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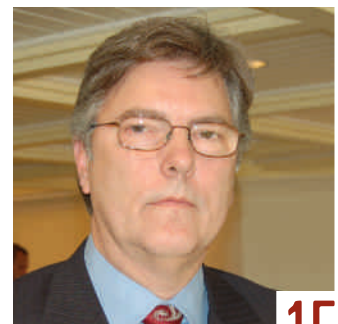
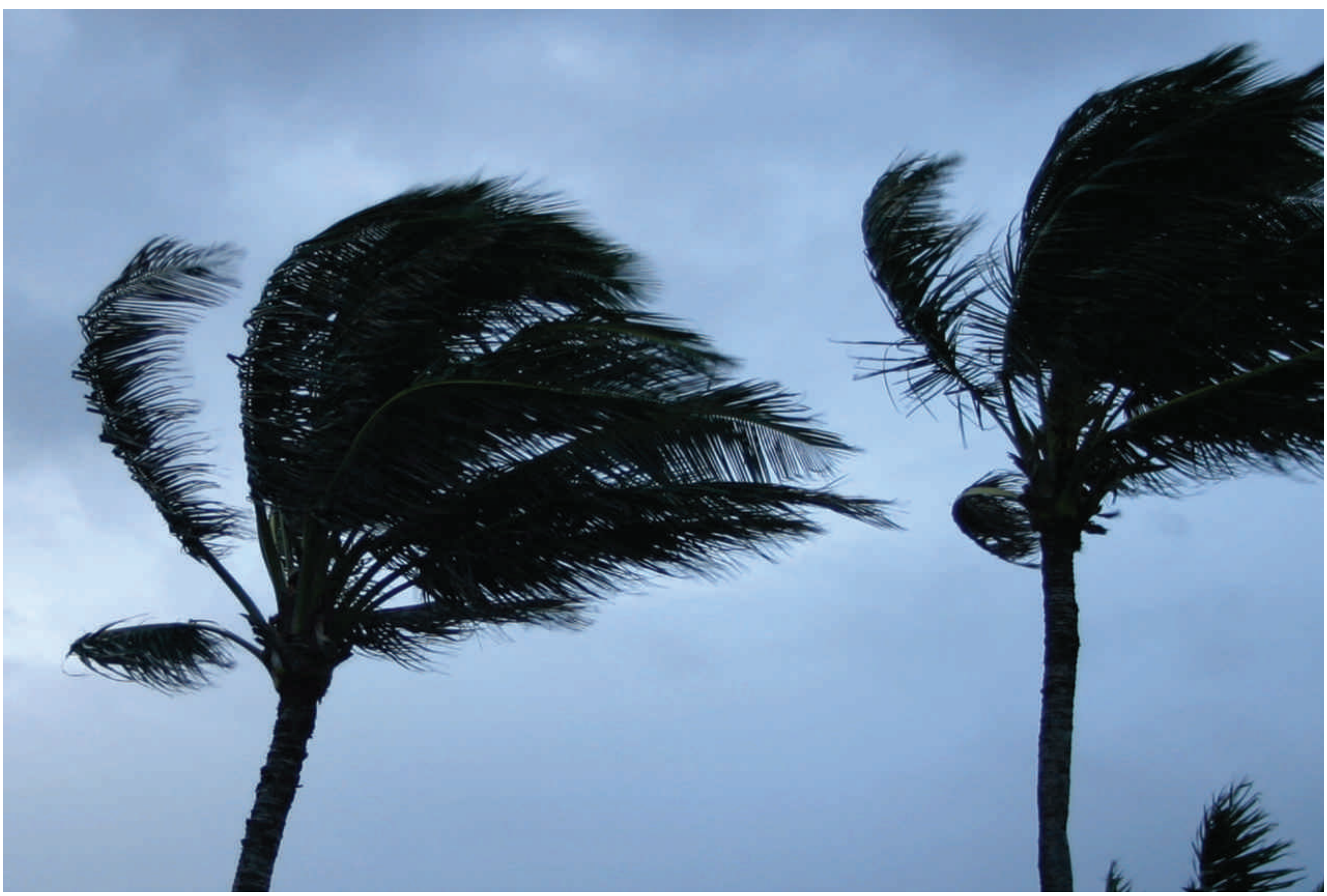
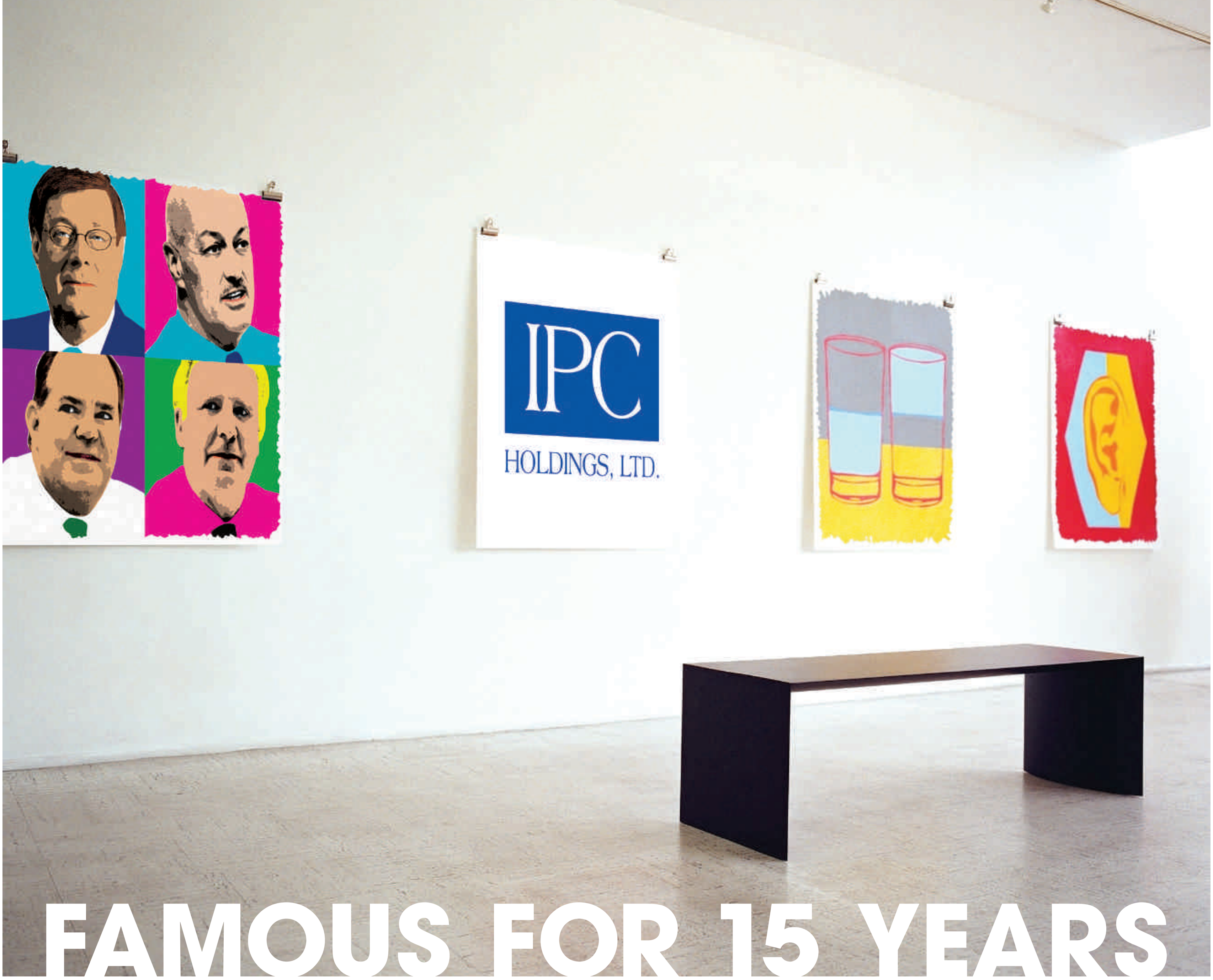
KADING: 'TAX HAVEN' VIEWS





STORMY WEATHER AHEAD

Can Bermuda withstand the global economic downturn? Finance Minister says the Island will stay the course "steady as she goes." Full budget analysis: *Page 7*



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THE QUOTES OF THE QUARTER

"We have completed one cost reduction initiative on time and on budget and have identified further ways to deliver cost effective support to our underwriters that we will implement in 2009. Even at what we expect to be the lowest point of the insurance cycle, we expect to report an ROE in the low to mid teens for 2009."

— Mike McGavick, CEO of XL Capital

"The insurance markets are lagging the reinsurance market. We continue to believe the insurance markets will begin to respond positively from the middle of this year onwards. We have not, cannot and will not abandon our high underwriting and operational standards, which, in some areas, means that we will continue to shrink our underwriting activity and our exposures."

— John Charman, AXIS Capital President & CEO

"Global presence and risk-taking discipline are our sources of strength, and we are using them to our advantage. In the quarter we began to improve our price-to-exposure from firming insurance prices and gain market share in certain classes from weakened competitors. While the recessionary conditions are formidable, we are encouraged by Government efforts to stimulate the economy."

— Evan Greenberg, Chairman and CEO of ACE Limited

"The results of our January 1 renewals reflect an improving pricing environment. With our well-capitalised balance sheet, strong ratings at all of our operating subsidiaries and continued investments in our people, infrastructure and product offerings, we are well positioned to execute on the opportunities we see in 2009 and beyond."

