



# Casualty Actuarial Society

2012 Spring Meeting

Phoenix, Arizona

May 22, 2012

## Current State of the Reinsurance Market

Brian Johnson, ACAS, MAAA  
Senior Vice President  
Swiss Re America

David Spiegler, FCAS, FCA, MAAA  
EVP & Chief Actuary  
BMS Intermediaries

Neal Schmidt, FCAS, MAAA  
EVP & Chief Actuary  
Platinum Administrative Services

Steven Kelner, FCAS, MAAA  
Managing Director  
Swiss Re America

- Rate softening since 2006
- Reserve releases since 2005
- Ample capital
- Significant catastrophic loss activity
- Improved cat pricing
- Changing cat models
- Casualty pricing?
- Low interest rates
- ERM/Solvency II

2012 Letter to Shareholders of Berkshire Hathaway Inc.

*"There are a lot of ways to lose money in insurance, and the industry is resourceful in creating new ones."*

*"At bottom, a sound insurance operation needs to adhere to four disciplines. It must (1) understand all exposures that might cause a policy to incur losses; (2) conservatively evaluate the likelihood of any exposure actually causing a loss and the probable cost if it does; (3) set a premium that will deliver a profit, on average, after both prospective loss costs and operating expenses are covered; and (4) be willing to walk away if the appropriate premium can't be obtained."*

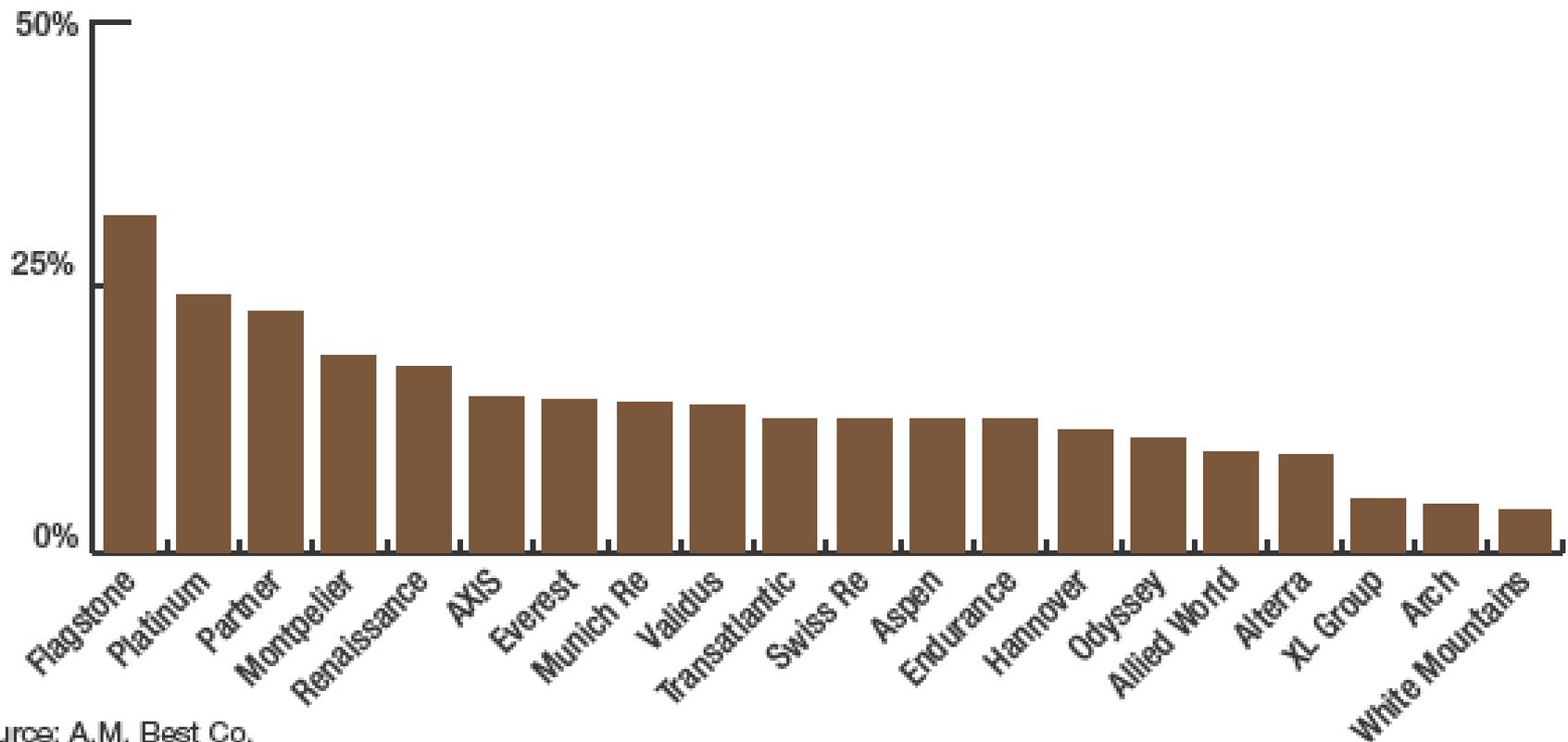
*"Many insurers pass the first three tests and flunk the fourth"*

*" 'The other guy is doing it so we must as well' spells trouble in any business, but in none more so than insurance."*

## Exhibit 1

### Global Reinsurance – Major After-Tax Catastrophe Losses (2011)

As percentage of year-end 2010 shareholders' equity.



