

BIQ

July 2008

BERMUDA INSURANCE QUARTERLY

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ALL THE
RESULTS &
ANALYSIS

Q1₁₂

MEET XL'S
NEW CEO
McGAVICK



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CLIMBING
HIGH FOR
CHARITY



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BERMUDA INSURERS TREAD WARILY...

As the sun shines, why do insurers in Bermuda seem to sense they're on thin ice? See *page 1*



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THE QUOTES OF THE QUARTER

“Although XL is steadily navigating through some extremely difficult global credit market conditions, which is reflected in our lower investment performance relative to the outstanding results in the prior year quarter, we have still achieved another solid performance from our Insurance, Reinsurance and Life operations.”

— **XL Capital Chairman Brian O’Hara**



“The world economy and the US economy benefits enormously from the expertise that has been gathered here in Bermuda and the effectiveness of the industry here. So efforts by the US or others to limit the effectiveness of that market are self-defeating in the long run.”

— **XL Capital CEO Mike McGavick**



“We expect that the extreme competitive challenges across all product lines will continue to pre-

vail throughout the insurance marketplace. Reinsurance business we believe will be much more stable in pricing, terms and conditions throughout the rest of the year. It is anticipated that the financial markets will remain difficult.”

— **AXIS Capital President & CEO John Charman**

“Ariel Re is the fifth reinsurance company I’ve started from scratch. All the reinsurance companies I’ve worked for are ones that I’ve started. That means I’m either a serial entrepreneur or, more likely, no one in their right mind would hire me.”

— **Ariel Re Chairman & CEO Don Kramer accepting his Lifetime Achievement award from the Bermuda Insurance Institute**

“Unfortunately, John can’t be here tonight as he is attending his son’s 21st birthday party in Las Vegas where, contrary to opinion, he did not learn his underwriting skills.”

— **AXIS chairman Michael Butt apologises for his CEO and friend John Charman’s absence from the BIS awards banquet**



Best says Bermuda’s in ‘good shape’

COMPANIES POST STRONG RESULTS, BUT REPORT WARNS OF EXPECTED FALL IN PROFIT MARGINS

Bermuda’s property/casualty insurers may be in good shape — but rating agency A M Best has forecast long-term falls in earnings and profit margins.

In a special report, *Bermuda Insurers Carry Strength into a Softening Market*, Best says although the Bermuda companies have bounced back from two years of unprecedented hurricane losses to post strong results in 2006 and 2007 ensuring that “Bermuda is clearly as prominent as any market in the world”, industry fundamentals are expected to continue to deteriorate.

“The overwhelming conclusion is that the majority of carriers on the island are financially strong, benefiting from record earnings produced by the fundamental

‘Balance sheets are in the best shape in years’

quality of underwriting operations,” says the report. “As can be expected, balance sheets with few exceptions are in the best shape in years.”

But it warns that profit margins will continue to deteriorate barring any industry-changing event.

The report notes that first-quarter results indicate an acceptable rate of return can be expected for this year, albeit at lower margins than those reported in the past two years. In previous soft cycles, Best said companies under pressure to deploy their capital have been tempted to go after underpriced business but believes Bermuda companies were determined not to repeat the lack of underwriting discipline that exacerbated soft markets in the past.

“As the July renewal season looms, insurers in Bermuda seem to sense they’re on thin ice, and none wants to be the one to break it,” says the report.

Best notes that trends include active share repurchase programmes and increases in dividend payments, and expects increased mergers and acquisitions activity in the coming months.

“The Island’s interest in US excess and surplus lines specialty markets continues unabated as carriers such as Max Re, Montpelier Re and Endurance have set up domestic [US] operations. Another major trend is Bermuda companies entering Lloyd’s markets through the formation of a Lloyd’s syndicate such as Aspen or Montpelier Re, or through transactions such as Ariel Holdings and

Validus Holdings acquiring Atrium and Talbot respectively.”

Best reported that although the sub-prime mortgage crisis had caused some Bermuda carriers to make write-downs, it had not so far impacted operating results. The report says, though, that Best expects redundancies to be largely exhausted through 2009.

ACE and XL Capital remain the biggest players in the market with non-life net premiums of \$11.6 billion and \$6.3 billion respectively.

A M Best maintains a stable ratings outlook on the Bermuda reinsurance/insurance sector.

RENRE BUYS OUT AGRO NATIONAL

Bermuda-based Renaissance Re Holdings Ltd is to buy out Agro National, a premier managing general underwriter of crop insurance. Terms have not been disclosed. Agro National will become part of the Glencoe Group which conducts the Individual Risk business of Renaissance Re. Glencoe Group is a leading writer of programme business through admitted and non-admitted carriers.

Bermuda market still booming

BMA SAYS DECLINE IN NEW COMPANIES DUE TO SOFTER MARKET CONDITIONS GLOBALLY

Soft market? What soft market? According to latest statistics compiled by the Bermuda Monetary Authority, the Island's insurance market continues to show strong signs of growth with increased premiums and a larger capital base.

Although the number of new reinsurers formed in 2007 was down slightly, 71 against 82 in 2006, the Bermuda market wrote \$115.8 billion in gross written premiums in 2006, the last year for which statistics are available - up 15% from the previous year - and total assets increased 33% to \$440.4 billion. Of these amounts captives accounted for \$72 billion in total assets and almost \$22 billion in gross premiums written.

The BMA said the decline in the number of new companies "reflected

the generally softer market conditions globally." It added, "In such conditions companies typically are able to purchase reinsurance coverage at competitive rates in the traditional commercial markets."

The majority of the new Bermuda market entrants for 2007 were once again Class 3 insurers with just two new Class 4 companies, reflecting the general inactivity in the property and casualty market and the relative lack of major catastrophic events during the year, resulting in the likely record profitability of existing insurers and a sufficiency of global capital in the property/casualty sector.

"We were very pleased to see that the tradition of quality business coming to Bermuda was maintained with the companies that were successfully established here during the year," said Jeremy Cox, Deputy CEO of the BMA.

"The high quality of the sponsors behind the companies, in addition to the continued increases in premium volume written that we have been recording over the years, indicates that market confidence in Bermuda as a leading centre for international insurance and reinsurance remains strong. There is also a continued appreciation among those who participate


in this market of Bermuda's effective, practical regulatory environment."

He said the BMA had continued to place emphasis on enhancing its regulatory standards and operational capability during the year to maintain effective regulation of Bermuda's growing market.

"Key areas of supervision such as our on-site programmes and risk-based capital adequacy regime are being expanded and refined," said Cox. "Overall, we are steadily enhancing the depth of technical skills and resources that we have within the Authority, as well as building on our existing compliance with international standards in terms of our regulatory framework."

Further enhancement of the Authority's operational capability remains a key objective.

'Market confidence in Bermuda as a leading centre for international insurance and reinsurance remains strong'



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Cash back to run new fund

JUNIPERUS, A BERMUDA-BASED INVESTMENT MANAGEMENT COMPANY, TAKES ON CASH AS CEO AND CUO

Michael Cash is back in the insurance business nine months after being fined \$130,000 by the US Securities and Exchange Commission (SEC) and barred from working as a director or officer of a public company for five years after allegedly participating in a “sham transaction” to smooth earnings while a senior executive of a subsidiary of Bermuda-based reinsurer RenaissanceRe.

