DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS

CONFERENCE ON CATASTROPHIC RISKS AND INSURANCE

22-23 November 2004

RECENT TRENDS IN THE CATASTROPHIC RISK INSURANCE AND REINSURANCE MARKET

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Powerpoint presentation

This document is circulated for Session 1 of the Conference on Catastrophic Risks and Insurance, to be held on 22-23 November 2004 at the OECD Headquarters, 2 rue André Pascal, 75016 Paris, starting at 9:00 a.m.

For further information on this conference, please contact Cécile Vignial, Financial Markets Division (Cecile.Vignial@oecd.org), or Yosuke Kawakami or Morven Alexander, Outreach Unit for Financial Sector Reform (Yosuke.Kawakami@oecd.org or Morven.Alexander@oecd.org)

OECD - “Recent trends in the catastrophic risk insurance and reinsurance market”

Pat Murphy-O’Connor

Date 22nd November, 2004

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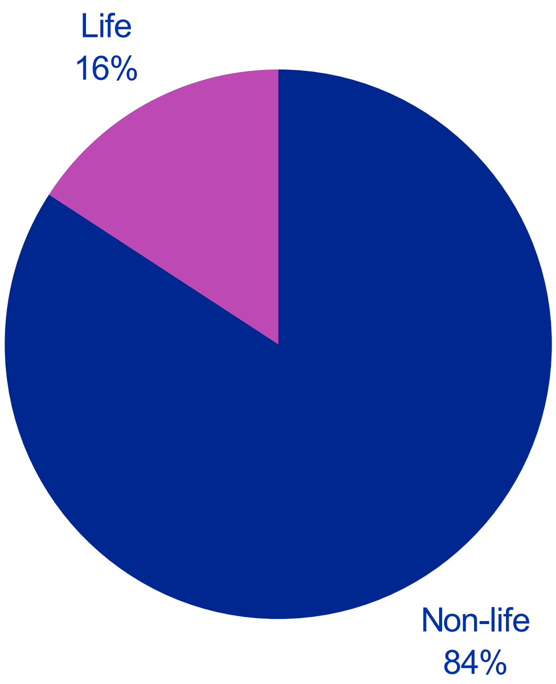
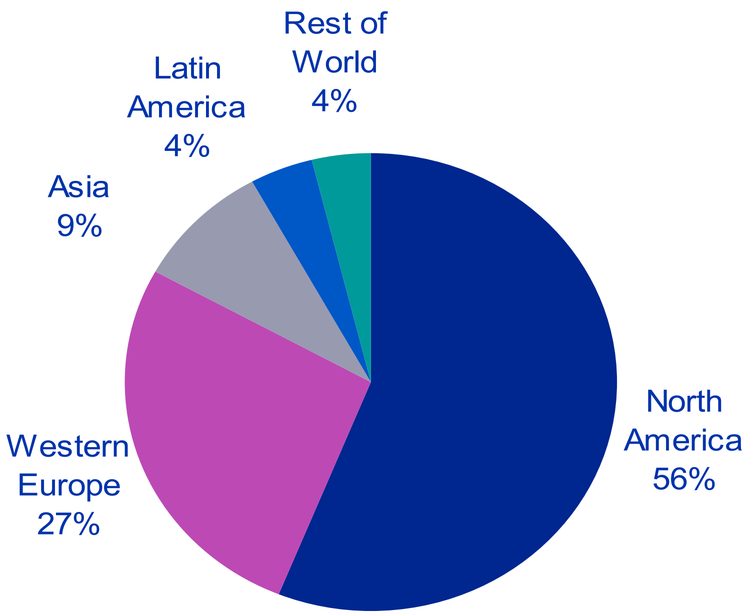
Global reinsurance market (ceded premiums)