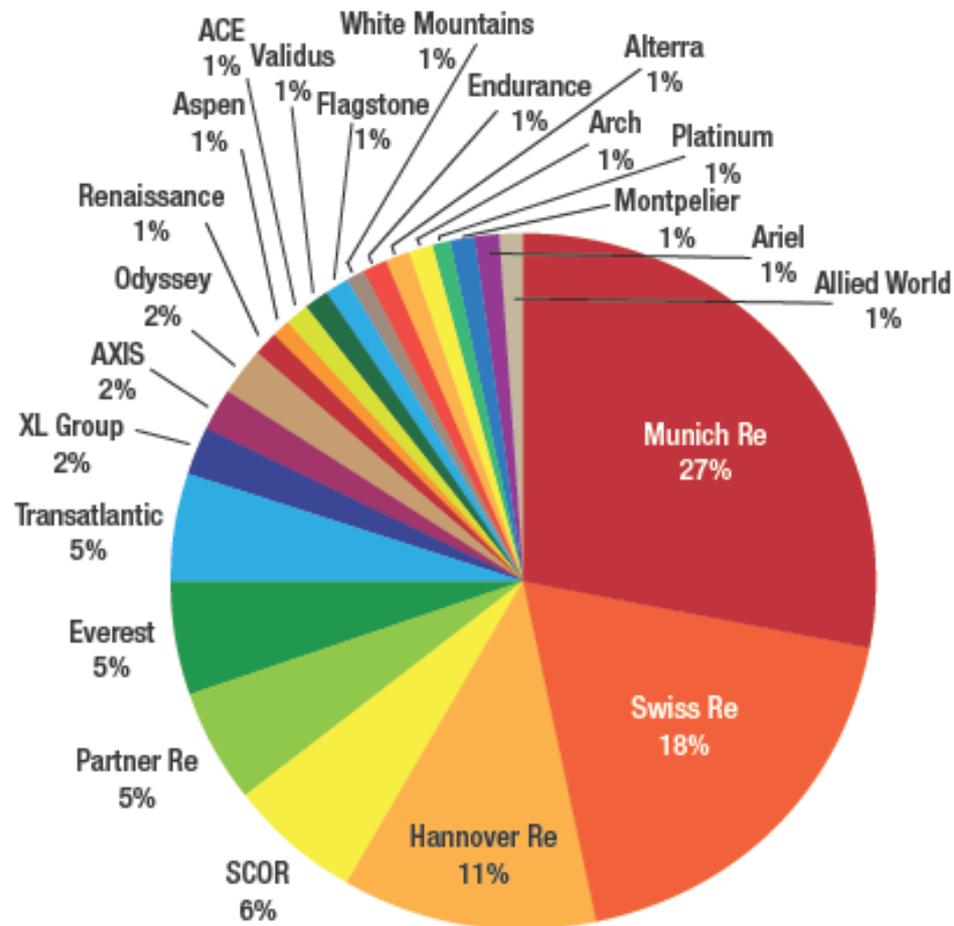
Source: A.M. Best Co.

