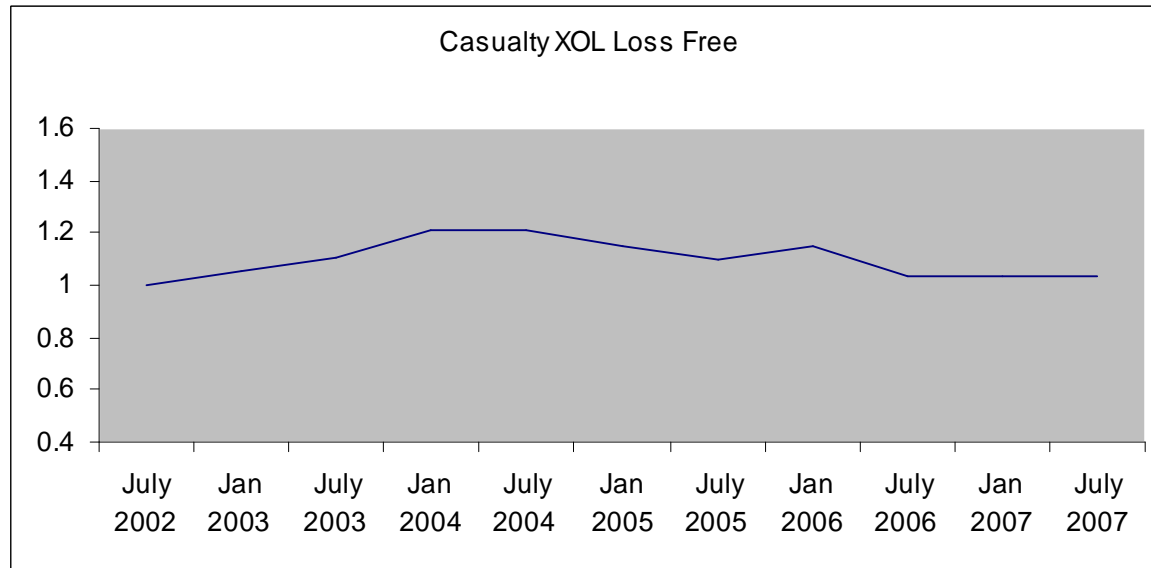
Black lines denote movement between 9/11 and Jun 14, 2006

Recent Market Activity

Mergers and Acquisitions:

- Suncorp / Promina
- Calliden / Australian Unity
- Wesfarmers / OAMPS
- Swiss Re / GE Insurance
- Scor Re / Converium
- UMP / MDAV
- Healthscope / Symbion Health

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The Future

Some Predictions

- Further consolidation
- Focus on return on capital
- Stable pricing environment
- Significant impact of the “Regulator”