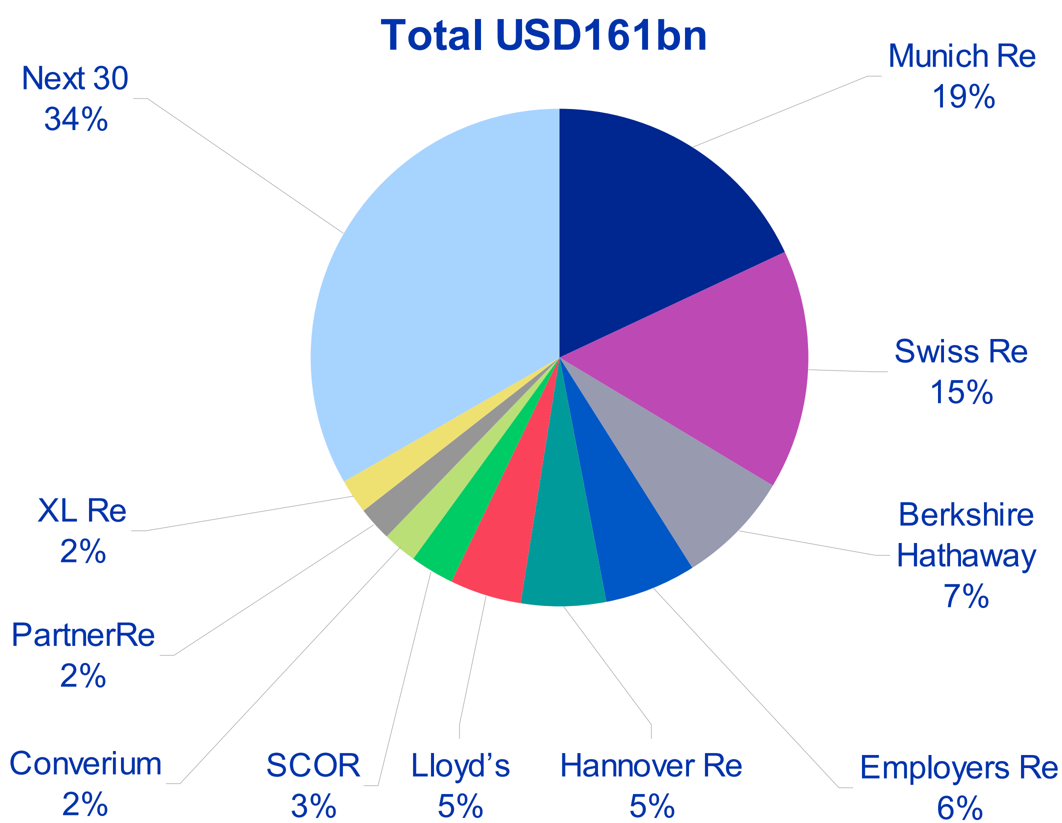
Source: Swiss Re *sigma* 5/2003

Total (2001) USD154bn





Global reinsurance market, 2003 NPW



Source: Standard & Poor's

Capital movements

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