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## Exhibit 2

### Major Global Reinsurers – Market Share

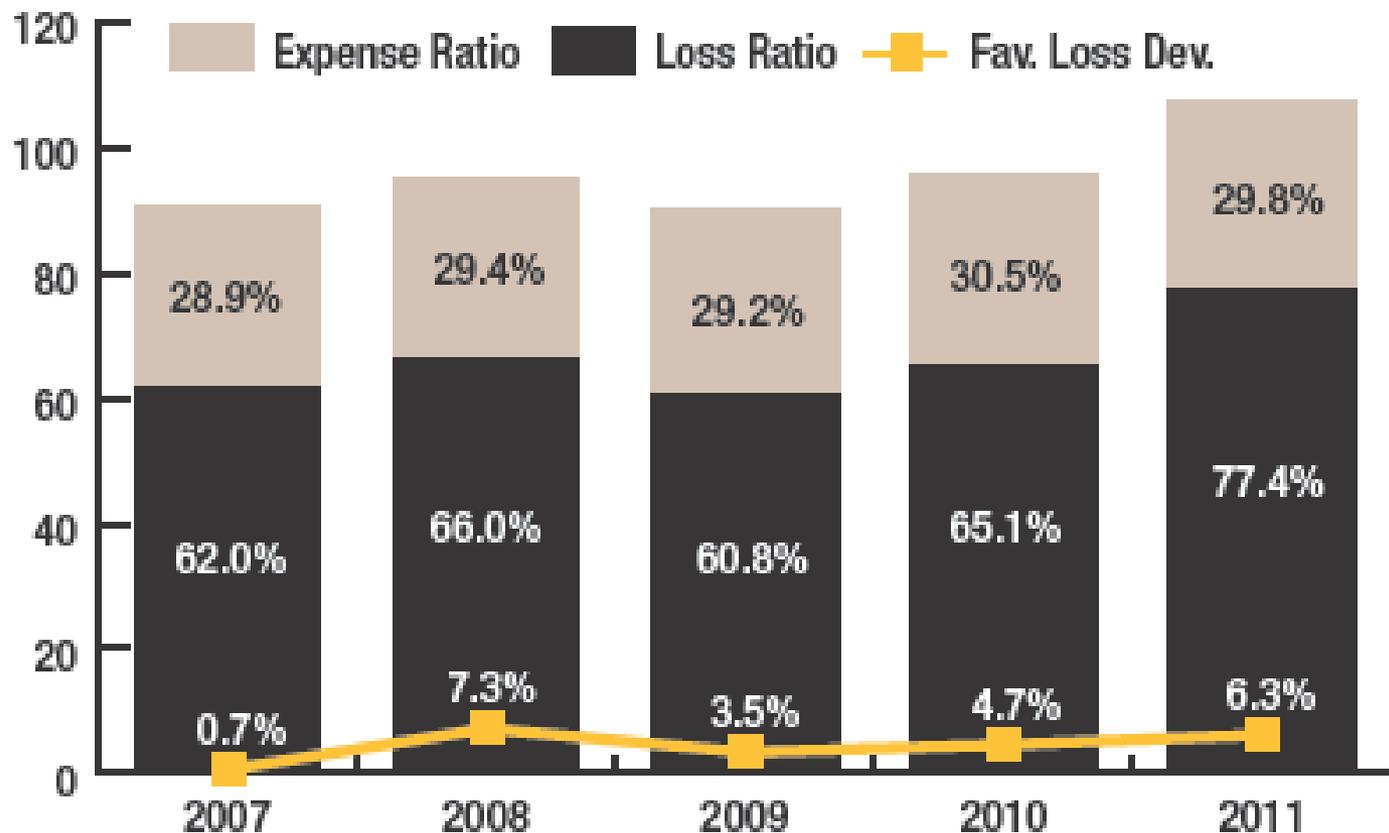
Based on gross premium written for A.M. Best reinsurance composite (non-life only).



Source: A.M. Best Co.