— Neill Currie, RenaissanceRe President and CEO

Ironshore enviro team accounces agreements

PARTNERSHIP IS 'EXACTLY WHAT THE MARKET HAS BEEN ASKING FOR'

Ironshore's new environmental unit has hit the ground running, announcing a series of key agreements.

Ironshore Environmental, a newly-formed division of Bermuda-based Ironshore Inc, announced that it had placed its reinsurance treaty with National Indemnity as the lead, along with Harbor Point, Arch and others. It separately entered into an arrangement with National Fire and Marine Insurance Company, a member of the Berkshire Hathaway group of insurance companies, for longer-term environmental insurance placements.

Joe Boren, CEO of Ironshore Environmental, noted, "Certain transactions that require longer term environmental insurance also demand the highest financial strength in the insurance carrier. The arrangement brings our experienced environmental underwriting team together with the financial strength of a Berkshire Hathaway group company. This partnership is exactly what the market has been asking for."

Under the arrangement, Ironshore will market, engineer and underwrite all risks with a term of five years or more.

Meanwhile, Ironshore Environmental also announced that it had formed a Surety arrangement with the United Nations Insurance Agency Inc, of Mayfield Heights, Ohio. United Nations is the underwriting administrator for Evergreen National Indemnity.

And Ironshore has formed a joint venture with C V Starr & Co Inc to create Iron-Starr Excess Agency Limited.

Iron-Starr Excess will act as a specialty lines insurance and reinsurance managing general agency and will be domiciled in Bermuda. The company said Iron-Starr Excess would write catastrophic excess casualty insurance products, targetting Fortune 2000 and other clients purchasing cat excess coverages. Policy limits up to $75 million will be issued.

"This partnership enables Ironshore to enter the excess casualty market with additional backing and support to offer larger limits, consistent with the needs of these clients," said Kevin Kelley, Ironshore's CEO. "This arrangement will assure customers that during these challenging times, they have a syndicated alternative that understands their needs and has the experience to be a long-term solution."

RenRe extends Currie's contract

RenaissanceRe has extended its employment agreement with President, CEO and Director Neill Currie until February 22, 2014. Mr Currie's prior employment agreement was scheduled to expire on February 22, 2010, subject to automatic renewals for one-year terms. Mr Currie, a co-founder of RenaissanceRe, has served as Chief Executive Officer since November 2005. He will also continue to serve on the Company's Board of Directors.

Chairman James MacGinnitie said: "This long-term agreement secures continuity of leadership for RenaissanceRe under an individual who has positioned our business for long-term success. Neill has both maintained and built upon the superior underwriting strength, modeling expertise and reputation for reliability that have long distinguished RenaissanceRe in the marketplace, and has developed a team to prepare for our current needs and future initiatives."

Bermuda firms pick up AIG pieces

STOCK OPTIONS 'GONE UP IN SMOKE' AS STAFF LEAVE 'SINKING SHIP'

Bermuda-based firms are busy picking up the pieces as AIG falls apart. As uncertainty mounts about the future of the insurance giant that has so far received more than $173 billion in bailout funds by the US Government, many of the company's talented teams are leaving to join rival companies — and Bermuda companies are reaping the benefit.

As one local reinsurance executive, who asked not to be named, put it: "They are leaving a sinking ship. Their stock options have gone up in smoke — what do they have to lose? If they joined a recent start-up company like Ironshore, they stand to recoup some of their stock losses if and when the company goes public. For the companies it's a golden opportunity to hire some really good people if not at a cut-rate salary, then at least a decent rate."

The move that raised the biggest eyebrows was Ironshore's capture of Kevin Kelley as their new CEO to replace Bob Deutsch who is to become President. Mr Kelley was CEO of profitable AIG unit Lexington Insurance Company, which he had helped turn into the world's largest excess and surplus lines insurer.

At the time Mr Deutsch called it "a world-class coup" and made no bones about his and Ironshore's ambition: "Attracting Kevin Kelley, one of the most talented insurance executives in the last two decades, significantly increases our ability to take advantage of the changing insurance marketplace. We want to get into all of the lines of business Lexington is in. There are areas that are ripe for another player."

More AIG execs followed in the New Year.

In January, Joe Boren and John O'Brien, key members of AIG's highly-respected environmental team, joined Bermuda-based Ironshore's new Environmental Insurance unit. Mr Boren had spent 13 years at AIG and been Chairman and CEO of AIG Environmental. Mr O'Brien was Executive Vice President of AIG Environmental's Commercial and Middle Market divisions.

Shaun Kelly, CEO of Ironshore's US operations, could barely disguise his glee in a company statement: "Hiring Joe and John is a huge win for Ironshore as it enables us to further diversify and expand into the environmental insurance arena. This is an area that we have been actively looking to expand into. Under Joe and John's leadership, I am confident we will quickly develop as a premier industry presence in this niche specialty market."

The same month, Geoff Smith, the former President of AIG Cat Excess Liability, was named Worldwide Head of Ironshore's newly-launched Excess Liability facility, and Steven England, ex-President of AIG Landmark, was appointed Executive Vice President responsible for running Ironshore National Branch, its new US Property & Casualty underwriting operations based in St Louis, Missouri. Prior to heading up AIG Landmark, England had been Regional Vice President for AIG's Commercial Insurance Group in Houston, Texas.

In February, reinsurer Validus Holdings announced the expansion of its Global Technical Lines Division in the US, UK and Asia and appointed six specialist underwriters in each region — all former AIG men.

In December it named David Hawksby, the former President of AIG's Global Energy Property Division, to head up its new Validus Underwriting Risk Services Inc (VURS) in New York.

New underwriters hired by the new unit included ex-AIG man Kudret Oztap, as Senior Vice President responsible for underwriting in the US, and Stephen Sykes and Stephen Tresadern, Senior Vice Presidents of Underwriting Risk Services Ltd, Global Technical Lines Division. Mr Sykes is a former vice-president, Oil and Petrochemical, Energy Division at AIG UK Ltd, while Mr Tresadern was former corporate manager, Energy at AIG UK Ltd.

Ash Khan, a former President, Global Marine & Energy, Pacific Rim at AIG, joined the Validus group as Executive Vice President, Global Technical Lines Division of Talbot Risk Services Pte Ltd in Singapore.

The team will be backed by two London-based engineers, Philip Walker and Andy Goddard, both previously with AIG UK Ltd.

Bermuda-based Lloyd's specialty insurer Hiscox, which had already hired at least three AIG executives over the last few months, appointed Steve Silverman to head up its new US inland marine business. Silverman had been Assistant Vice President and Product Line Manager for AIG's Lexington Insurance's Inland Marine and Specialty Property business in the US.

Meanwhile John Williams, the former Senior Vice President of Operations for AIG's Small Business Division, joined Torus, the Bermuda technical lines insurer and reinsurer launched last year by former XL Insurance CEO Clive Tobin, as Global Head of Business Operations.

AIG rebrands commercial insurance business

AIG plans to form a General Insurance holding company, including its Commercial Insurance Group, Foreign General unit and other property and casualty operations, to be called AIU Holdings with a board of directors, management team and brand distinct from AIG.

The restructuring could have far-reaching consequences by separating it from AIG's debt, and bad investments associated with AIG. More important, it could help AIG retain key employees and customers. The new unit's capital structure will not be tied to AIG and will be in a stronger capital position than most competitors which are trying to lure away customers, according to analysts. The new company would rank as the world's largest property/casualty company.

Kristian P Moor, currently President and CEO, AIG Property Casualty Group, will be President of AIU Holdings Inc. Nicholas C Walsh, currently President and CEO, AIU, will be Vice Chairman of AIU Holdings Inc. A Chairman will be named at a later date.

"AIG is executing one of the most extensive corporate restructuring programmes in history," said AIG Chairman and CEO Edward Liddy in a company statement. "The formation of AIU Holdings Inc will help protect and enhance the value of these key businesses, and position them for the future as more independently run, transparent companies."

When formed, AIU Holdings Inc will be a unique leading franchise with more than 44,000 employees and 500 products and services serving 40 million commercial and individual customers in 130 countries and jurisdictions.

Eventually, the new unit may raise additional capital through a public share offering or by raising private capital.

The new structure could free AIG's global commercial-insurance operations from the being tainted by growing losses in AIG's other business units. If the new entity were sold or spun off in an initial public offering, current AIG shareholders will be eligible to share in the profits.

XL still in the game after 'toughest year'

COMPANY TO CUT A FURTHER 10% FROM GLOBAL WORKFORCE FOLLOWING MASSIVE LOSSES

Embattled Bermuda-based insurer XL Capital said it plans to stay in most lines of commercial insurance despite "the toughest year in XL's history" that saw a record loss of $2.63 billion for 2008 and agency downgrades.

CEO Mike McGavick said XL would cut a further 10% from its global workforce and would exit some lines to prevent the company from losing client confidence and entering a fatal downward spiral. XL is currently rated 'A' with a stable outlook by A M Best and 'A' with a negative outlook by S&P. XL's massive loss compared to net income of $206.4 million for 2007.

In an interview with *Strategic-RISK* magazine, Mr McGavick said: "[Last year's] results reflect forays into financial guarantee business and a investment portfolio that is not well designed and we have work to do to fix that."

He said XL's plans include "a meaningful reduction in gross written premium for 2009," but expects the company "to be present in practically all" commercial insurance lines.