The Bermudian executive is CEO and Chief Underwriting Officer of Juniperus Capital Ltd (JCL), a new Bermuda-based investment management company established to manage third-party funds focused on the collateralised reinsurance and insurance-linked securities markets.

The SEC said Cash improperly accounted for a \$50 million transaction while at RenRe. He later settled with the regulator without admitting or denying the allegations.

JCL will manage the Juniperus Insurance Opportunity Fund with a \$50 million cash investment by broking firm the Benfield Group. Benfield holds a significant shareholding in JCL having acquired \$6.6 million in shares, and has committed to provide up to \$2 million in working capital to the investment management company.

Philip Lotz, the former CEO of Swiss Re Capital Management and Advisory will serve as JCL's Executive Chairman.

Cash has more than 17 years' experience in the reinsurance industry. He joined Renaissance Re in 2000, resigning in July 2005 as Senior Vice President, Specialty Reinsurance. Previously he was a Principal at Stockton Reinsurance Ltd and also worked for Centre Reinsurance. Mr Cash is an Associate of the Casualty Actuarial Society.

Benfield CEO Grahame Chilton said the formation of JCL was “a logical next step in this expanding marketplace”.

In addition to advising on the formation of new risk taking entities such as JCL and its affiliates, Benfield Advisory (BA), the company's specialist corporate finance and advisory business, advises on insurance and reinsurance M&A and provides cedants with direct access to hedge funds, pension funds, banks and other non-traditional investors.

He said: “BA has advised on many start up insurance and reinsurance companies including Lancashire Insurance, Montpelier Re and other vehicles, and has also advised on the placing of billions of dollars of catastrophe risk in the capital markets in recent years, either through the formation of broadly syndicated risk transfer vehicles or directly with capital

markets investors.”

Rob Bredahl, Global Head of BA, added: “The convergence of the reinsurance and capital markets is being driven by reinsurance companies seeking to access different forms of capital and innovative risk transfer techniques, and investors increasingly attracted to the high yielding non-correlated nature of catastrophe-type risk.”



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Charman takes top honours

TWO-TIME RETIREE KRAMER RECEIVES THE BII'S LIFETIME ACHIEVEMENT AWARD



John Charman

John Charman, the man once dubbed the 'King of Lloyd's' was named Bermuda's Reinsurance Person of the Year at the Bermuda Insurance Institute Awards, while industry veteran Don Kramer collected a Lifetime Achievement Award.

British-born Charman, President and CEO of AXIS Capital, was recognised for the remarkable success of AXIS, the company he formed in Bermuda in 2001, and for his passionate support of the Bermuda market.

Ariel Re boss Kramer was honoured for a 50-year career in which he has started five successful reinsurance companies from scratch.

Charman steered AXIS to a record year in 2007 in which the company generated more than \$1 billion in net income and now boasts more than 750 employees worldwide. He started at Lloyd's as a junior in 1971 and has held a senior underwriting position since 1975, eventually forming his own company Tarquin plc — the parent company of the Charman Underwriting Agencies at Lloyd's — and making his name writing war risk during the first Gulf War.

He served as Deputy Chairman of the Council of Lloyd's and a member of Lloyd's Core Management Group and Lloyd's Market

Board. Disillusioned with London's reluctance to modernise, he sold Tarquin to ACE in 1998. He was deputy chairman of ACE INA Holdings and President of ACE International and CEO of ACE Global Markets before he and ACE parted company in 2001.

After the events of 9/11, Charman seized the opportunity to form AXIS.

"For anybody who has the right qualifications and determination, ambition and standards, Bermuda is without doubt the best place in the world to practice insurance and reinsurance business," Charman said in the official awards programme (he was unable to attend the awards night).

"I think the strength of the Bermudian insurance and reinsur-

ance market is obvious. It has become, in a relatively short period of time, one of the dominant markets in the world and in the industry."

At 70 and despite achieving the BII Lifetime Achievement Award, **Don Kramer** shows no sign of slowing down.

He began his career as a Wall Street analyst and started his first successful Bermuda reinsurance company, Oppenheimer Re, in 1974. He then formed Kramer Capital Corporation and started NAC Re from an inactive shell in 1985. He "retired" in 1993 but in the wake of Hurricane Andrew he quickly started a new company, Tempest Re, which was bought by ACE and is now ACE Tempest Re.

Kramer served as Vice Chairman and CEO at ACE as well as chairman and director of spin-off Assured Guaranty Ltd until "retiring" again in 2005. But following the Katrina-Wilma-Rita storms of 2005 he was back in action, forming Ariel Re with \$1 billion in capital in just 12 weeks.

"It is important that we build a culture within our communities of training, education and youth development, as well as understanding the business," he says. "Bermuda is full of talent, young executive talent and a lot of countries are envious of us."



Gino Smith and Donald Kramer with their awards

Gino's star-studded future is already written

If the Bermuda reinsurance industry was looking for a poster boy to show young Bermudians just what they can achieve in the business, then XL underwriter **Gino Z Smith** certainly fits the bill.

The 32-year-old Bermudian received a deserved standing ovation from his peers after accepting the honour of Young Reinsurance Person of the Year at the recent Bermuda Insurance Institute Awards at the Fairmont Hamilton Princess Hotel.

At a time when the industry is struggling to attract black Bermudian males, Smith is an ideal role model. Dynamic, intelligent and hard-working, Smith already has an impressive resumé after barely seven years in the business and is clearly being groomed for greater things.

The former Berkeley Institute student was the

first Bermuda College graduate to be named Most Outstanding Insurance Student and, aided by scholarships from XL Capital, the Bermuda Foundation for Insurance Studies (BFIS) and RIMS (the Risk Management and Insurance Society), he went on to graduate as valedictorian from the College of Insurance in New York. He also attended the Don Quijote Instituto de Idiomas in Spain.

At present, Smith is an Assistant Vice President and Underwriter at XL Re Ltd where he is primarily responsible for underwriting property catastrophe exposed reinsurance treaties. In 2006 he was part of the XL team voted Best Overall Bermuda Underwriters by *Reactions* magazine.

Before joining XL Re, Smith spent three years

with XL Re Latin America Ltd working in Argentina, Mexico and Colombia.

Yet for a former pack racer who taunted police and saw three of his friends die, life could have turned out very differently. "I'm a typical black Bermudian," says Smith modestly but acknowledges he owes a debt to the "strong-willed" mother who raised him. "She taught me that life isn't fair and to get anywhere you needed to get off your behind. Failure was a part of life and I'd better get used to it. She taught me to have vision, to work hard and persevere to deal with the downs and the ability to adapt to change. I have come from being ordered by the court to do community service to giving service."

He has spent much time giving back to those who helped him, most notably the BFIS.

Insurance recruitment fears

BII CHIEF SAYS FEWER BERMUDIAN MALE STUDENTS SIGN UP FOR INSURANCE EXAMS

First the good news: more students than ever are registering to take insurance exams through the Bermuda Insurance Institute (BII). Speaking at the Institute's awards dinner in May, BII president Gerald Simons said that in 2007, 1,144 exams were written — up 38% on the 831 written in 2006. Hundreds of industry professionals also attended a record number of seminars and courses on everything from the sub-prime crisis to sidecars — up 43% on 2006.