## Exhibit 4

# Global Reinsurance – Combined Ratio & Loss Development (2007-2011)

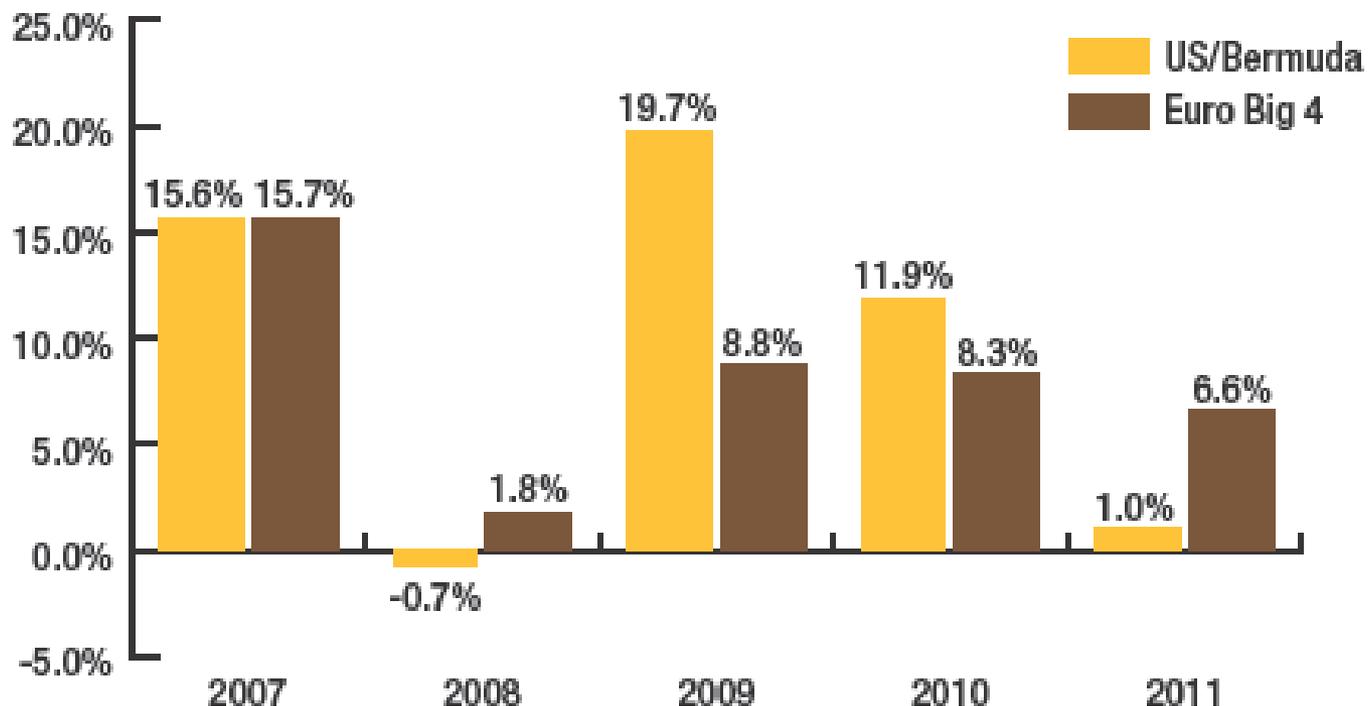


Source: A.M. Best Co.

## Exhibit 5

### Global Reinsurance – Return on Equity (2007-2011)

U.S./Bermuda vs. European "Big 4."<sup>1</sup>



1. Munich Re, Swiss Re, Hannover Re and SCOR  
Source: A.M. Best Co.

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## Exhibit 8

### Global Reinsurance<sup>1</sup> – Trend Summary (2007-2011)

(USD Billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 101.6	USD 99.0	USD 93.5	USD 100.7	USD 108.4
Net Premiums Earned (Non-Life only)	101.6	97.0	101.2	100.3	105.4
Net Investment Income	19.6	24.5	28.1	22.4	24.6
Realized Investment Gains/(Losses)	0.5	-12.3	-4.2	10.6	2.3
Total Revenue	181.5	153.8	176.5	199.4	196.9
Net Income	22.4	0.7	17.9	16.9	5.7
Shareholders' Equity (End of Period)	151.1	120.9	155.4	165.8	166.1
Loss Ratio	62.0%	66.0%	60.8%	65.1%	77.4%
Expense Ratio	28.9%	29.4%	29.2%	30.5%	29.8%
Combined Ratio	90.9%	95.4%	90.0%	95.6%	107.2%
Loss-Reserve Development	-0.7%	-7.3%	-3.5%	-4.7%	-6.3%
Return on Equity	15.6%	0.5%	12.8%	10.4%	3.4%
Return on Revenue	12.4%	0.4%	10.2%	8.5%	2.9%
NPW (Non-Life Only) to Equity (End of Period)	67%	82%	60%	61%	65%
Net Reserves (Life & Non-Life) to Equity (End of Period)	301%	384%	326%	317%	320%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	339%	428%	359%	348%	344%

1. The Global Reinsurance composite combines the U.S. Reinsurance & Bermuda market (Exhibit 9a) and the European "Big 4" reinsurers (Exhibit 9b).

Source: A.M. Best Co.  
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## Exhibit 9a

### U.S. Reinsurance & Bermuda Market – Trend Summary (2007-2011)

(USD billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 51.6	USD 51.6	USD 50.3	USD 52.6	USD 55.0
Net Premiums Earned (Non-Life only)	52.0	52.1	51.1	52.4	54.4
Net Investment Income	8.9	7.6	8.2	8.1	7.6
Realized Investment Gains/(Losses)	0.3	-6.0	0.8	2.2	-0.1
<b>Total Revenue</b>	<b>62.0</b>	<b>55.9</b>	<b>63.1</b>	<b>65.7</b>	<b>64.6</b>
<b>Net Income</b>	<b>11.7</b>	<b>-0.5</b>	<b>12.4</b>	<b>11.2</b>	<b>0.9</b>
Shareholders' Equity (End of Period)	79.9	67.6	88.4	95.1	93.7
Loss Ratio	57.9%	64.2%	56.1%	61.8%	77.3%
Expense Ratio	28.8%	29.4%	29.7%	30.9%	30.0%
Combined Ratio	86.7%	93.6%	85.8%	92.7%	107.3%
Loss-Reserve Development	-4.2%	-7.3%	-6.1%	-6.2%	-6.0%
Return on Equity	15.6%	-0.7%	16.0%	11.9%	1.0%
Return on Revenue	18.9%	-0.9%	19.7%	17.1%	1.5%
NPW (Non-Life Only) to Equity (End of Period)	65%	76%	57%	55%	59%
Net Reserves (Life & Non-Life) to Equity (End of Period)	138%	168%	134%	128%	138%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	178%	215%	167%	158%	169%

Source: A.M. Best Co.