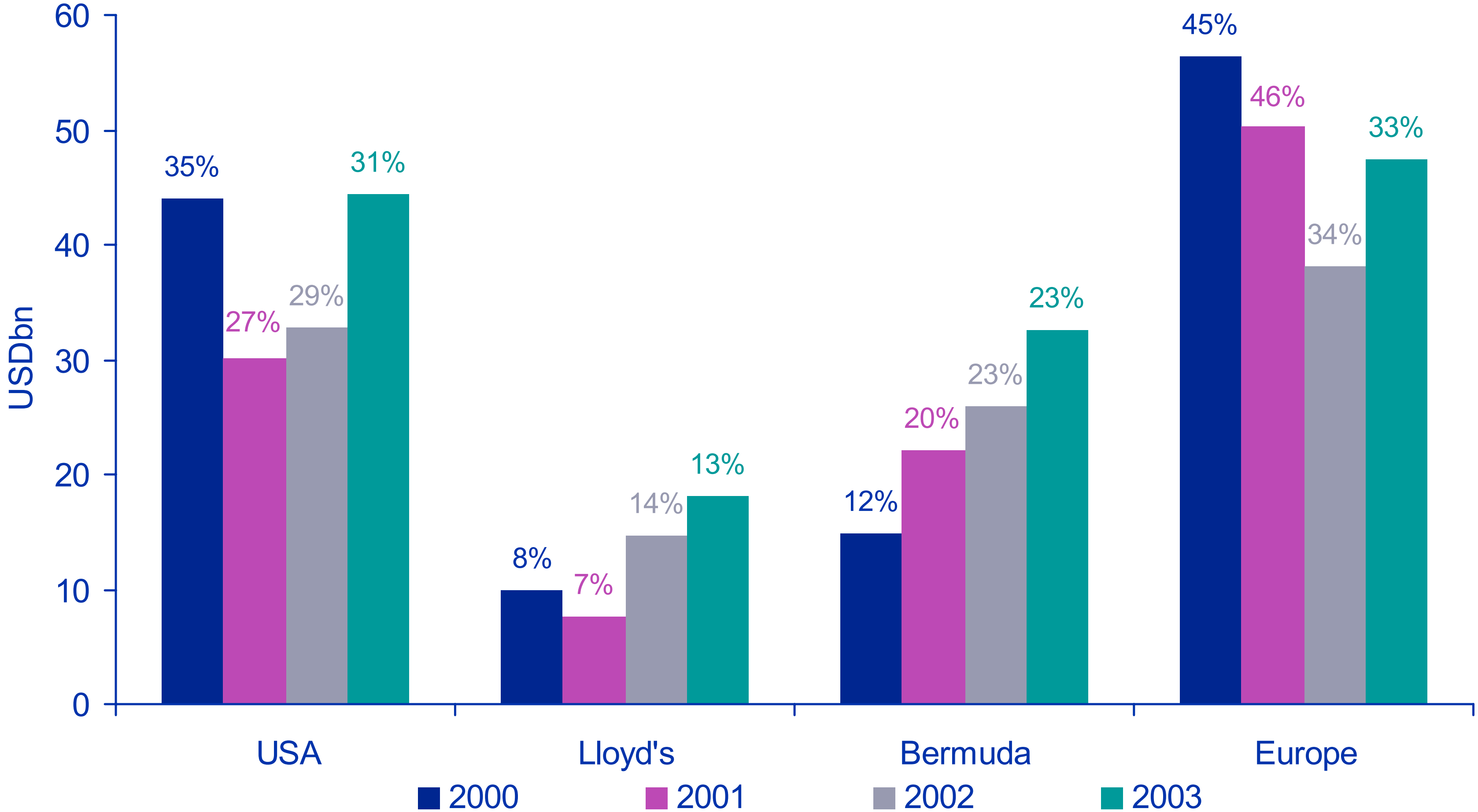


Totals 2000:USD125bn 2001:USD110bn 2002:USD113bn 2003:USD142bn

Source: Company Reports & Accounts. Berkshire Hathaway includes GCR and National Indemnity Co.