The bad news is that few of those students are Bermudian males and even fewer of them are black males according to Simons, president and CEO of The Argus Group.

“I remain concerned by the lack of participation of males in our courses,” he said, noting that in 2005, 59% of graduates who obtained their professional designations through the BII were women. “I am concerned that boys are under-represented in entering our industry. I have seen it happen at Argus. When I started as CEO ten years ago we had one female senior manager. Now five or six out of a dozen are heading our major business units.”

Simons, a former Government education minister, says educating Bermudian students about the role of international business and the insurance industry as well as the opportunities it represents was critical.

Simons said he encouraged industry members to actively take part in programmes like YouthNet and law firm Appleby's A to B mentoring scheme, which links staff members with students at Government predominantly black high school Berkeley Institute.

“When the business community encourages its staff to establish relationships with people in schools it achieves a number of things. Not all of them will enter the insurance industry but it is important for everyone to under-

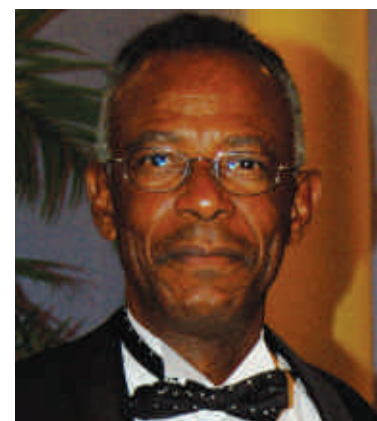
stand business — and international business in particular — because it is so important to our economy. Unless people understand business and value it, they may do things to upset the industry and create an atmosphere that is not conducive to the growth of the industry.”

Simons said he was pleased that the Bermuda Foundation for Insurance Studies was having

some success in attracting males to its scholarship programme.

But, as he noted in programme notes for the BII awards night, many Bermudians were still coming to terms with the rapid change from tourism centre to an international business centre.

“It takes a while for the community to understand that type of change.”



Gerald Simons: concerned



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Looking East to the Gulf

BUT IS DUBAI, THE MIDDLE EAST'S BOOMING ECONOMIC HUB, LIKELY TO BE BERMUDA'S BUSINESS FRIEND OR FOE?

A host of leading industry figures attended the recent World Insurance Forum in Dubai.

Dubai is one of the so-called emerging hubs of the rapidly developing economy of the Middle East, but is it a direct competitor to Bermuda in terms of the insurance market?

"I would view it as rather more complementary than as a threat," said **John Charman**, CEO and President of Axis Capital.

"Bermudian businesses have evolved enormously over the last 20 years, and have become an essential feature of the global insurance and re-insurance industry. Dubai is very desirous and will establish a regional financial centre."

Graham Chilton, the Chief Executive of Benfield, the independent reinsurance and risk intermediary, said: "We've been in the region for some time looking at the opportunities and I think we're closely getting to the point where we feel the real opportunity to be here."

"It's no threat to Bermuda. I think it's an opportunity for Bermuda to actually utilise its capital in a local market area."

Bermuda-headquartered reinsurer Flagstone Re is one of the firms that have chosen to establish an office in Dubai. Flagstone Re's Chairman **Mark Byrne** said, "There is a relatively low insurance penetration in this region, but the economic growth in the region is very, very strong. A lot of features of the region suit our strategy to look a bit off the beaten track so that we don't find ourselves just turning up as a relatively young company and competing with existing companies on price in developed markets."

During the World Insurance Forum, Bermuda-based Arch Re announced a joint venture with Gulf Investment Corporation to establish a specialist re-insurer for the Gulf named Gulf Re.

Arch Re's President Con-

stantine "Dinos" Jordanou said: "Business activity is growing in the region. That's why we feel it is going to be a tremendous opportunity for us."

"I don't know what other firms in Bermuda will do. I don't know if they are going to follow the exact model, or a 50/50 joint venture with local entities, but I do expect other Bermuda companies to open

offices in the territory."

Lord Peter Levene, Chairman of Lloyd's of London, said: "I think Dubai's different because in Bermuda you've got a well established reinsurance industry which has been going for a long time and it's got a lot of know how and is one of the world's reinsurance centres. Here in Dubai, really you're starting from scratch. The amount

of insurance actually consumed in the Middle East as a proportion of the world is tiny. You think of the resources in cash and investment that is in this part of the world, and then you find out this is 1% of the world's insurance market. There's clearly a long way to go.

"We need to diversify outside our traditional markets, which are typically the US and Europe."



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Anemos seizes energy opportunity

COMPANY TACKLES SHORTAGE OF CAPACITY IN THE OFFSHORE ENERGY MARKET

A gap in the offshore energy market has provided an opportunity for Anemos Insurance Management Ltd, a newly-formed Bermuda-based company.

The managing general agency (MGA) led by former OIL vice-president Elspeth Brewin and John Jenks, former president of Benfield's Bermuda office, will underwrite offshore energy business on behalf of Bermuda-domiciled Ironshore Insurance Ltd.

The Chief Underwriting Officer is Allen (Al) Steiger, who previously headed the Property and Energy teams at XL Capital, Bermuda.

Launched in early May, Anemos will initially focus on providing much-needed capacity for excess windstorm coverage in the Gulf of Mexico, where the energy

industry suffered some \$10.4 billion worth of damage during Hurricanes Katrina and Rita in 2005, mainly to offshore oil and gas drilling platforms.

CEO Jenks explained: "There is still a shortage of capacity in the offshore energy market, particularly in the Gulf of Mexico where buyers had significantly-reduced wind cover imposed on them in their insurance packages."

He added: "In 2005 the energy

buyer had no sub limits for wind. They could have bought up to the full values of their entire exposures and got \$1 billion of coverage if they wanted. Their coverage went down to \$150 million overnight for their 2006 renewals.

"We believe that our new excess facility will be welcomed by buyers seeking to purchase increased limits for these risks for the 2008 season, and by those without windstorm exposure but with capacity constraints for certain key assets offshore in other locations."

Anemos — named after the wind gods of Greek mythology — has been set up with the backing of the Thomas Miller Group with whom it shares offices in Chevron House on Church Street, Hamilton.

It offers capacity of \$25 million

per insured with policies written either on an "All Risks" basis with the standard industry exclusions such as land, terrorism, seepage and pollution, or the full limit is available for stand-alone Gulf of Mexico windstorm coverage.

"We write exclusively to the broker market and what we try to deliver that others can't is speed of service and size of line," said Jenks, who added that Anemos offered a technical approach to underwriting and risk assessment that differentiated by platform design/construction specifics and precise geographic location to give buyers packages tailored to fit their individual needs.

Since opening for business the company has received more than 30 submissions and is expecting a brisk mid-year renewal season.

'What we try to deliver that others can't is speed of service and size of line'

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McGavick settles into CEO's chair at XL

NEW BOSS CLEARS THE DECKS TO FOCUS ON COMPANY'S STRENGTHS

Mike McGavick has barely settled into the hot seat as CEO of XL Capital Ltd but he already has a clear idea of his immediate priorities.

Top of the list is to "get SCA behind us." He also wants to restore shaky investor confidence by putting an end to XL's recent history of volatile earnings and earn back the company's A+ rating from A M Best.