He added that XL would cut back on lines that do not meet "long term hurdle rates" and low prices would also force the insurer to focus on short tail business where there is better opportunity for adequate rates.

To date, clients have withdrawn from the company's excess casualty business, written out of the US and Bermuda, and the US public D&O book.

Mr McGavick said: "No one is happier to see 2008 behind us or more excited to have 2009 before us than we are at XL. 2008 has been the toughest year in XL's history, albeit one in which we have put a number of issues behind us and emerged on a solid footing. Not only did we deal with the SCA overhang, we took major steps to de-risk our investment portfolio and simplify our balance sheet.

"The $400 million investment portfolio restructuring charge we have chosen to take in the fourth quarter of 2008 allows us to accelerate our de-risking activities through selective and targeted sales, thereby lowering our exposure to credit market volatility. Our non-cash goodwill charge of $990 million removes another distraction, while having no impact on our rating agency or regulatory capital or tangible book value and leaves our balance sheet strong and easily understood."

He said: "We have completed one cost reduction initiative on time and on budget and have identified further ways to deliver cost effective support to our underwriters that we will implement in 2009.

"We are becoming again an XL with the simple and defining mission of being a global provider of specialty property and casualty insurance and reinsurance through superior, technical underwriting."

'No one is happier to see 2008 behind us'

New York threat to Bermuda?

ISLAND IS NEW TARGET 'AS REINSURERS SURPASS LONDON IN UNDERWRITING OUTPUT'

Bermuda isn't just facing a threat from US lawmakers bent on ending the Island's tax advantages. Now, New York City has set its sights on winning reinsurance business from the Island and London.

New York Superintendent of Insurance, Eric Dinallo, recently told *National Underwriter* magazine that "major top-end brokers" are interested in doing business on a resurrected New York Insurance Exchange to boost market capacity and keep capital from flowing offshore.

Governor David Paterson supported the idea. At a Lloyd's dinner last year he stated: "We have private equity funds and hedge funds and other investment funds that might be eager to place their capital in the insurance business right here in New York. An exchange would provide such an opportunity. This would be complementary to what Lloyd's does on its side of the ocean."

The exchange could create new capacity for hard-to-place risks — such as terrorism — and boost New York's position as a dominant player in the insurance world, Governor Paterson noted.

The original New York Insurance Exchange was created in 1980 in response to concern that the significant growth of the insurance industry during the mid-1970s would result in premium dollars flowing to international markets having a greater capacity to write high-risk insurance.

But instead of becoming a rival to Lloyd's, the NY Exchange became something of a dumping ground for less desirable business.

Now, according to Forbes.com: "If Lloyd's was the market to beat in the early 1980s, Bermuda is the new target. In the last two decades, reinsurers based there have surpassed London in underwriting output.

"Their secret weapon is low taxes. Rating service Fitch estimates Bermuda's reinsurers pay an effective income tax rate 15 percentage points less than US-based counterparts. Given New York's natural advantages as a financial capital it doesn't have to mimic Bermuda to win business, it merely has to narrow the tax gap, according to Dinallo."

Forbes says while US insurers may be attracted by the concept, it is debatable whether New York can attract a critical mass of outside capital from hedge funds and others amid the current credit crisis. The lure, it says, is the state's 2% premium tax on local insurance transactions.

"It remains a great potential alternative to Bermuda," Mr Dinallo told the annual Property-Casualty Insurance Joint Industry Forum in February.

A budget for stormy times

MINISTER SAYS BERMUDA WILL WEATHER GLOBAL ECONOMIC DOWNTURN. CHRIS GIBBONS REPORTS

Finance Minister Paula Cox's "tenderness in tough times" Budget received broad support from Bermuda's reinsurance sector — although business leaders are concerned about the doubling of Government debt to $1 billion.

Predicting the economy would make a slow recovery in 2010, Minister Cox said Government would provide "tangible assistance to bolster Bermuda's people and businesses throughout the economic downturn, even if it is not a billion dollar rescue package."

The good news for businesses in Minister's Cox's February 20 statement was that payroll tax would remain at 14% and there would be no additional taxes for either employers or employees.

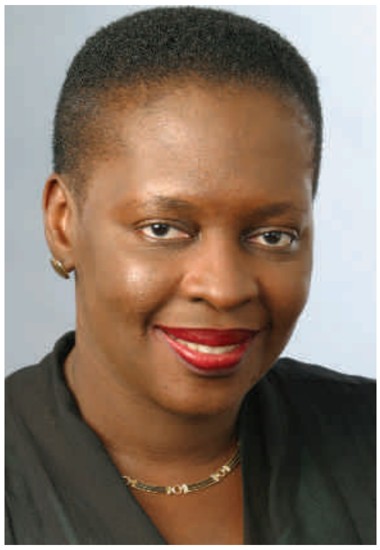
She said: "In the current economic conditions, it would be counter-productive for Government to decrease the stock or flow of funds in the private sector through increased taxation. Government's main objective in this period of economic challenge is to facilitate and stimulate economic activity wherever possible, in order to sustain employment levels and household incomes."

Defending the decision to double Bermuda's debt ceiling to an unprecedented $1 billion, the Minister said Government would be keeping $250,000 as an emergency "cushion" to boost the economy if it flags further.

She said: "[This is] not to be used to cover Government operational expenditure or capital investment outlays, but for an extraordinary and strategic response, should it be required, to any subsequent systemic threat or risk issues to our economy.

"While we hope not to have any need to incur additional debt to cover any systemic risk, Government must hope for the best and plan for the worst."

Ms Cox acknowledged: "These times are not ideal for Bermuda and the global community. Yet we have the opportunity, the wherewithal and the drive to do the necessary. Bermuda as our ship of state will stay the course — steady as she goes — as we weather the numerous economic storms."



Minister Paula Cox: "Bermuda as our ship of state will stay the course"

Cheryl Packwood: "Bermuda has a history of growth and success in international business"

David Ezekiel, Chairman of the Association of Bermuda International Companies (ABIC), which represents more than 130 international companies incorporated in Bermuda, called it "an important budget as it comes at a time when Bermuda and its people are facing unprecedented challenges, the full scope of which are still not clear."

He added: "Holding the line on taxes, cutting back on expenses and being prepared for a further mid-year worsening of the economic situation were all key factors, and these were all addressed."

While the business community has expressed concern about the $1 billion debt ceiling, and the decision to postpone annual payments of current debt in 2009/10, Mr Ezekiel said they assumed and hoped these measures would be implemented only if necessary.

"We are comfortable that Government will use the increased borrowing limit with prudence and specifically to cope with the current environment," he said. "We are also supportive of cost reductions in all areas — and we encourage Government to ensure that this remains in sharp focus in the future," he added.

> 'Government must hope for the best and plan for the worst'

The Budget also got a "thumbs up" from the Bermuda International Business Association (BIBA), even though it received just over half the $5 million in funds it had requested from Government.

CEO Cheryl Packwood said: "To fund our needs and develop a cushion for unexpected systematic shortfalls, Minister Cox has, in our opinion, successfully adapted and tailored to Bermuda the wisest choices made by other governments in dealing with far harsher economic crises than ours."

She added, "Domestically, we respect that Bermuda's Government has rightly focused not just on encouraging sustainability of the Island's business community in these turbulent times, but also on ensuring that all Bermudians are able to participate in any successes within the international business sector. Government has also offered necessary encouragement and careful prodding to international businesses, so that Bermuda is more than just a great example of capitalism, but it is also an example of a truly progressive and inclusive society."

Ms Packwood said: "Current widespread economic crises and related problems are now highlighting the transparency and governance weaknesses in many of the offshore jurisdictions that are traditionally viewed as our competition. Additional funding would have afforded us a strong opportunity to aggressively move forward and highlight Bermuda's strengths and enhance interest in our Island as the leading offshore jurisdiction for companies and individuals seeking a transparent, well regulated jurisdiction with nothing to hide.

"However, receiving the same budget allocation as last year does allow us to continue to focus on the areas that were previously identified, and retain the recognition factor that we have worked so hard to create.

"Bermuda has a remarkable history of growth and success in international business that this budget allows us to continue to foster. Past growth and success has occurred through a unique and compelling partnership between Bermuda's government and its business community. There is an indelible spirit of understanding, co-operation and common purpose that has enabled the Island to carefully plan and implement policies that we are confident will help to promote long-term economic growth and sustainability."

She said Government had carefully managed its financial resources and contribution to the growth of international business, while also working hard to assist the development of its tourism base in difficult economic times.

"That management is seen in the remarkable credit ratings that Bermuda has earned from Fitch, S&P and Moody's," she said.

Time to head for the hills?

COMPANIES ASSESS THE EFFECT OF US 'TAX HAVEN' CLAMPDOWN THREAT. CHRIS GIBBONS REPORTS

With a wind of change blowing through Washington, could Bermuda's reinsurance companies be heading for the hills — or at least the mountains of Switzerland?

As President Barack Obama's administration threatens to clamp down on so-called 'tax havens' like Bermuda and Cayman, companies are weighing up the alternatives if there are unfavourable political, regulatory or tax developments.

Bermuda-headquartered ACE Limited has already joined previously Bermuda-based non-insurance companies like Tyco, Weatherford and Foster Wheeler in reincorporating its holding company from Cayman to Switzerland.