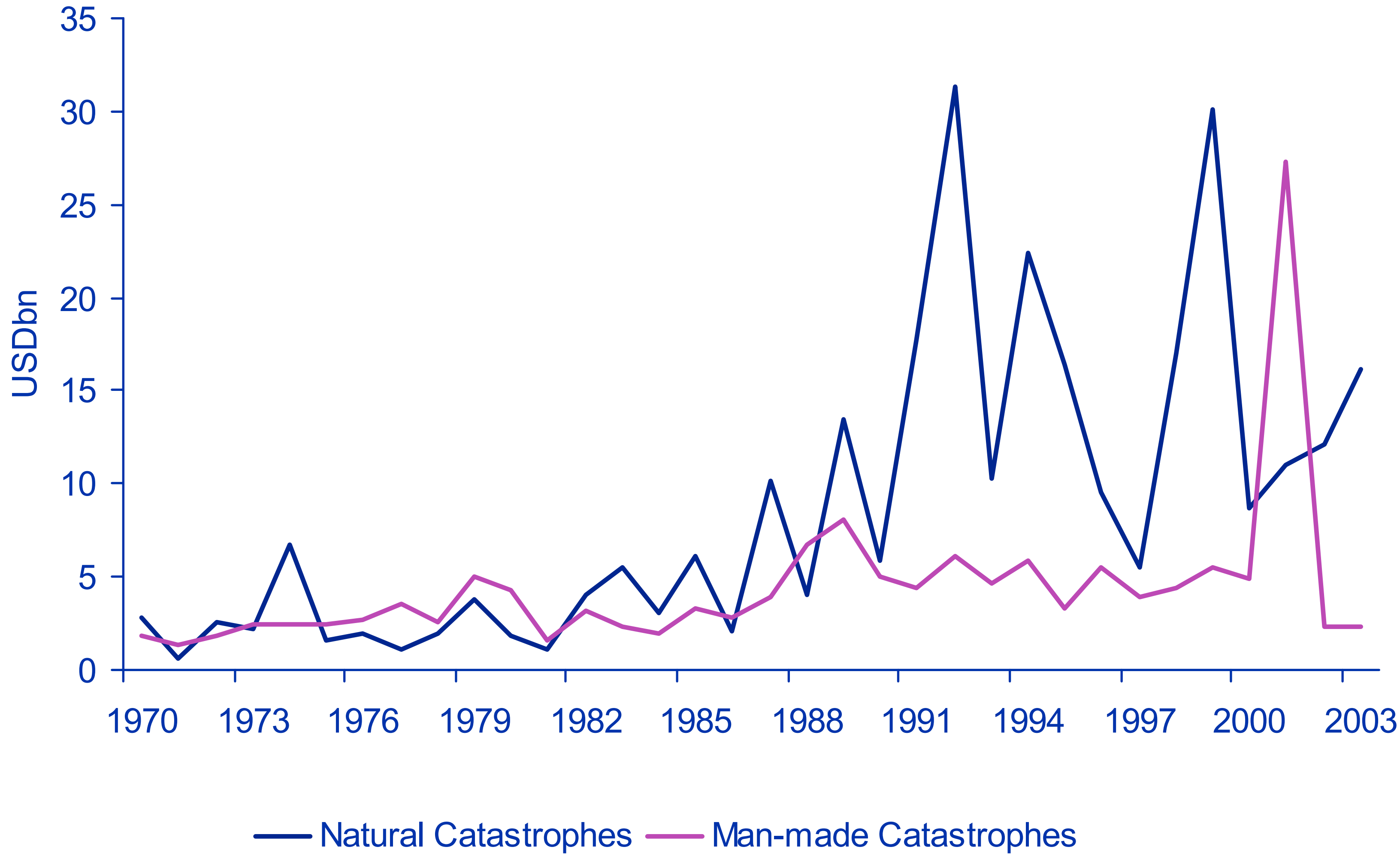
Reinsurance market trends

- Legacy issues remain despite substantial reserve strengthening
- Results have improved but 2003 fell short of expectations
- Secular shift from ‘old money’ (direct) to ‘new money’ (broker)
- Reinsurers not hit by the higher catastrophe losses in 2003
- Investment markets improving but still unhelpful
- ‘New money’ moving into next phase of expansion
- Increased scrutiny from rating agencies/regulators

The Big Squeeze continues

- More than USD18bn of reserve additions in past 12 months
- Asbestos reserve shortfall USD16.5bn?
- 1997 – 2001 years deteriorating fast

Catastrophe loss trends



Source: Swiss Re *sigma* 2/2004

2003/2004 Reinsurance renewals

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- Capacity adequate in most lines
- Property rates flat to down, casualty rates firm
- Discipline still evident even where rates reduced
- Modelling an important price driver e.g. RMS PMLs
- Credit quality/ratings a key concern
- Cedants less price sensitive in pursuit of credit quality
- Terrorism coverage - increased supply at a price