McGavick joined XL on May 1 replacing Brian M O'Hara who had been CEO for the past 13 years. O'Hara will serve as Chairman during the final year of his current term on the Board which expires in April 2009.

In an interview with the Bermuda Business Channel, McGavick said the credit crisis-related problems stemming from XL's investment in and reinsurance of financial guarantor Security Capital Assurance (SCA) was just one of several matters requiring urgent attention at the Bermuda-based reinsurance giant. The SCA problems were behind the staggering \$1.06 billion loss XL took in 4Q 2007 which saw the company's stock plunge 60% from its 52-week high last summer and led to rating agency A M Best downgrading the group's financial strength rating from A+ to A- and its issuer credit ratings to A from AA-.

McGavick admitted that there had been "continuing difficulty" in the SCA relationship. "Clearly the stock markets are depressing what we think is the real value of this franchise until there's clarity around that situation. So priority number one is to get SCA behind us in some kind of final way."

However McGavick said there was still some uncertainty about further losses from SCA.

"We've already taken significant reserve on one of the treaties that we have there, but the other issue is we have a guarantee to the SCA business before it was moved out of XL. The real issue here is there's



debate over how much that guarantee is worth. We believe, as we study SCA's results, there's unlikely to be losses on that guarantee. But there's uncertainty around it and that's why the markets are the way they are."

During April's earnings call conference, McGavick said he was also determined to "do all I can to lead an end to the current and unpleasant pattern of having our very strong earnings in core reinsurance and insurance operations lost through one-offs every couple of years. This simply has to end. We all know that. There are tools we can use to do so and I'm intent on bringing that fully to bear.

"By doing so I think we can bring a real focus on strengthening the view of others of our capital strength."

McGavick told the Bermuda Business Channel that XL needed to focus on its enterprise risk management. "How do we really think about protecting ourselves against those untoward events? We get those things right. I think the underlying strength of the franchise will be made obvious to everyone again."

He told the company's recent earnings call with investors that it was important for XL to be able to get back to focusing on its strengths and its core franchises. "That is particularly important at a time when underwriters, and particularly great underwriting organisations like this one, can show their real relative strength as the insurance marketplace globally

enters choppy waters. So getting back to that focus and having the confidence to do it right is exactly what we all need to be doing and it's my job to do all I can to quickly clear the decks so that can again be the focus."

Before joining XL, McGavick was President and CEO of Seattle-based Safeco Corporation after spending six years with Chicago-based CNA Financial Corporation where he became President and Chief Operating Officer of the company's largest commercial insurance operating unit.

He was also Director of the American Insurance Association's Superfund Improvement Project in Washington DC where he became the Association's lead strategist in working to transform US Superfund environmental laws.

In 2006 he unsuccessfully ran as a Republican for a seat in the US Senate in his native state of Washington and before entering the insurance industry he was involved in a number of political and public affairs organisations, including serving as a Chief of Staff in the United States Senate.

Born and raised in Seattle — coincidentally he went to the same Seattle high school as Brian O'Hara but a decade apart — McGavick has now relocated to Bermuda with wife Gaelynn and two younger sons Gates and Marco, aged nine and 11. A third son, Jack, is at college.

The decision to appoint a CEO from outside the company was not universally popular among XL executives, but XL Lead Director Robert R Glauber who chaired the Company's CEO Succession Committee said: "While the Company has extremely talented and capable internal candidates,

the Committee decided that XL, having been led by one of its founding executives for 13 years, would benefit most from an external perspective at the top level of leadership."

McGavick said: "XL is known for its underwriting excellence and a values-based culture of integrity, both of which have been developed under Brian's leadership. These are the very differentiating characteristics with which I closely identify and I am proud to have been chosen as the company's next CEO. XL is a world class brand with very successful insurance, reinsurance and life reinsurance businesses and I look forward to helping it realise its full potential."

Asked whether he thought it would take a major event to get prices moving again, McGavick said: "It's hard to say. Whenever we see softening in rates there's a lot of people who speculate about what might cause it to change. Clearly at this time for XL for example, we continue to be very focused on charging an appropriate price for the risks we take on. And we continue to retain our business at a very healthy rate.

"Those are both good indicators for us in the short term. The longer-term rate trend is disturbing. And how long that lasts, how far that will push insurers into writing at rates they shouldn't, is still too early to say. And what would turn it? It really is a very line-by-line and geography-by-geography conversation. But overall, capitalisation remains fairly flush in our sector and we've had a fairly quiet period in terms of catastrophes. Whenever you get that, you're going to get this kind of softening."

McGavick said that despite XL's expanding global operations and the island's limited infrastructure, Bermuda remained central to the company's future.

"The fact is that the Bermuda insurance marketplace has become one of the most important in the

'I think the underlying strength of the franchise will be made obvious to everyone again'



Chris Burville, The Royal Gazette

XL's new CEO Michael McGavick: "XL is known for its underwriting excellence and a values-based culture of integrity"

world. I think the objective, certainly of XL and I think of the Bermudian government and people, is to continue to have Bermuda be an extraordinary place for insurance and reinsurance to be done. I see no reason that would change," he said.

"As an international or global business, we're always going to put whatever operations we're building out wherever it is most efficient. So you'll see us growing in a variety of places around the globe. But that doesn't change our commitment and desire to be a Bermuda company and to be part of the excellence that is created here.

"It seems to me that people should want each of the Bermuda companies to evolve in that way

that they can continue to be a great global player. That's what we're intent on doing. I suspect others in the market are intent on doing that. And I think that's very healthy and promising for the future of both employment and the relevance of the Bermuda community."

Indeed McGavick intends to place even greater emphasis on XL's human resources – something he learned to value more working in the political field.

"I think a lot of businesses squander a fundamental asset," he said. "And that is that they pre-

sume because people are paid, that people will work excitedly for the company. Well I think being paid is kind of the basic transaction. You won't go to work if you're not paid sufficiently. But to get that full measure of effort for any institution it requires an emotional attachment as well.

"Having led volunteer efforts particularly in the political world, you don't have any money to pay people to work on those. It's about inspiring and causing excitement. I think learning how to lead people in a volunteer environment is a

very helpful additional skill if you're going to get the maximum out of the people you work with in a company.

"Our colleagues here at XL are remarkable professionals and they do great work each and every day. But that extra bit of effort, that extra bit of excitement, comes from being a part of something larger than themselves, of serving others in a way that gives meaning, and of being reminded that there is something bigger than just the dollars and cents to any institution as important and complex as XL."