Last year Paris Re merged its Bermuda and Swiss companies into operations based in Zug, Switzerland and Flagstone Re merged its Bermuda and Swiss companies into a Martigny, Switzerland-based operation with a Bermuda branch, although its holding company remains on the Island. Allied World, Endurance Specialty, Montpelier Re, Aspen Re and Arch are among other Bermuda-based companies who have established Swiss subsidiaries or opened offices there in recent years as well as in other low-tax jurisdictions like Ireland.

But could a gradual "Swiss roll" from Bermuda turn into an avalanche?

"It's possible," said Richard Irvine, a Tax Partner with PricewaterhouseCoopers in Bermuda. "The legislative threats are out there but I think a lot of people are adopting a wait-and-see attitude. If it were a slam-dunk we would have seen more of the insurance community making the move. Most companies have gone through the analysis, have weighed up the pros and cons and know what the local and external trigger points are. They will monitor those trigger events and when and if those occur they will act accordingly."

He said one of the benefits of moving to Switzerland is that a US-Swiss tax treaty exempts Swiss companies that reinsure US-based risks from US federal excise tax on gross premiums paid. Bermuda companies that reinsure US risks are subject to the tax. There are also withholding tax benefits in terms of interest or dividends paid out of the US to a Swiss company that are subject to a tax rate between 5–15%, compared to the 30% tax from Bermuda.

Announcing ACE's move last year, Chairman and CEO Evan Greenberg said it would give the

> 'The legislative threats are out there but I think a lot of people are adopting a wait-and-see attitude. If it were a slam-dunk, more would have moved'

company "better strategic flexibility, a solid legal and regulatory environment, and improved ability to manage our capital and our businesses" and " the security of a network of tax treaties."

There are other non-tax reasons for moving to Switzerland — it has none of the restrictions of space and workforce that Bermuda has, and offers ready access to the European markets. Flagstone Chairman Mark Byrne said the company's Swiss merger offered "a solid, single capital base to support [our] reinsurance business, while still offering a choice of either Bermuda or Swiss underwriting access so as to participate fully in both the important Bermuda market and the global markets served in Switzerland."

But Mr Irvine noted: "The flip side to that is that Swiss operating companies are subject to federal and canton taxes of between 17 and 30% on income attributed to the Swiss company. While there are no taxes on dividends paid from a Bermuda company, dividends from Swiss companies carry a 35% withholding tax with some treaty reductions depending on tax residency."

Mr Irvine pointed out that the other big potential downside is that Switzerland is also named along with Bermuda, Cayman and 37 other jurisdictions on the Stop Tax Haven Enforcement Bill currently before congress.

"While there are bills that provide exceptions for treaties so Switzerland would be somewhat protected, a number of them list Switzerland as a tax haven," he said. "I don't think the fact that a number of formerly inverted [non-insurance] companies that came to Bermuda have moved to Switzerland is going to be lost on the US tax-writing committees. The Swiss are in the mix just as we are."

Like many in Bermuda, Mr Irvine questioned what constitutes a 'tax haven' in the first place. "It's all relative. Right now the UK would be a 'tax haven' compared to Germany, Japan or the United States!"

He added: "Everyone who does business here is taxed the same but that argument falls on deaf ears. We have been saying for years we have exchange of information agreements, we co-operate with tax authorities globally, but right now we're politically convenient and we have been for a number of years.

"ABIR [the Association of Bermuda Insurers and Reinsurers] is actively trying to educate people in Congress on the value of this market in the whole insurance and reinsurance space and how, if you do away with this market, it could harm the US economic recovery.

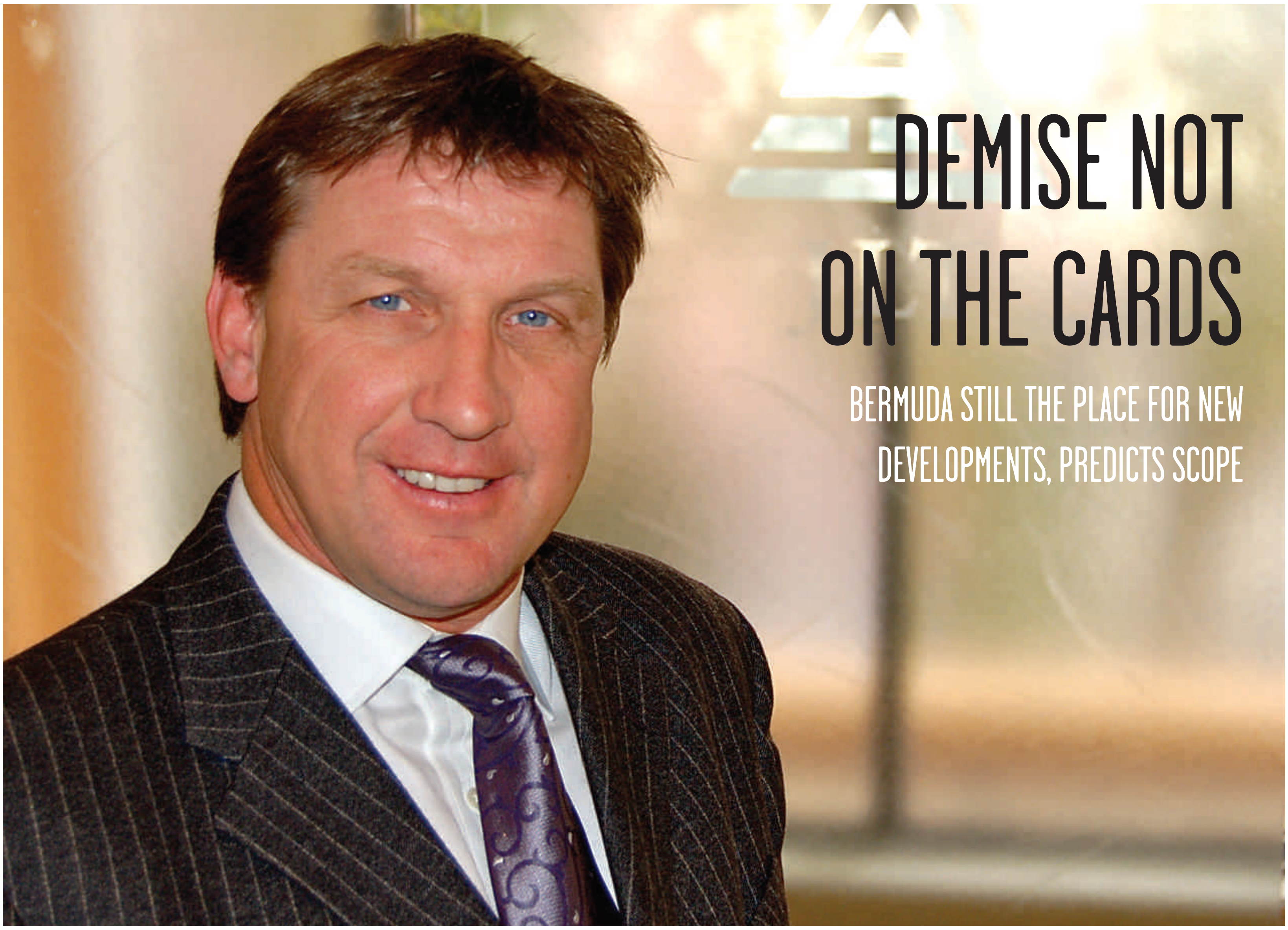
"There are legitimate concerns about people who break the law by hiding funds in offshore jurisdictions but that doesn't mean because Bermuda has a taxation system that works for us, we should be penalised. Why should the US, UK or anyone else tell us how to extract tax revenue from businesses and individuals? I'm not quite sure why they think they have that ability or right."

> 'We co-operate with tax authorities globally, but right now we're politically convenient and we have been for a number of years'

Richard Irvine, Tax Partner with PricewaterhouseCoopers in Bermuda

DEMISE NOT ON THE CARDS

BERMUDA STILL THE PLACE FOR NEW DEVELOPMENTS, PREDICTS SCOPE



Paul Scope, Chairman and CEO of Island-based brokerage company JLT Park PHOTO: CHRIS GIBBONS, KALEIDOSCOPE MEDIA

Rumours of Bermuda's demise as a leading reinsurance centre have been greatly exaggerated, according to Paul Scope, Chairman and CEO of Island-based brokerage company JLT Park.

"There's a lot of speculation about what the new US administration may do about offshore jurisdictions and we can't be complacent. However I do think Bermuda has the infrastructure and the reputation to do better than others in these difficult times," he said. "I still see Bermuda as the place for new developments. What's happening this year is a little different from before. We don't have new start-ups per se, what we have is build-ons with new teams doing new classes of businesses bolted onto a business and a balance sheet that's already here.

"For example, Argo, which took over PXRE, was just doing property catastrophe reinsurance. Now they've taken on a team from XL which is going to be writing the casualty and professional lines business they were doing at XL. Companies like Torus and Canopius are using London capital and hiring teams that are very well known in Bermuda and that's the smart thing to do. It's still providing extra capacity but it's not fresh capital because fresh capital is not there in the market."

He added: "It's interesting that all this is happening in Bermuda which reminds me that Bermuda has an amazing capacity to reinvent itself. Despite what you read and hear about the Bermuda model not being there anymore because there isn't the capital available, people still want to do business here, be here and live here.

> 'We don't have new start-ups per se. What we have is build-ons, with new teams doing new classes of businesses bolted onto a business, and a balance sheet that's already here'

"The extra capacity in the casualty area to replace the XL and AIG layers can all be done here. Once again, a vacuum for capacity appears and Bermuda has been able to fill it in a nano-second."