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## Exhibit 9b

### European “Big 4” Reinsurers<sup>1</sup> — Trend Summary (2007-2011)

(USD Billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 49.6	USD 47.4	USD 43.1	USD 48.1	USD 53.4
Net Premiums Earned (Non-Life only)	49.6	44.9	50.2	47.8	51.0
Net Investment Income	10.8	16.9	19.9	14.3	17.0
Realized Investment Gains/(Losses)	0.2	-6.3	-5.0	8.3	2.4
<b>Total Revenue</b>	<b>119.5</b>	<b>97.9</b>	<b>113.5</b>	<b>132.7</b>	<b>132.3</b>
<b>Net Income</b>	<b>10.7</b>	<b>1.1</b>	<b>5.5</b>	<b>16.9</b>	<b>4.7</b>
Shareholders' Equity (End of Period)	71.2	53.4	67.0	70.7	72.4
Loss Ratio	66.4%	68.1%	65.5%	68.8%	77.5%
Expense Ratio	29.1%	29.3%	28.8%	30.0%	29.5%
Combined Ratio	95.4%	97.4%	94.3%	98.8%	107.0%
Loss-Reserve Development	3.0%	-7.3%	-0.8%	-3.1%	-6.5%
Return on Equity	15.7%	1.8%	8.8%	8.3%	6.6%
Return on Revenue	8.9%	1.2%	4.8%	4.3%	3.6%
NPW (Non-Life Only) to Equity (End of Period)	70%	89%	64%	68%	74%
Net Reserves (Life & Non-Life) to Equity (End of Period)	484%	658%	579%	571%	557%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	520%	697%	612%	604%	570%

1. Munich Re, Swiss Re, Hannover Re and SCOR.

Source: A.M. Best Co.

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**Runoff of Year End 2001 Estimate of Unpaid Losses  
From 2011 10-K  
Net**

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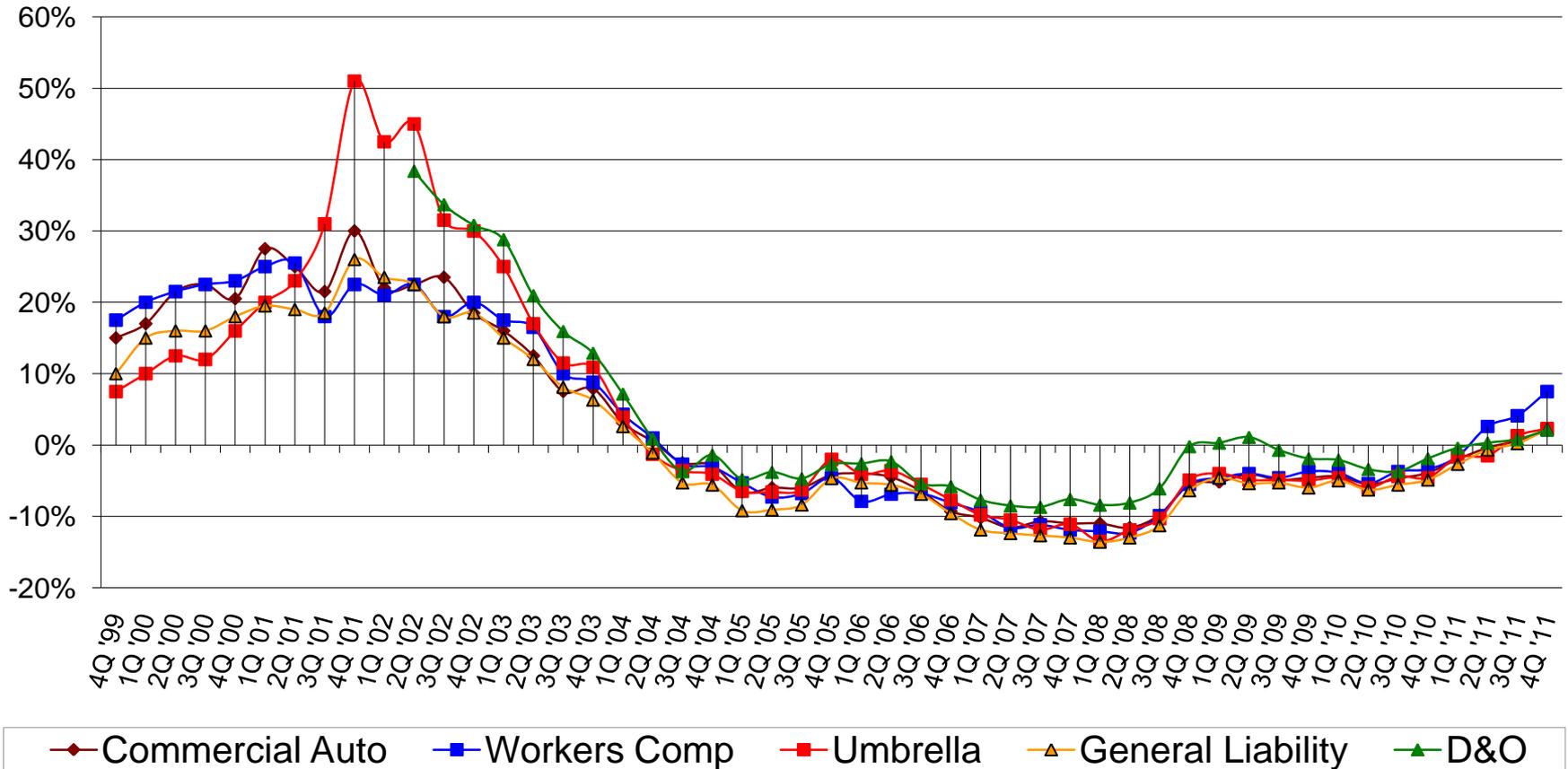
In \$millions