'XL is a world class brand with very successful insurance, reinsurance and life reinsurance businesses and I look forward to helping it realise its full potential'

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OPERATING RATIOS

QUARTERLY LOSS RATIOS

	Q1 2008	Q1 2007	Q1 2006
ACE	55.6%	62.1%	61.2%
Arch	57.1%	56.3%	61.5%
Aspen	52.9%	51.4%	57.7%
Allied World	52.5%	57.9%	66.7%
Axis	54.9%	57.3%	56.6%
Endurance	50.9%	55.9%	56.8%
Everest Re	59.8%	56.3%	68.4%
Flagstone Re	29.4%	47.2%	32.8%
IPC	5.9%	50.6%	25.4%
Max Capital	69.2%	69.5%	72.0%
Montpelier	54.5%	41.8%	38.7%
PartnerRe	64.8%	59.9%	60.0%
Platinum	53.1%	63.9%	60.1%
Renaissance Re	26.6%	40.2%	28.2%
Validus	48.0%	41.7%	n/a
White Mtn	68.7%	65.4%	62.6%
XL Capital	64.5%	61.4%	65.7%

QUARTERLY EXPENSE RATIOS

	Q1 2008	Q1 2007	Q1 2006
ACE	29.0%	25.0%	29.4%
Arch	29.1%	27.1%	26.8%
Aspen	32.5%	28.0%	32.7%
Allied World	25.7%	21.8%	18.4%
Axis	26.3%	23.4%	22.9%
Endurance	33.5%	30.8%	28.4%
Everest Re	29.3%	26.1%	26.1%
Flagstone Re	37.5%	27.1%	56.4%
IPC	17.6%	16.5%	17.4%
Max Capital	19.6%	21.5%	19.3%
Montpelier	35.2%	23.8%	37.0%
PartnerRe	32.6%	23.9%	23.9%
Platinum	25.3%	23.1%	25.1%
Renaissance Re	24.8%	25.4%	25.5%
Validus	34.4%	22.8%	n/a
White Mtn	32.7%	35.2%	33.5%
XL Capital	29.1%	27.7%	25.8%

QUARTERLY COMBINED RATIOS

	Q1 2008	Q1 2007	Q1 2006
ACE	84.6%	87.1%	90.6%
Arch	86.2%	83.4%	88.3%
Aspen	85.4%	79.4%	90.4%
Allied World	78.2%	79.7%	85.1%
Axis	81.2%	80.7%	79.5%
Endurance	84.4%	86.7%	85.2%
Everest Re	89.1%	82.4%	94.5%
Flagstone Re	66.9%	74.3%	89.2%
IPC	23.5%	67.1%	42.9%
Max Capital	88.8%	91.0%	91.3%
Montpelier	89.7%	65.6%	75.7%
PartnerRe	97.4%	83.8%	83.9%
Platinum	78.4%	87.0%	85.2%
Renaissance Re	51.4%	65.6%	53.7%
Validus	82.4%	64.5%	n/a
White Mtn	101.4%	100.6%	96.1%
XL Capital	93.6%	89.1%	91.5%

FINANCIAL STRENGTH RATINGS

A M BEST RATING

May 15, 2008 Mar 31, 2007

S&P RATING

May 15, 2008 Mar 31, 2007

	May 15, 2008	Mar 31, 2007	May 15, 2008	Mar 31, 2007
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-	n/a	NR	NR
IPC	A	A	A-	A-
Max Capital	A-	A-	NR	NR
Montpelier	A-	A-	A-	A-
PartnerRe	A+	A+	A	A
Platinum	A	A	NR	NR
Renaissance Re	A+	A	AA-	A+
Validus	A-	A-	NR	NR
White Mtn	A	A	A-	A-
XL Capital	A	A+	A+	A+

n/a = not available NR — Not rated by S&P

ANALYSIS / PRICewaterhouseCOOPERS Q1 2008

Renewals

● Pressure on premiums written continued, with most companies seeing flat to negative top line growth for over a year. The 2005 start ups (Flagstone and Validus) were the exception to this trend.

● The softening conditions were pervasive throughout the global P&C markets, with the exception of D&O rates for financial institutions which were impacted by the sub-prime crisis.

● Many companies expect property cat rate declines to level off during the mid year renewal season at about 5–10% on average.

● Several Bermuda companies saw an increase in their agricultural business due to increasing worldwide commodity prices, which also represents a diversification opportunity for many.

Earnings

● In contrast to y/e 2007, several companies did not meet earnings expectations in the first quarter of 2008.

● Although cat losses were low, earnings were impacted by a significant number of property “per risk” losses.

● Expense ratios showed an increase for the group and are expected to get further attention.

● The prior year favourable reserve development was generally significantly better than expected.

● Another factor was the turmoil in the global capital markets which impacted investment performance, lowering yields on fixed income securities and increasing losses on alternative investments.

Capital management

● The Bermuda companies repurchased about \$1bn of stock, with outstanding authorised share repurchases at about \$2.8bn.

● The expectation is that these share repurchases will continue to be a favourable method of capital management in 2008 due to the reduction in stock prices for the industry sector together with the excess capital available.

GROSS PREMIUMS WRITTEN \$M

	Q1 2008	Q1 2007	Q1 2006
ACE	4,409	4,496	4,511
Arch	1,053	1,210	1,180
Aspen	596	637	679
Allied World	397	438	498
Axis	1,264	1,303	1,165
Endurance	869	573	571
Everest Re	878	1,017	1,055
Flagstone Re	242	207	89
IPC	198	236	236
Max Capital	307	214	256
Montpelier	257	261	225
PartnerRe	1,439	1,302	1,373
Platinum	300	303	335
Renaissance Re	527	633	748
Validus	522	378	n/a
White Mtn	1,178	1,202	1,229
XL Capital	2,936	3,273	3,243

NET PREMIUMS EARNED \$M

	Q1 2008	Q1 2007	Q1 2006
ACE	2,940	3,082	2,805
Arch	708	745	762
Aspen	392	439	403
Allied World	273	287	309
Axis	659	685	634
Endurance	372	377	420
Everest Re	912	1,005	1,022
Flagstone Re	135	101	19
IPC	90	105	87
Max Capital	136	139	160
Montpelier	140	143	131
PartnerRe	910	842	833
Platinum	302	285	344
Renaissance Re	309	363	352
Validus	292	111	n/a
White Mtn	929	938	901
XL Capital	1,712	1,791	1,819

QUARTERLY EARNINGS DATA

	Net income (loss) attributable to common shareholders (\$m)			Fully diluted earnings per share (\$)		
	Q1 2008	Q1 2007	Q1 2006	Q1 2008	Q1 2007	Q1 2006
ACE	377	701	489	1.10	2.10	1.46
Arch	189	199	130	2.78	2.59	1.71
Aspen	81	122	62	0.85	1.27	0.59
Allied World	131	114	98	2.55	1.83	1.94
Axis	238	228	195	1.48	1.37	1.19
Endurance	74	98	103	1.15	1.36	1.45
Everest Re	78	298	168	1.24	4.59	2.57
Flagstone Re	33	36	6	0.38	0.50	0.09
IPC	83	73	58	1.31	1.07	0.86
Max Capital	8	80	75	0.13	1.24	1.19
Montpelier	0	73	75	-	0.76	0.44
PartnerRe	120	161	185	2.16	2.76	3.21
Platinum	103	70	74	1.76	1.08	1.16
Renaissance Re	137	191	179	2.05	2.63	2.49
Validus	66	57	n/a	0.85	0.94	n/a
White Mtn	(57)	92	96	(5.40)	8.54	8.89
XL Capital	212	550	459	1.20	3.06	2.56

COMPREHENSIVE INCOME FOR THE QUARTER

	Comprehensive income (\$m)		
	Q1 2008	Q1 2007	Q1 2006
ACE	88	775	407
Arch	157	233	63
Aspen	122	138	26
Allied World	130	139	59
Axis	224	259	148
Endurance	83	116	71
Everest Re	74	294	115
Flagstone Re	31	35	5
IPC	87	77	77
Max Capital	18	76	26
Montpelier	(2)	73	48
PartnerRe	190	185	111
Platinum	101	82	42
Renaissance Re	168	204	185
Validus	67	57	n/a
White Mtn	(21)	109	60
XL Capital	(602)	491	78