JLT Park — which was formed in 2007 by the merger of JLT and Mr Scope's independent Park brokerage — is bullish enough about the Bermuda market to have recently launched a reinsurance unit, JLT Re (Bermuda). The new unit will be headed by British-born partner Tony Ainsworth, formerly with JLT Re in New York and Associate David Philo, previously with JLT Re in London.

Mr Scope said that starting the unit made sense, given the added scale and resources that JLT Park now enjoys in Bermuda where it is number three behind Marsh and AON in most markets. "I figured that why should we have people flying in and out all the time when we could have a beachhead here?" he said.

Certainly, business is looking healthy from JLT Park's perspective despite current market challenges. The company placed $500 million in premiums in 2008 and Mr Scope said: "I think that can easily grow to $1 billion a year with the market hardening. How much and how quickly it will harden is a matter of conjecture — but I can see us getting up to $1 billion through this office in the not too distant future. That's ambitious but now that we have a reinsurance unit, I don't think that's beyond reason.

"So far this year has been up and down. We have only just launched the reinsurance unit so they did not have renewals to place and on the insurance side we've had some successful renewals but also some losses associated, particularly with the travails of AIG Cat and XL where clients are able to replace that capacity with less 'newsworthy' markets and sometimes we've been able to do that here in Bermuda. We're right on budget but we would be having a really good year if that hadn't happened."

As Mr Scope noted: "Brokerage is a simple business. We don't have to buy raw material. We don't take risk. We're simply placing business and getting a fee so unless you overspend, you will make a profit as long as you've got the critical mass to pay your fixed costs. It's all about setting a realistic budget with realistic goals and then trying to execute it. You can't spend hoping that everything's going to be fine in the future."

He said JLT's healthy balance sheet — group profits are up and the stock price is robust — was largely due to group CEO Dominic Burke trimming the fat when he took over the post four years ago.

"We made a lot of cost savings at the top end," he said. "So in these times when everyone else is having to scale back and deal with those issues, we're already ahead of the game and that's why our stock is doing so well. Where everyone else is getting squeezed, we're growing."

Nearly two years into the merger, Mr Scope said JLT Park had been a "happy marriage."

By effectively cancelling out JLT and Park's rivalry with each other, he said it had created a unique firm.

"Unlike Marsh or AON, whose Bermuda offices get supplied by their US offices, we have to garner our business from independent retail brokers in the US that don't have offices in Bermuda. Because of the merger of JLT and Park we're the only ones of any scale that are doing that. Do we have competitors? Absolutely, but they tend to be small and have one or two legs of the stool but they don't have the bench strength that we do, where we can have people travelling but still have the back-up here in the office."

For Mr Scope, it had been a case of "back to the future." He had spent much of 2003–07 trying to build a global brand for Park while coping with the exhausting task of managing seven offices in eight time zones.

"Although we had some success growing the business, it was all internally focused and apart from London and Chicago offices, we couldn't get any scale and in this day and age you need scale in the broking business. What made sense was to go back to my original business and at the time JLT were in need of leadership and some succession so I brought a team of 20 people with no work permit issues — they are all Bermudians, long-term residents or spouses of Bermudians. That gave JLT some stability and continuity and they in turn gave us some scale.

"I still travel a lot but now most of my travel is to North America. It's a little easier on the old body!"

ANALYSIS / PricewaterhouseCoopers Q4 2008

OPERATING RATIOS

ANNUAL LOSS RATIOS

	2008	2007	2006
ACE	60.6%	61.6%	61.2%
Arch	65.0%	55.8%	58.1%
Aspen	66.0%	53.0%	53.0%
Allied World	57.4%	58.8%	59.0%
Axis	63.7%	50.1%	52.9%
Endurance	64.3%	47.0%	50.5%
Everest Re	66.0%	63.7%	63.2%
Flagstone Re	58.1%	40.4%	13.9%
Hiscox	51.1%	44.0%	49.3%
IPC	40.2%	31.9%	14.7%
Max Capital	68.9%	64.0%	67.7%
Montpelier	55.8%	31.8%	29.6%
PartnerRe	63.9%	50.8%	54.8%
Platinum	64.4%	55.9%	56.9%
Renaissance Re	54.8%	33.6%	29.2%
Validus	61.5%	33.1%	29.8%
White Mtn	74.0%	61.0%	71.0%
XL Capital	66.1%	59.8%	62.2%

ANNUAL EXPENSE RATIOS

	2008	2007	2006
ACE	29.0%	26.3%	26.9%
Arch	30.0%	28.3%	27.3%
Aspen	30.0%	30.0%	29.0%
Allied World	26.8%	22.5%	19.8%
Axis	26.1%	25.2%	24.4%
Endurance	29.2%	32.9%	31.0%
Everest Re	29.6%	27.9%	26.5%
Flagstone Re	31.3%	32.4%	33.7%
Hiscox	25.0%	40.4%	39.8%
IPC	16.2%	18.0%	18.1%
Max Capital	23.0%	24.2%	18.7%
Montpelier	35.2%	29.5%	30.7%
PartnerRe	30.2%	29.6%	29.6%
Platinum	27.5%	25.1%	26.7%
Renaissance Re	24.2%	25.7%	25.5%
Validus	30.7%	28.9%	26.9%
White Mtn	32.0%	33.0%	31.0%
XL Capital	29.6%	29.0%	27.3%

ANNUAL COMBINED RATIOS

	2008	2007	2006
ACE	89.6%	87.9%	88.1%
Arch	95.0%	84.1%	85.4%
Aspen	96.0%	83.0%	82.0%
Allied World	84.2%	81.3%	78.8%
Axis	89.8%	75.3%	77.3%
Endurance	93.5%	79.9%	81.5%
Everest Re	95.6%	91.6%	89.7%
Flagstone Re	89.4%	72.8%	47.6%
Hiscox	76.1%	84.4%	89.1%
IPC	56.4%	49.9%	32.8%
Max Capital	91.9%	88.2%	86.4%
Montpelier	91.0%	61.3%	60.3%
PartnerRe	94.1%	80.4%	84.4%
Platinum	91.9%	81.0%	83.6%
Renaissance Re	79.0%	59.3%	54.7%
Validus	92.2%	62.0%	56.7%
White Mtn	106.0%	94.0%	102.0%
XL Capital	95.7%	88.8%	89.5%

FINANCIAL STRENGTH RATINGS

	A M BEST RATING		S&P RATING	
	March 6, 2009	March 7, 2008	March 6, 2009	March 7, 2008
ACE	A+	A+	A+	A+
Arch	A	A	A	A
Aspen	A	A	A	A
Allied World	A	A	A–	A–
Axis	A	A	A+	A
Endurance	A	A	A	A
Everest Re	A+	A+	AA–	AA–
Flagstone Re	A–	A–	NR	NR
Hiscox	NR	NR	NR	NR
IPC	A	A	A–	A–
Max Capital	A–	A–	NR	NR
Montpelier	A–	A–	A–	A–
PartnerRe	A+	A+	AA–	AA–
Platinum	A	A	NR	NR
Renaissance Re	A+	A+	AA–	AA–
Validus	A–	A–	NR	NR
White Mtn	A–	A–	A–	A–
XL Capital	A	A	A	A+

NR — Not rated by S&P

Outlook

- 2008 saw unprecedented investment losses, significant catastrophes, a plethora of per risk property losses and soft market conditions. The start of 2009 has seen rate hardening in several classes.
- Capital will be much harder to access going forward than in previous hard cycles.
- Several companies have reassessed their investment portfolios, taking steps to de-risk their holdings and place more emphasis on short term, cash and equivalents and government-backed securities.

Earnings

- In 2008, overall gross premiums written were generally flat compared to the prior year quarter (excluding reinstatement premiums due to Ike loss revisions). Any increases from diversification into new lines and acquisitions were offset by the softer market.
- Despite a slight overall increase in net premiums earned, all companies on our list suffered significant declines in earnings both quarter over quarter as well as for the year.
- Results were significantly impacted by specific catastrophe losses and investment losses, particularly from alternative investments and hedge funds.
- Investment losses resulted from continued volatility in the markets. Investment income was lower.
- Foreign exchange rate movements had a reasonably significant effect this quarter.

Capital management

- Share repurchase activity tailed off in the second half of the year. Most companies indicated that they plan to retain capital due to the current state of the capital markets and expected opportunity due to improved underwriting conditions and the reduced participation of formerly significant worldwide competitors.

Other

- Axis' financial strength rating was upgraded by S&P to A+ in February 2009.
- IPC Re and Max Capital announced an agreement to amalgamate in March 2009.