	Original Estimate of Unpaid Losses	Current Estimate of Unpaid Losses	Adverse Development	Dev % of Original Estimate	Current Paid	Paid % of Original Estimate
AIG	27,428	55,437	28,009	102.1%	45,625	166.3%
Berkley	2,276	3,703	1,427	62.7%	3,011	132.3%
Hartford	12,860	19,751	6,891	53.6%	14,345	111.5%
XL	7,004	9,776	2,772	39.6%	7,634	109.0%
CNA	17,946	24,657	6,711	37.4%	18,391	102.5%
Travelers	20,197	27,605	7,408	36.7%	20,039	99.2%
Chubb	11,010	14,344	3,334	30.3%	11,991	108.9%
ACE	10,617	13,200	2,583	24.3%	9,243	87.1%
Transatlantic Re	2,909	5,833	2,924	100.5%	4,997	171.8%
Everest Re	3,473	5,340	1,867	53.8%	3,852	110.9%



CIAB

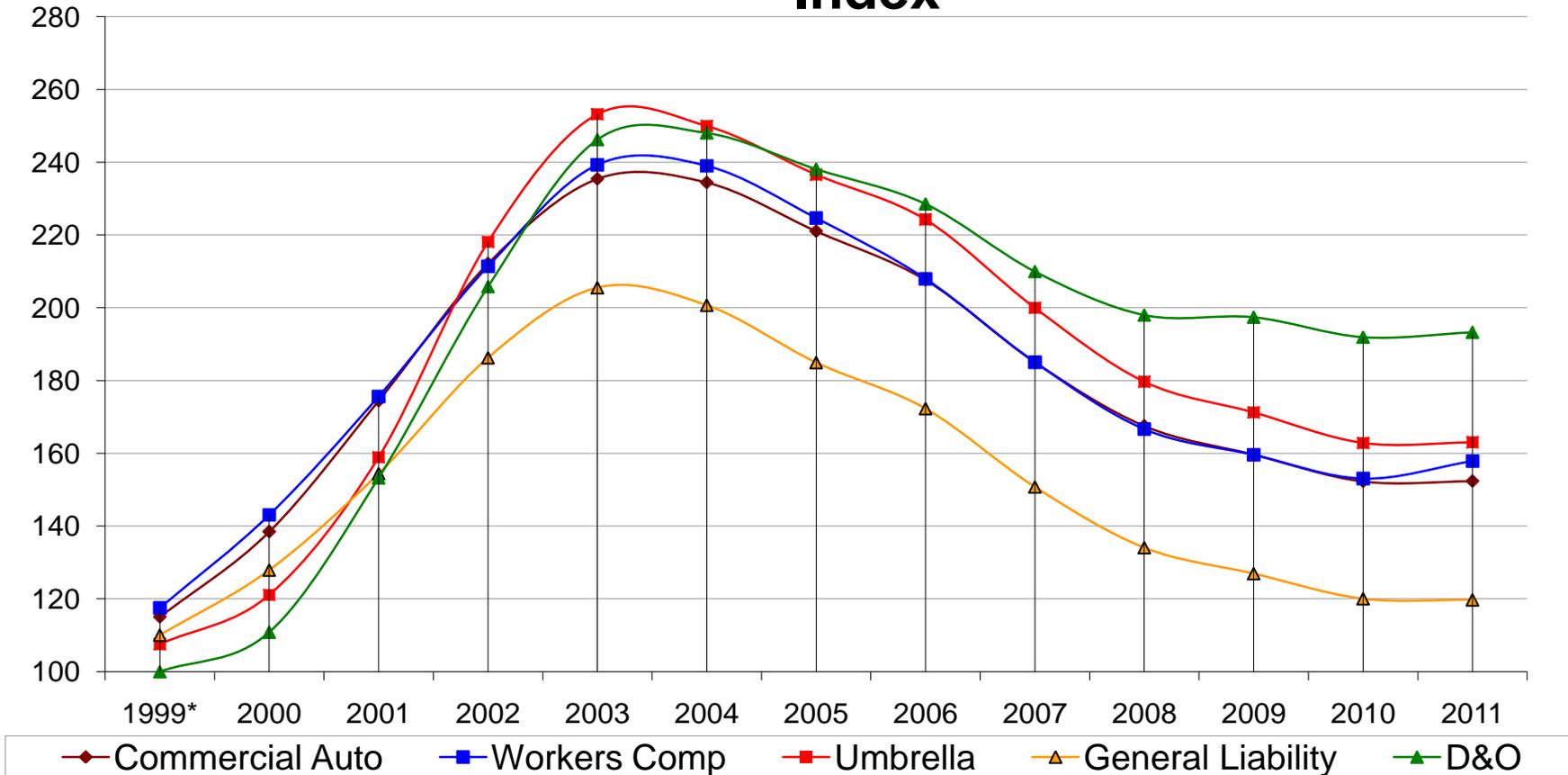