MARKET CAPITALISATION

	March 31 2008		March 31 2007		March 31 2006	
	Common shares issued	Market value	Common shares issued	Market value	Common shares issued	Market value
ACE	332,506,547	55.06	328,309,225	57.06	325,143,060	52.01
Arch	64,649,618	68.67	73,746,726	68.21	73,827,467	57.74
Aspen	85,395,154	26.38	88,133,866	26.21	95,250,401	24.66
Allied World	48,841,837	39.70	60,390,269	42.75	n/a	n/a
Axis	144,590,000	33.98	150,417,000	33.86	149,752,565	29.90
Endurance	60,097,750	36.60	65,967,559	35.74	66,255,795	32.55
Everest Re	65,500,000	89.53	63,200,000	96.17	64,900,000	93.37
Flagstone Re	85,316,924	12.10	84,547,891	13.48	71,547,891	n/a
IPC	55,947,610	28.00	63,848,158	28.85	63,702,211	28.05
Max Capital	56,450,598	26.19	60,305,517	25.48	59,372,778	23.80
Montpelier	94,505,314	16.05	111,778,122	17.34	89,179,407	16.30
PartnerRe	57,580,543	76.30	56,704,414	68.54	56,743,107	62.09
Platinum	48,923,952	32.46	59,825,816	32.08	59,190,300	29.10
Renaissance Re	64,927,000	51.91	72,289,000	50.14	71,881,000	43.62
Validus	74,230,410	23.43	n/a	n/a	n/a	n/a
White Mtn	10,570,234	480.00	10,833,788	566.50	10,780,053	594.50
XL Capital	179,033,752	29.55	178,252,037	69.96	180,284,555	64.11

n/a = data not publicly available

SHAREHOLDERS' EQUITY (\$M)

	2008	2007	2006
ACE	16,735	14,959	12,157
Arch	4,005	3,783	2,750
Aspen	2,923	2,509	2,079
Allied World	2,395	2,356	1,479
Axis	5,371	4,642	3,645
Endurance	2,538	2,367	1,924
Everest Re	5,633	5,197	4,266
Flagstone Re	1,242	1,061	n/a
IPC	2,148	2,054	1,679
Max Capital	1,512	1,448	1,213
Montpelier	1,570	1,560	1,100
PartnerRe	4,473	3,907	3,179
Platinum	1,929	1,937	1,578
Renaissance Re	3,386	3,304	2,416
Validus	1,991	n/a	n/a
White Mtn	4,679	4,543	3,872
XL Capital	9,255	11,313	8,491

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Reinsurers in 'tug of war'

BENFIELD'S IMMEDIATE PRICING FORECAST IS GENERALLY DOWNBEAT

Faced with an increasingly competitive marketplace and the prospect of an active Atlantic hurricane season, Bermuda's leading reinsurers are in "a tug of war regarding how to manage the opposing challenges of capital management", according to brokers Benfield.

Benfield's latest Bermuda Quarterly Report "Taking The Strain", shows that gross premiums for the Benfield Bermuda Quarterly (BBQ) group of 18 leading reinsurers slipped 2% to a total of US\$17.6 billion. "Companies showed a preference for expanding or maintaining insurance lines and cutting back on reinsurance in a market where the greater part of business remains under pricing pressure," it said.

"Some companies felt that price adequacy must be reaching a floor at the levels seen in recent renewals. The view that primary retentions had hit a ceiling and would begin to fall during the remainder of 2008 was also expressed. Yet some companies also observed that the heavy losses experienced in 1Q 2008 had done nothing to reverse current pricing. Comparison of the current market environment with the trough of the 1997-2001 soft market may serve as a warning to over-eager market participants."

First quarter earnings were hit by volatility in the financial markets and the group's investment income including realised losses fell by nearly US\$1 billion, and net income dropped 34% to US\$2.2 billion. Reserve releases of US\$732 million boosted underwriting profitability improving the combined ratio by 6.7 percentage points although the overall combined ratio was relatively unchanged at 86.3%.

Benfield commented: "Management must carefully weigh the decision to buy back stock at perceived cheap levels against the need to retain capital in the event of an active storm season, particu-

larly given the uncertain capital markets. The US\$1 billion of stock repurchased in 1Q 2008 represents a decelerating trend and perhaps suggests that the answer to this capital conundrum is now more finely poised."

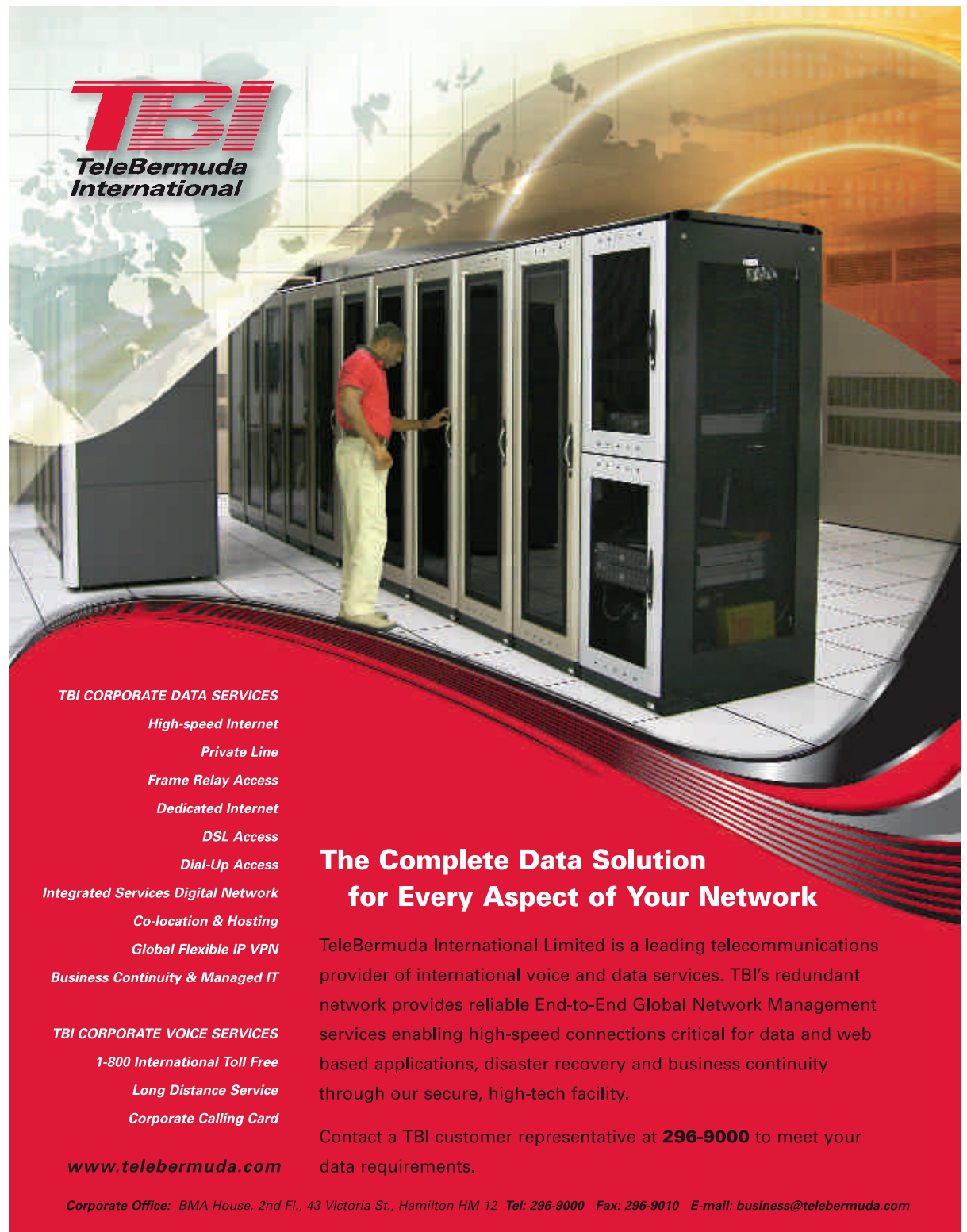
It said the immediate pricing forecast was "generally downbeat with some indications of ongoing acceptable pricing" in most lines.