ANNUAL GROSS PREMIUMS WRITTEN $M

	2008	2007	2006
ACE	19,242	17,740	17,401
Arch	3,669	4,140	4,282
Aspen	2,002	1,819	1,946
Allied World	1,446	1,506	1,659
Axis	3,390	3,590	3,609
Endurance	2,246	1,781	1,790
Everest Re	3,678	4,078	4,001
Flagstone Re	782	577	302
Hiscox	2,123	2,397	2,206
IPC	403	404	430
Max Capital	1,254	1,078	865
Montpelier	620	654	728
PartnerRe	4,028	3,810	3,734
Platinum	1,067	1,140	1,275
Renaissance Re	1,736	1,810	1,944
Validus	1,362	989	541
White Mtn	4,117	4,190	4,312
XL Capital	8,260	8,998	9,786

ANNUAL NET PREMIUMS EARNED $M

	2008	2007	2006
ACE	13,203	12,297	11,825
Arch	2,845	2,945	3,082
Aspen	1,702	1,734	1,676
Allied World	1,117	1,160	1,252
Axis	2,687	2,734	2,694
Endurance	1,766	1,595	1,639
Everest Re	3,694	3,998	3,853
Flagstone Re	654	477	192
Hiscox	1,763	1,929	1,741
IPC	387	391	397
Max Capital	814	818	665
Montpelier	529	557	583
PartnerRe	3,928	3,777	3,667
Platinum	1,115	1,173	1,337
Renaissance Re	1,387	1,424	1,530
Validus	1,257	858	307
White Mtn	3,710	3,784	3,713
XL Capital	6,640	7,205	7,570

Q4 EARNINGS (LOSS) DATA

	Net income (loss) attributable to common shareholders ($m)			Fully diluted earnings (loss) per share ($)		
	Q4 2008	Q4 2007	Q4 2006	Q4 2008	Q4 2007	Q4 2006
ACE	20	572	665	0.06	1.69	1.99
Arch	(143)	234	239	(2.38)	3.31	3.12
Aspen	22	135	120	0.18	1.44	1.20
Allied World	20	123	128	0.39	2.01	2.04
Axis	131	306	281	0.88	1.89	1.69
Endurance	13	149	195	0.22	2.18	2.70
Everest Re	(17)	12	206	(0.27)	0.19	3.15
Flagstone Re	(76)	51	n/a	(0.89)	0.60	n/a
Hiscox	n/a	n/a	n/a	n/a	n/a	n/a
IPC	42	163	108	0.79	2.48	1.52
Max Capital	(94)	62	95	(1.67)	1.00	1.51
Montpelier	(48)	91	122	(0.57)	0.97	1.26
PartnerRe	87	172	234	1.53	3.04	4.03
Platinum	61	100	83	1.18	1.60	1.28
Renaissance Re	(55)	62	201	(0.91)	0.88	2.78
Validus	37	139	69	0.47	1.77	1.16
White Mtn	(213)	101	278	(22.92)	9.55	60.33
XL Capital	(1,433)	(1,216)	471	(4.36)	(6.88)	2.62

ANNUAL EARNINGS (LOSS) DATA

	Net income (loss) attributable to common shareholders ($m)			Fully diluted earnings (loss) per share ($)		
	2008	2007	2006	2008	2007	2006
ACE	1,197	2,578	2,305	3.53	7.66	6.51
Arch	265	832	693	4.09	11.28	9.08
Aspen	104	489	378	0.89	5.11	3.75
Allied World	184	469	443	3.59	7.53	7.75
Axis	351	1,055	926	2.26	6.41	5.63
Endurance	83	506	483	1.32	7.17	6.73
Everest Re	(19)	839	841	(0.30)	13.19	12.87
Flagstone Re	(187)	168	152	(2.20)	2.05	2.17
Hiscox	131	382	321	0.34	0.93	0.79
IPC	76	368	377	1.45	5.53	5.48
Max Capital	(175)	303	217	(3.10)	4.75	3.43
Montpelier	(146)	316	303	(1.69)	3.31	3.22
PartnerRe	12	683	715	0.22	11.87	12.37
Platinum	216	347	319	3.98	5.38	4.96
Renaissance Re	(13)	570	762	(0.21)	7.93	10.57
Validus	53	403	183	0.61	5.95	3.11
White Mtn	(555)	407	673	(54.96)	37.89	62.32
XL Capital	(2,632)	206	1,722	(11.02)	1.15	9.60

MARKET CAPITALISATION

	2008		2007		2006	
	Common shares issued	Market value $	Common shares issued	Market value $	Common shares issued	Market value $
ACE	333,645,471	52.92	329,704,531	61.78	326,455,468	60.57
Arch	60,511,974	70.10	67,318,466	70.35	74,270,466	67.61
Aspen	81,506,503	24.25	85,510,673	28.84	87,788,375	26.36
Allied World	49,036,159	40.60	48,741,927	50.17	60,287,696	43.63
Axis	136,212,000	29.12	142,520,000	38.97	149,982,000	33.37
Endurance	57,203,454	30.53	60,364,488	41.73	66,480,381	36.58
Everest Re	65,600,000	76.14	65,400,000	100.40	65,000,000	98.11
Flagstone Re	84,801,732	9.77	85,309,107	13.90	n/a	n/a
Hiscox	368,665,000	4.89	393,573,000	5.70	393,916,000	5.49
IPC	56,094,348	29.90	57,626,395	28.87	63,706,567	31.45
Max Capital	55,805,790	17.70	57,515,075	27.99	60,276,560	24.82
Montpelier	93,368,434	16.79	99,290,078	17.01	111,775,682	18.61
PartnerRe	57,748,507	71.27	57,379,516	82.53	57,076,312	71.03
Platinum	47,482,161	36.08	53,779,914	35.56	59,671,959	30.94
Renaissance Re	61,503,333	51.56	68,920,319	60.24	72,140,045	60.00
Validus	75,624,697	26.16	74,199,836	25.98	58,482,601	n/a
White Mtn	8,808,843	267.11	10,553,572	514.05	10,782,753	579.43
XL Capital	330,812,343	3.70	177,910,151	50.31	180,983,611	72.02

n/a = data not publicly available

SHAREHOLDERS' EQUITY ($M)

	2008	2007	2006
ACE	14,466	16,677	14,278
Arch	3,433	4,036	3,591
Aspen	2,779	2,818	2,389
Allied World	2,417	2,240	2,220
Axis	4,461	5,159	4,413
Endurance	2,207	2,512	2,298
Everest Re	4,960	5,685	5,108
Flagstone Re	986	1,210	864
Hiscox	1,369	1,640	1,337
IPC	1,851	2,126	1,991
Max Capital	1,280	1,584	1,390
Montpelier	1,358	1,653	1,493
PartnerRe	4,199	4,322	3,786
Platinum	1,809	1,998	1,858
Renaissance Re	3,033	3,478	3,280
Validus	1,939	1,935	1,193
White Mtn	2,899	4,713	4.455
XL Capital	6,115	9,948	10,131

Little to fear over tax haven abuse

KADING SAYS 'BERMUDA IS NOT A BANK SECRECY JURISDICTION'

Bermuda's insurance industry has little to fear from the US Government's moves against tax haven abuse, but it cannot be complacent about renewed plans to tax offshore reinsurers, according to Brad Kading, President and Executive Director of the Association of Bermuda Insurers and Reinsurers (ABIR).

Speaking during a presentation to Bermuda Insurance Institute members at the Fairmont Hamilton Princess on March 11, Mr Kading said turmoil in the financial markets, political change in Washington and the continued success of the Bermuda business model had made the Island's Class Four reinsurers bigger targets as they were seen as a threat to the US insurance industry.

He said the proposed tax on affiliated reinsurance transactions between US subsidiaries and their foreign affiliates didn't just apply to Bermuda. "It applies equally whether you are a Japanese, Australian or European company," he said.

The proposal, introduced in September 2008 by Representative Richard Neal and likely to be reintroduced this year, would amend the Internal Revenue Code of 1986 and disallow the deduction for excess non-taxed reinsurance premiums with respect to United States risks paid to affiliates.

ABIR, which represents 23 Bermuda-based global insurers and reinsurers, has called the plan anti-competitive and discriminatory and warned it would ultimately mean more expensive insurance premiums for US policyholders. It says the proposal would unfairly penalise the US operations of foreign-owned insurance and reinsurance companies as it would give property and casualty insurers headquartered in the United States a competitive advantage over US P&C companies that engage in affiliate reinsurance transactions with their foreign parents. For Bermuda-based companies it would effectively increase the 1% Federal excise tax (FET) they pay on gross reinsurance premiums to more than 20%.

Mr Kading told BII members: "This is the third time it has been tried in 20 years but what's new is that for the first time in this period there is a Democratic President and a Democratic congress.

He added: "Also, it is important to recognise the huge US federal budget deficit that's driving a desperately revenue-hungry congress to point to all sources for revenue. To pay for proposed increase in spending for a programme, a member of congress has to propose an offsetting revenue gain so that there's no net growth in the deficit."

In a 33-page response to a Senate Finance Committee (Majority) Staff Discussion Draft on the proposal on February 25, ABIR stated: "There is no evidence that foreign affiliate reinsurance presents transfer-pricing issues or is otherwise inconsistent with US tax norms, and there is considerable evidence that these transactions serve important non-tax business purposes. Moreover, it does not appear that the US P&C industry suffers from foreign competition. Thus, there is no apparent basis for singling out the global reinsurance industry for the draconian treatment proposed by the Staff Discussion Draft. Particularly in view of the historic economic weakness in the global capital markets, it seems counterintuitive to consider any legislative proposal that would limit the availability of foreign sources of insurance capital, as would occur under the Staff Discussion Draft."

ABIR point out that both US-based P&C companies and foreign-owned US insurers use affiliate reinsurance for the same valid business purposes.

"The market for reinsurance is a global one, and Bermuda is a major reinsurance centre that is fully compliant with international standards of transparency and exchange of information. As for concerns about protecting the US P&C industry from foreign competitors, putting aside the current turmoil in the financial markets that has affected all participants, in recent years US-based P&C insurers have earned record profits and their businesses have grown dramatically."