# CIAB's Market Index Survey



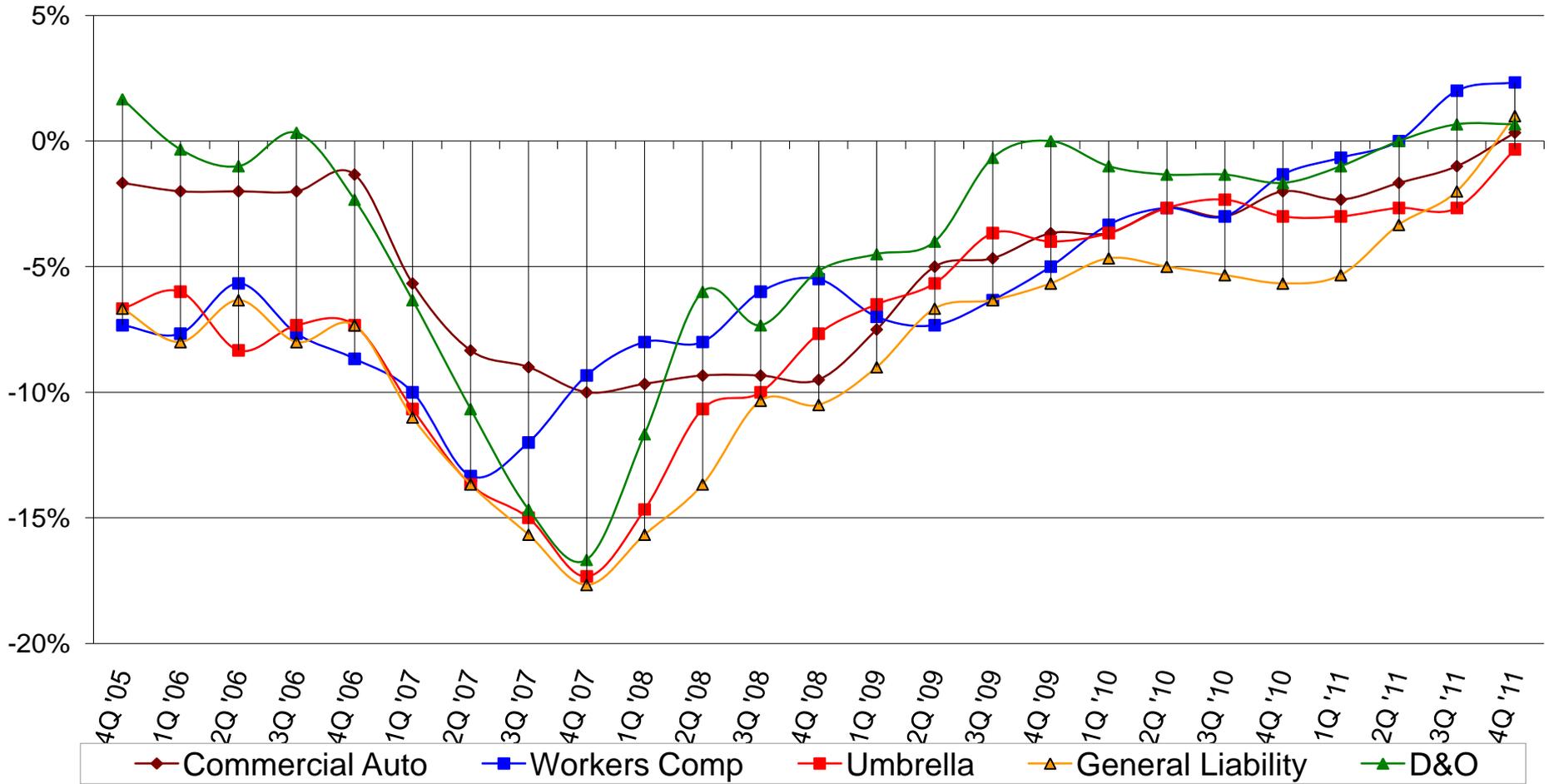


## CIAB Cumulative

# CIAB's Market Index Survey - Cumulative Index



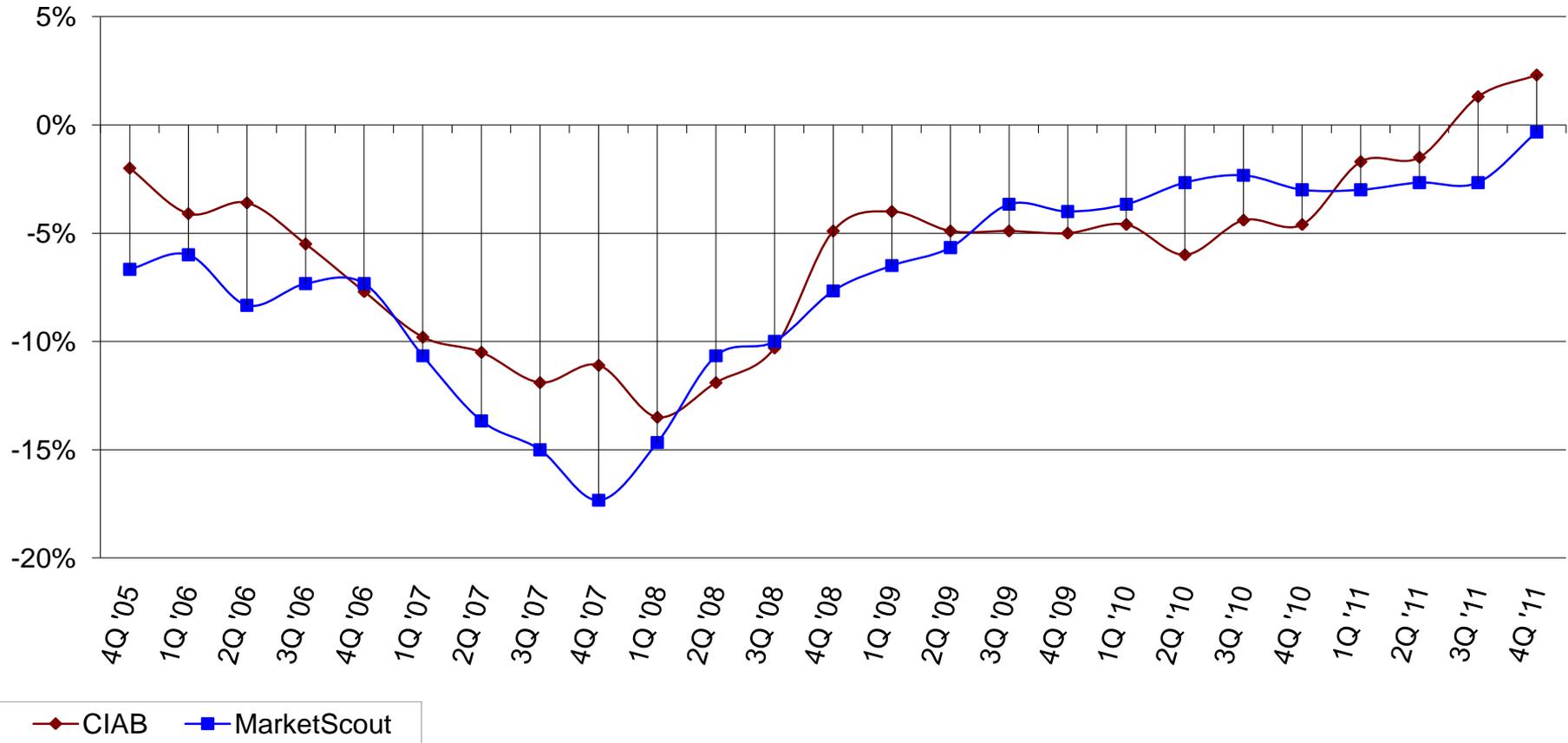
# MarketScout Survey





# CIAB vs. MarketScout - Umbrella

## CIAB vs. MarketScout - Umbrella





# CIAB vs. MarketScout – Worker's Comp

## CIAB vs. MarketScout - Worker's Comp