"Companies appeared to recognise the importance of underwriting on a technical basis and the virtues of discipline in a market characterised by acute competition," it said.

PartnerRe CEO Patrick Thiele expected the lacklustre pricing environment to "continue to be our reality for some time forward". He said: "Virtually all of our lines of business and geographies are

becoming more competitive, with prices declining."

But Benfield says there are indications that the pendulum may be beginning to swing back in underwriters' favour in areas such as retentions, capacity and terms and conditions. Discipline though "remains paramount in a market in which many feel there are large swathes of under-priced business."



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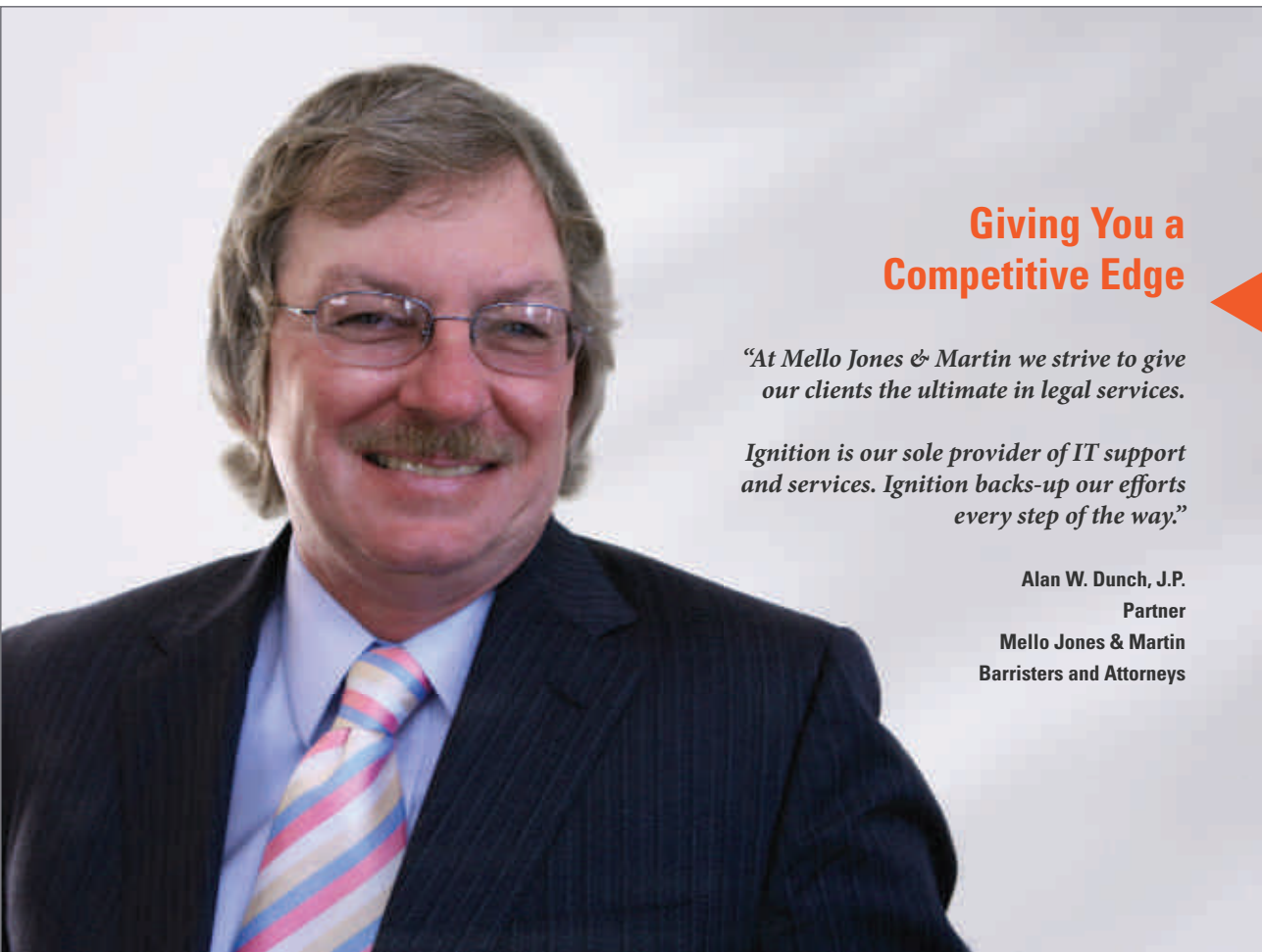
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Bermuda can't rest on its laurels

"The US experience for the last 20 years has been that when there is a US capacity shortfall in liability lines or in property catastrophe, Bermuda carriers are quickly able to assemble the capital and talent to fill the market gap. No jurisdiction has been as good as Bermuda in getting the needed capital to market quickly so that licensed insurers can assume business risk."

— **Brad Kading**, *President of the Association of Bermuda Insurers and Reinsurers, quoted in the Business Monitor International Bermuda Insurance Report 2008*

"Climate change is the new asbestos for insurers."

— **Andre Logan** of *Ceres, a non-profit organisation which directs the Investor Network on Climate Risk (INCR), speaking at the International Reinsurance Summit*

"Turmoil in the credit markets could leave policyholders in limbo if a major hurricane strikes the United States this year, as investors show a limited appetite for capital-

market offerings designed to raise cash for claims payments."

— *Rating agency A M Best warns in a special report that fallout from the sub-prime crisis means Florida's largest insurer and state-run insurer may not be able to pay all claims from a major storm*

"No jurisdiction can stand on its laurels. Bermuda is well known as a financial centre and there are something like a quarter of a tril-

lion US dollars in assets here. But there is competition for those assets. Having a strong and effective anti-money laundering policy and prosecutorial regime is an important part of a nation's reputation."