Brad Kading, President and Executive Director of the Association of Bermuda Insurers and Reinsurers

It added: "Ultimately, US consumers would suffer due to the negative effects of the Staff Discussion Draft on the availability and affordability of P&C insurance in the United States. The proposed treatment would deliver a competitive advantage to US-based insurance groups by imposing disproportionately higher taxes on their foreign-owned competitors who enter into reinsurance arrangements that are typical within related groups of insurance companies."

The Coalition for Competitive Insurance Rates - which includes ABIR, US industry groups, consumer organisations in hurricane-hit Florida and the Southeast US, and global industry leaders Allianz, Zurich and Munich Re - warned in a separate letter to the committee in February: "The property and casualty insurance industry has been largely insulated from the 2008 capital markets crisis. Ironically the impact of this legislation may well be to create a capital markets crisis for insurance where none exists today. Reinsurance functions as capital and the impact of this legislation is likely to create a capital shortfall!"

Meanwhile, Mr Kading said Bermuda-based reinsurers would not be affected by the Stop Tax Haven Enforcement Act, reintroduced on March 2 by Senator Carl Levin. "There may be some Bermuda corporations affected by the bill," Mr Kading told Global Reinsurance magazine. "We don't believe it affects the global insurance and reinsurance companies based in Bermuda."

He said the Levin Bill was aimed at US multinational corporations and US citizens. "It is focused on secrecy and financial reporting concerns."

He added that Bermuda did not meet the definition of "tax haven" as outlined by Senator Levin as "a foreign jurisdiction that maintains corporate, bank, and tax secrecy laws and industry practices that make it very difficult for other countries to find out whether their citizens are using the tax haven to cheat on their taxes."

"Bermuda is not a bank secrecy jurisdiction," Mr Kading said. "We have tax information exchange agreements with the US, UK and with other countries. Bermuda willingly enters into such agreements. Bermuda recently signed an additional law enforcement co-operation agreement with the US. Bermuda is cited by the US Treasury and the OECD as a co-operative jurisdiction with regard to tax law enforcement. Our members in Bermuda perform substantive underwriting in Bermuda and most have their headquarters staff in Bermuda."

A full copy of ABIR's comments on the Senate Finance Committee (Majority) Staff Discussion Draft Proposal can be downloaded from www.abir.bm under Public Policy/US Taxation

IPC and Max Capital Group to merge

BOSSES SAY MOVE CREATES A 'STRONG GLOBAL UNDERWRITING FRANCHISE'

The first big move in what is expected to be a year of increasing mergers and acquisition activity in the Bermuda market will see IPC Holdings and Max Capital Group join forces.

Following the merger — expected to close in Q3 2009 — the holding company will be renamed Max Capital Group Ltd. The combined company, Max Capital Group, will serve as the Bermuda-based holding company for the existing global specialty insurance and reinsurance operating subsidiaries of Max and for IPCRe Limited, the existing Bermuda-based property-catastrophe reinsurance subsidiary of IPC. IPCRe Limited will be renamed Max IPC Re Ltd.

If the agreement receives shareholder and regulatory approval, Max stockholders will receive 0.6429 IPC shares for each Max share. Upon closing of the tax-free, stock-for-stock merger, IPC shareholders will own approximately 58% of the combined company on a fully diluted basis with Max shareholders owning approximately 42%.

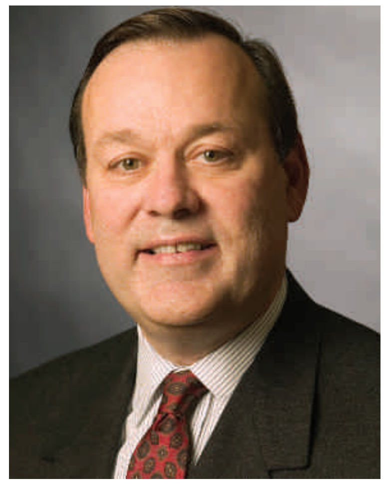
Max Chairman and CEO Marty Becker, and Jim Bryce, President and CEO of IPC, said they believed the combination of the two companies would create a "stronger, more diversified global underwriting franchise."

In a joint statement they said: "IPC and Max have complementary businesses with very little overlap. The new platform will increase the global scale of each company and further enhance our collective ability to capitalise on attractive opportunities in the property-casualty marketplace, and thereby build long-term value for all our shareholders. From a financial perspective, based on results at December 31, 2008, this transaction creates a stronger capitalised company, with shareholders' equity of over $3 billion and total assets of approximately $10 billion. We expect that the combined entity will have less volatile underwriting results than either of its individual components, as well as more flexibility to efficiently manage capital."

They listed three significant benefits for shareholders of both companies that would also provide a strong foundation for future financial performance:

- **Enhanced size and scale**. The combined company is expected to have shareholders' equity over $3 billion, which should lead to improved financial strength and flexibility.
- **Global platform and diversified business mix.** The combined company will have a diversified specialty insurance and reinsurance business, with underwriting facilities in Bermuda, Dublin, at Lloyd's and in six major US cities.
- **Management and underwriting talent**. Highly experienced management and underwriting teams with long-standing industry knowledge and relationships. IPC has been in operation for over 15 years and Max for approximately nine years.

Mr Becker will be the President and CEO of Max Capital Group while Mr Bryce will retire as of June 30, 2009, although he will continue in a non-executive role as Chairman of Max IPC Re and will be active in client relations and marketing.



Marty Becker, Max Chairman and CEO

"We are pleased that Jim will have an important role at Max IPC Re, which will strongly benefit from his 35 years of property-catastrophe underwriting expertise, his reputation in the market, and his strong client relationships," said Mr Becker.

If the transaction has not closed by June 30, IPC's Chief Financial Officer, John Weale, will become acting CEO of IPC following Mr Bryce's retirement and pending the closing of the transaction.

The board of directors of the combined company will have twelve directors, consisting of six current independent directors of IPC and six directors from Max, including Marty Becker.

Kenneth L Hammond, non-executive Chairman of IPC's Board of Directors, will assume the non-executive Chairmanship of the Board of Directors of the combined company Max Capital Group.

He said: "This transaction is the result of over a year of strategic analysis by IPC as to how to better position the company for our shareholders. Jim Bryce and his team have worked hard to make this happen and we are very excited with the result and the opportunities it presents. We are also pleased that the combined company will continue to maintain its presence in the Bermuda community."

In addition to Mr Becker, Peter Minton, Max's Chief Operating Officer, and Joe Roberts, Max's Chief Financial Officer, will hold their respective titles at Max Capital Group, and John Weale will become Executive Vice President and Treasurer of Max Capital Group.

Argo Re sets up new division

Argo Group has established a Casualty and Professional Risks Division within Argo Re, the Company's Bermuda-based reinsurance operation.

The newly-formed division will write general and product liability, product recall, excess directors' and officers' liability, A-side primary, lead DIC (difference in conditions) and follow form, excess errors and omissions liability, primary and excess employment practices liability, and excess crime & fidelity risks, with capacity limits of up to $25 million.

The Casualty and Professional Risks business will be headed by Nigel Mortimer, who has been appointed Chief Underwriting Officer for Casualty and Professional Risks at Argo Re. Mr Mortimer will lead a team of underwriters that includes Mark Peeters, Glenn Burles, Timothy Hadler and Deirdre Lohan.

"We see tremendous opportunity in this part of the market," said Argo Re President Andrew Carrier. "Argo Re's unique specialist approach means that, with the right underwriting management in place combined with Argo Group's strong balance sheet, we should be successful at generating profitable risk-adjusted returns.

"In this regard, we are very fortunate to have Nigel Mortimer and his team on board. They have the experience and industry knowledge to establish this book of business as a successful undertaking."

Mr Mortimer joins Argo Re with nearly two decades of experience in the casualty sector. Most recently he was Director of Product Development for XL Insurance worldwide, a role he held from 2007. He has had various senior underwriting positions with international insurers XL, Zurich Group and Chubb Insurance.

Why Florida needs Bermuda

LOBBY AGAINST 'BACKSTOP' WHICH COULD DISPLACE 'THE ENTIRE REINSURANCE MARKET'

Bermuda's reinsurers are waging an on-going campaign on several fronts to sustain the property catastrophe business in Florida, says Brad Kading, President and Executive Director of the Association of Bermuda Insurers and Reinsurers (ABIR).

Mr Kading told a Spring Lunch meeting of the Bermuda Insurance Institute at the Fairmont Hamilton Princess on March 11, that ABIR is actively lobbying against the creation of an $18 billion Federal backstop for Florida's catastrophe reinsurance fund which it says will "substantially displace the entire reinsurance market."

"This is something that affects all ABIR members because Bermuda is the global home of property catastrophe underwriting," he said.

Mr Kading explained that Florida mandates that insurers buy reinsurance from its "super cat" fund. "Florida is currently selling $29 billion in coverage through the state catastrophe fund. Unfortunately the Florida cat fund can only finance $10 billion of the $29 billion it has promised to pay. Florida policy makers have recognised this enormous problem and are trying to guarantee that if bonds are issued to pay claims, the Government will buy them. After all, they reason, what's an $18 billion bailout when AIG has been given more than $100 billion?"

Analysts say Florida may struggle to raise more than $3 billion from a bond issue in the current financial climate.