2003/2004 Reinsurance renewals

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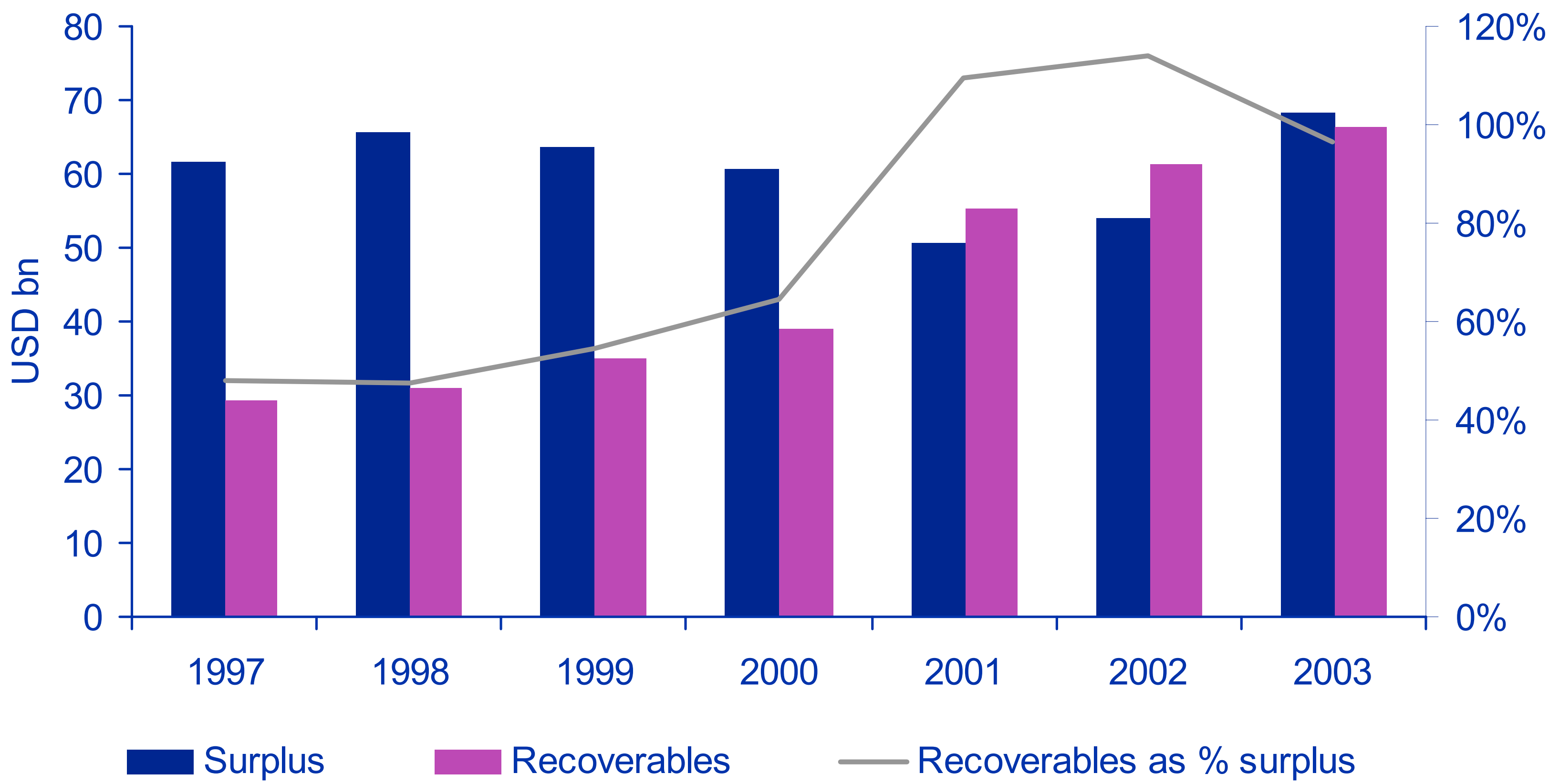
- Continued retrenchment of direct reinsurers
- Withdrawal of unlimited quota shares in Europe created new demand for non-proportional coverage
- Bermudians looking to broaden book by class and territory
  - Major players in Europe at renewal
  - Large line size but generally disciplined approach
  - Significant move into casualty lines

European renewals

- Disciplined – no irrational competition from new capital
- Increased competition in catastrophe lines
- Adequate capacity in most lines
- Cycle management a key theme
- Flight to quality – Swiss Re beneficiary; Munich Re claims no impact from S&P downgrades
- Favourable outlook for profitability