— *US Consul General Gregory Slayton quoted in The Royal Gazette, talking to delegates at the International Reinsurance Summit about efforts to strengthen Bermuda's anti-money laundering legislation*

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Monte Carlo, Monaco

www.rvs-monte-carlo.com

October 26-29

PCI Annual Conference
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GOVERNMENT OF BERMUDA

Changing faces at Montpelier Re

Christopher L Harris will take over from Anthony Taylor as CEO of MONTPELIER RE HOLDINGS LTD from July 1. Taylor will assume the role of Executive Chairman until December 2009. Harris joined Montpelier Re in 2002 as Chief Actuary, shortly after the company's formation. He was named Chief Underwriting and Risk Officer in 2006, and President from January 1, 2008.

David Sinott has been



Montpelier's Harris and Busher

appointed as Chief Underwriting Officer. He joined Montpelier's Bermuda office in 2002 and has been the company's Chief Reinsurance Officer since May 2005.

Timothy Aman was appointed Chief Risk Officer. He joined Montpelier in August 2007 as a Senior Vice President and Risk Management Officer. **Paul Larrett** will assume the position of Chief Treaty Underwriter of Montpelier Reinsurance Ltd, the company's Bermuda-based underwriting subsidiary. Larrett joined Montpelier's Bermuda operations in October 2003 and was responsible for underwriting the company's

specialty treaty account.

In May, **Michael Paquette** was appointed as Executive Vice President and Chief Financial Officer, effective May 1, 2008. Paquette joined Montpelier in May 2007 as Group Controller after serving 18 years with White Mountains Insurance Group Ltd. **Kernan (Kip) Oberting**, CFO of Montpelier since October 2004, is leaving the company to establish a New Hampshire-based investment advisory company and will continue to provide Montpelier with corporate finance, asset allocation and investment advisory services until 2010. Montpelier also announced several changes in overseas offices. **Gerald Konig**, Chief Executive Officer of Montpelier Europa AG, has been appointed Head of Marketing for Europe and the Middle East. **Thomas Busher**, Deputy Chairman and Chief Operating Officer of the Montpelier Group, has been appointed Head of European Operations. Former Catlin Senior VP **Francis (Bud) Lockwood** has joined as President of Montpelier Underwriting Inc (MUI) and will be based in Shelton, CT. **Michael Finnegan** has joined MUI as Senior Vice President of Montpelier Programme Management with overall responsibility for the development and management of MPM business. **John Dalton**, Senior Vice President of MUI, has assumed responsibility as Director of MUI's Direct Property Facultative division.

ARCH CAPITAL GROUP LTD promoted **Mark Lyons** to chairman and CEO of Arch Insurance Group. Lyons succeeds Ralph Jones who is retiring at the end of his five-year term. Lyons will be based in the specialty property/casualty insurer's New York offices and will have worldwide oversight of the insurer's operations. Lyons has served as President and Chief Operating Officer of Arch Insurance Group, a subsidiary of Bermuda-based Arch Capital since June 2006.

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ARCH INSURANCE CO (EUROPE) LTD has appointed Chief Underwriting Officer **James Weatherstone** as president and CEO, replacing **Robert van Gieson**, who becomes Chairman.

Kirk Lusk has resigned as Group Chief Financial Officer and Chief Operating Officer of ALEA GROUP HOLDINGS. **Carl Speck** was appointed Interim Group Chief Financial Officer.

Robert Courtemanche has been appointed Chief Executive Officer of ACE PRIVATE RISK SERVICES. Based in Madison, NJ, he will be responsible for directing the overall growth and profitability of ACE's personal insurance lines including ACE Recreational Marine and Private Risk Services, the North America-based high-net-worth personal lines business of ACE.

Jay S. Bullock has joined the ARGO GROUP as Chief Financial Office from Bear, Stearns & Co Inc where he was senior managing director and head of Bear Stearns' Insurance Investment Banking Group. He will be based in Bermuda.

Under a cooperative agreement between leading UK-based global insurance lawyers Edwards Angell Palmer & Dodge and Bermuda firm Marshall Diel & Myers (MDM), **Katie Tornari** of EAPD's insurance and reinsurance department has relocated to Bermuda to practice law with MARSHALL DIEI & MYERS. The agreement will mean enhanced legal resources available to insurers and reinsurers doing business in Bermuda, providing their clients with seamless legal services in multiple jurisdictions including Bermuda, the US, the UK and Hong Kong.

James MacNaughton has been elected as a director at MAX CAPITAL GROUP LTD, filling a vacancy on its 11-member board of directors. MacNaughton recently retired from Rothschild Inc, where he served as a Senior Advisor. From 2001 to 2007, he was a Managing Director and Global Partner at Rothschild. Prior to

that, MacNaughton held a variety of positions at Salomon Brothers, including managing director.

PARTNERRE LTD has announced two executive changes in its global (non-US) operations. **Costas Miranthis**, currently Deputy CEO, PartnerRe Global, will be appointed to the position of CEO, PartnerRe Global, and **Bruno Meyenhofer**, currently CEO, PartnerRe Global, will be Chairman, PartnerRe Global.

RENAISSANCERE HOLDINGS LTD has announced that **Dan Eudy** has joined the Company as Senior Vice President



XL's Glancy and Horovitz

of the Glencoe Group, which conducts the organisation's Individual Risk business. Eudy will be based in Hartford, CT.

Former XL CFO **Elizabeth Keys** has replaced David Shea as CFO of SECURITY CAPITAL ASSURANCE (SCA), the troubled US bond insurer established by XL Capital. Keys had previous-

ly served as SCA's head of financial planning and analysis and before that as CFO of XL Capital Assurance Ltd.

XL INSURANCE, the global insurance operation of XL Capital Ltd has named **John Glancy** to the newly created position of Chief Underwriting Officer and **Bernard R. Horovitz**, ACAS, to be Chief Underwriting Officer of its Global Professional lines of business. Glancy, who joined XL in 2003, previously headed XL Insurance's Global Professional operations. Horovitz previously served as XL Insurance's Chief Actuary – Professional.



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Megan Kempe

XL's Roddy Gray with children in Nepal

Climbing mountains for good causes

Most of Bermuda's insurance and reinsurance companies pride themselves on being good corporate citizens but employees at XL Capital Ltd have outdone themselves in recent weeks.

Earlier this year eight XL employees trekked to the Base

Camp of Mount Everest in Nepal and raised more than \$100,000 for Bermuda-based organisation Kathmandu Kids Club. The Club raises funds for the Nepal projects of the ISIS Foundation, a Bermuda-based charity that helps children in extreme poverty in Nepal and Uganda.

The eight XL employees — Christine Doughty, Megan Kempe, Tonia Szeto, Roma Jedrysiak, Cherie Simons and Roddy Gray (from Bermuda), Lukas Ackermann (Zurich), and Richard Goodger (London) — eventually climbed to 17,600 feet during the 14-day, 57-mile trek.

Meanwhile XL's Bermuda employees were among more than 2,500 XL employees worldwide who donated more than 20,000 hours in a single business day in the company's third annual Global Day of Giving on May 21. The annual community service drive was started in 2006 as part of the company's 20th anniversary.

In Bermuda, employees took part in 15 projects including serving Meals on Wheels, restoration work at Dockyard, refurbishing facilities at the Salvation Army and helping to clear up two National Trust properties.

Around the world XL employees in Brazil, India, London, Switzerland, the US, France and China contributed their time to projects ranging from providing food for seniors to helping orphaned and abandoned children.

'XL employees worldwide donated over 20,000 hours in one day on their Global Day of Giving'

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