Mr Kading added: "The President supports the creation of a Federal backstop but has not endorsed a specific provision and because of other business in 2009 it's not clear that there will be serious consideration of comprehensive legislation in this area during the current calendar year as the committees that would work in this area are also those working on the global financial crisis related issues."

Mr Kading said Florida needed foreign reinsurance immediately. In 2007 foreign carriers provided 93% of private reinsurance to the Florida home insurance market with Bermuda-based companies providing 67% of that $2.2 billion capacity.

He pointed out: "The ugly sisters of hurricanes Katrina, Rita and Wilma in 2005 caused enormous damage in the US and international reinsurers funded 47% of those claims payments to US citizens. Bermuda paid 24% of those claims. Bermuda companies alone have paid $30 billion in property catastrophe claims back to US customers for the last eight years."

Mr Kading added: "Florida needs us today but would quickly displace us for a cheaper source of capacity if they could and that's the issue that drives the current debate: the cost of insurance."

He said Bermuda companies were working with consumer and industry groups to "reframe" the debate.

"It's not about insurance prices, it's a debate about hurricane risk and the environment."

So many ways to slip up for industry

SURVEY SHOWS INSURERS LESS CONFIDENT ABOUT ABILITY TO HANDLE RISK COMPARED WITH 2007

Investment performance is now the number one risk facing the insurance industry, according to the latest CSFI Insurance Banana Skins survey, conducted in association with PricewaterhouseCoopers.

The risk rankings, compiled from a survey of over 400 senior insurance executives in 39 countries in late 2008, including Bermuda, contrasted sharply with the previous survey made in 2007.

A seismic shift in risk perceptions has, not surprisingly, placed "financial market risks" in the top four positions, above the previous year's number one, "too much regulation." Investment performance, equity markets, capital availability and macro-economic trends are now at the forefront of insurers' concerns and reflect the double whammy of the credit crunch and the global economic downturn.

PwC Bermuda Insurance Partner, Colm Homan, said that although concern about too much regulation had slipped down the rankings (to fifth place) it remained a big issue in all the major markets.

Insurance Banana Skins 2009
(2007 ranking in brackets)

- **Investment performance (11)**
- **Equity markets (13)**
- **Capital availability (26)**
- **Macro-economic trends (-)**
- **Too much regulation (1)**
- **Risk management techniques (14)**
- **Reinsurance security (27)**
- **Complex instruments (19)**
- **Actuarial assumptions (8)**
- **Long tail liabilities (7)**

'A seismic shift in risk perceptions has placed financial market risks in the top four positions, above the previous year's number one'

"Insurers fear a regulatory crackdown in the wake of the credit crunch. Insurance executives are also worried that the industry will be made to share the cost for what is essentially a banking crisis."

Sharply up in ranking from the previous survey was doubt over the quality of the insurance industry's risk management (6th), and its exposure to complex risk instruments such as credit default swaps (8th). These issues were ranked 14th and 19th respectively in 2007. There was a strong feeling among the 400 respondents that the industry is not naturally equipped to enter these markets and will have to "go back to basics."

Caroline Foulger, PwC Bermuda Insurance Partner, gave a specific Bermuda perspective on this change.

"While this is clearly a very valid concern for certain industry participants as recent results and announcements have shown, in general the Bermuda reinsurance industry companies have mostly performed well in the risk management arena in this time of broad economic challenge compared to the banks and some of the global insurance companies."

The survey showed however that the industry globally was less confident about its ability to handle risk than it was in 2007. Only 4% of respondents, compared with 21% in 2007, thought that insurance companies were well prepared.

Ian Dilks, Global Insurance Leader, PricewaterhouseCoopers, said: "The industry is now operating in the worst economic downturn seen in decades which has led not only to a major reappraisal of key risks but also a concern that the industry is not as well placed to deal with them as it once thought."

One positive move was environmental-type risks, which receded. Natural catastrophes and climate change, which were both in the top 10 in 2007, are now ranked in the 20s. This is probably because there have been fewer major events, but also because the industry is more confident about managing its peak risks. This was demonstrated specifically in a Bermuda context by the losses from Hurricane Ike in 2008.

While many of the Bermuda companies reported increases from their original loss estimates at year-end, the final estimates remained within expectations, and without the broader global economic crisis would not have been a market-changing event. In contrast, in 2005, the catastrophe reinsurance market experienced significant capital erosion from Hurricanes Katrina, Rita and Wilma, although the broader credit and investment markets remained buoyant at that time.

'Insurance executives are also worried that the industry will be made to share the cost for what is essentially a banking crisis'

Bermuda 'one of the big losers'

"The industry has lost about $85 billion of its capital and we don't see that coming back any time soon. After other big losses, like 9/11 and Hurricane Katrina, a lot of new capacity came in from private equity and hedge funds, but that's not going to happen this time. I don't think we're going to see a Class of '09."

— **Barbara Merry**, *CEO of Hardy Underwriting Bermuda Ltd, in* The Royal Gazette

"You may say you're well regulated, but so was Lehman Brothers. Bermuda is a cost to the US and Europe; you can't do anything about it. You've won by leveraging the financial situation. You will be one of the big losers."

— **Richard Murphy**, *head of advisory body Tax Research UK warns Bermuda it is powerless to stop the international crackdown on corporate tax abuse, quoted in the* Mid-Ocean News

"We hope this will be a case of one plus one equals more than two."

— *IPC President and CEO* **Jim Bryce**, *in a conference call with analysts on the merger with Max Capital Group*

"If there's a single episode in this entire 18 months that has made me more angry [than AIG], I can't think of one. AIG exploited a huge gap in the regulatory system. There was no oversight of the financial products division. [AIG] was a hedge fund, basically, that was attached to a large and stable insurance company, made huge numbers of irresponsible bets, took huge losses. There was no regulatory oversight because there was a gap in the system."

—*Federal Reserve Board Chair* **Ben Bernanke**, *at the Senate Budget Committee hearing on President Obama's proposed fiscal year 2009 budget*

WHAT'S ON

ONSHORE

April 5–7
Spring IRU Conference
Fairmont Southampton, Bermuda
www.irua.com

May 16
Bermuda Insurance Institute Annual Awards Dinner
Harbourview Ballroom, Fairmont Hamilton Princess, Bermuda
Contact Delma Parfitt at dparfitt@bii.bm

May 18–19
Casualty Actuarial Society Seminar on Reinsurance
Fairmont Hamilton Princess
www.casact.org

June 1
Insurance Day Summit
Fairmont Hamilton Princess
www.insurancedaysummit.com

June 21–24
Bermuda Captive Conference
Fairmont Southampton
www.bcoa.bm

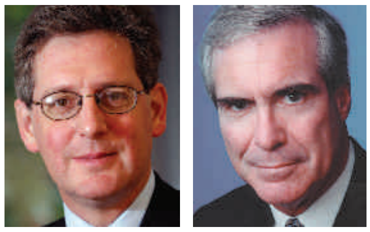
OFFSHORE

April 19–23
RIMS Annual Conference & Exhibition
Orlando, Florida
www.rims.org

Dupplin new CEO at Hiscox Bermuda

HISCOX has announced that **Charles Dupplin**, currently Chairman of Hiscox's Art and Private Client division and Director of Mergers and Acquisitions, will succeed **Rob Childs** as CEO of Hiscox Bermuda, which was established in 2006. Mr Dupplin will take up this new role in April 2009, subject to regulatory approval.

Mr Childs will return to the UK towards the end of April 2009.



Charles Dupplin and Brian O'Hara

He will continue in his roles as Group Director of Underwriting and Chairman of Hiscox USA. He will also serve as an internal non-executive of Hiscox Bermuda. **Robert Read** will assume overall responsibility for Art and Private Client underwriting. Mr Dupplin will retain his responsibilities as Director of Mergers and Acquisitions for the Group.

Mr Dupplin joined Hiscox in 1990. He ran Hiscox's network of Continental European offices from 1995–2000 and in 2004 was appointed to lead the Group's Art and Private Client division.

IRONSHORE INC has announced that **John Murphy** has joined as Worldwide Head of Property from Allied World. The Ironshore group currently writes property catastrophe and non-catastrophe business primarily out of Bermuda with plans to expand to the US and the UK this year. Boston-based Mr Murphy will provide global strategic direction and consistency across all Ironshore's platforms. He has more than 35 years of property underwriting experience in the insurance, reinsurance and surplus lines areas. Since November 2001, Mr Murphy had served as Executive Vice President of Global Property Underwriting at Allied World Assurance Company.

RENAISSANCERE HOLDINGS LTD has promoted Senior Vice President **Ian D Branagan** to the position of Chief Risk Officer. Former CRO **Todd Fonner** will focus on his role as Chief Investment Officer. Mr Branagan joined RenaissanceRe in 1998 to open the company's Dublin office, later relocating to Bermuda with additional responsibilities for underwriting risk and modeling across RenaissanceRe's insurance and reinsurance operations.

Brian M O'Hara, Chairman of the Board of Directors and former President and CEO at **XL CAPITAL LTD**, announced he would not stand for re-election at the AGM. **John T Thornton**, a member of XL's board since 1988, has also decided he will not run for re-election, while **Robert S Parker** and **Alan Z Senter**, board members since 1992 and 1986 respectively, have decided to retire from the board at the end of 2009. Following the retirement of Mr O'Hara and Mr Thornton the board will be fixed at 11 directors.

James Loder has been appointed Chief Underwriting Officer of **XL INSURANCE**'s Bermuda-based Professional Lines business.