Reinsurance recoverable



Source:Schedule F/Benfield IAR

S&P rating trends 2002 - 2004

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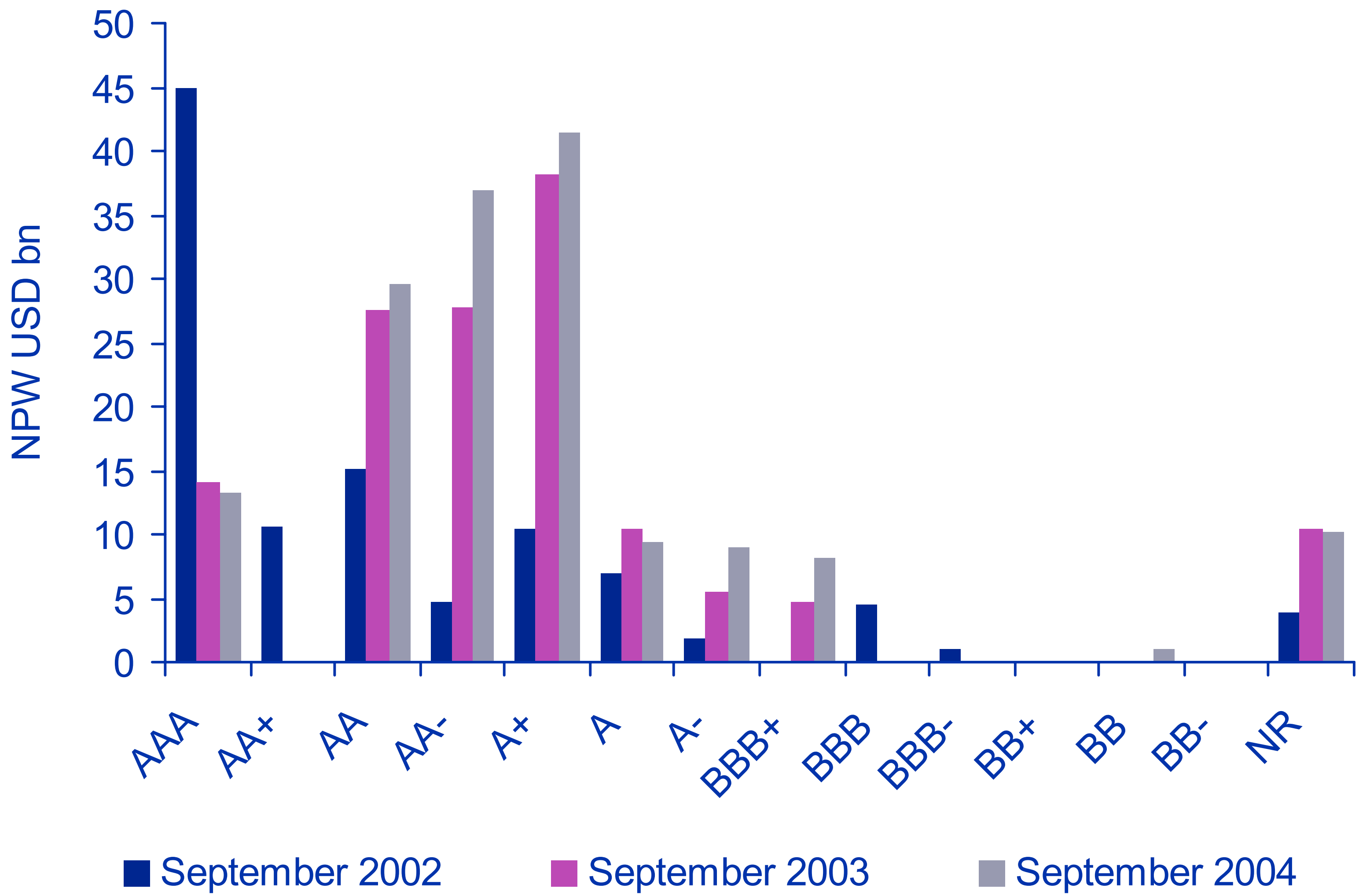

Source: Standard & Poor’s

Post 9/11 rating trends – a market correction

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- End of “AAA” an overdue “coming into line”
- More realistic balance between stakeholders’ interests
- Culling of Double “A” - problems for long-tail cedants?
- Bermuda reinsurers’ ratings intact
- More focus on willingness to pay – but how to measure?

Reinsurance market outlook

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Positive for pricing

- Underwriting discipline
- Pricing power of key players
- Unhelpful investment climate
- Legacy issues
- Focus on ratings/security
- Declining investor interest
- Terrorist threat re-emerges

Negative for pricing

- Cyclical pressures
- Aggressive new capacity
- Rising interest rates
- Benign loss scenario
- Balance sheets recovering
- Availability of capital?