THE INSURANCE Insider

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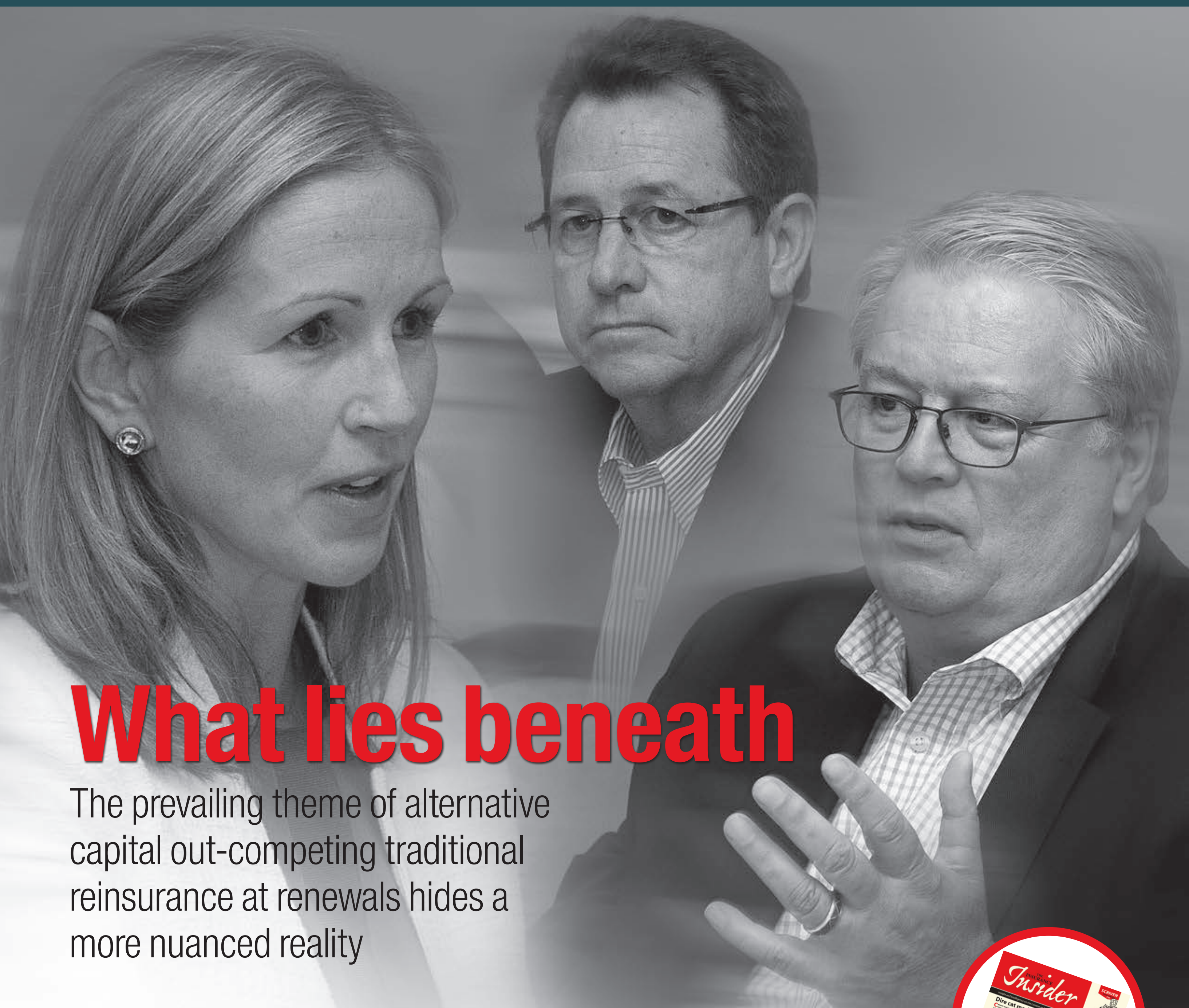
Drinker Biddle

BERMUDA ROUNDTABLE 2014



What lies beneath

The prevailing theme of alternative capital out-competing traditional reinsurance at renewals hides a more nuanced reality

Insight and Intelligence from *The Insurance Insider*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Behind the headlines

Dear friends,

The headline numbers for reinsurers at the mid-year renewal make for pretty bleak reading. Led by property cat and the high profile Florida market, the broad consensus is that softening picked up even from 1 January as rates fell in the range of 15-25 percent.

Even more worrying for underwriters was widespread evidence of significant changes in terms and conditions in favour of buyers.

But a thorough dissection of what lies beneath any headline trends usually presents layers of complexity and what is ultimately a much more nuanced picture.

Detailed eyewitness accounts that present tangible evidence can often lead to a deeper understanding of the factors that drive any given outcome. And so *The Insurance Insider* was particularly fortunate to draw together a high calibre of underwriters and brokers from the Bermuda market, fresh from the 1 June renewals battle.

There was a broad acceptance of the realities of a marketplace transformed by the transition of non-traditional capacity into the mainstream, a process that was cemented last year.

There was also acknowledgement of the significant challenges that convergence has presented to the traditional reinsurance model, as it is forced into rapid evolution to avoid being sidelined altogether.

However, there was also a strong message of defiance from those traditional underwriters that, at this renewal at least, they had not wilted but faced alternative capacity down and emerged in a better position than many might have predicted.

Indeed, several underwriters at the table – supported by anecdotal evidence from brokers – reported that they expect their signings to have stood up sufficiently to have even taken back market share from non-traditional players. A "sharpening of the pen" had enabled traditional markets to compete with the newcomers on price and terms in many cases, with the more flexible coverage that rated carriers can offer proving a winning combination for buyers.

Of course, this "sharpening of the pen" might not have been possible without the presence of alternative capacity in the reinsurance sector.

The message from a number of participants was that traditional reinsurers had effectively been able to out-compete by lowering their own cost of capital through utilising cheap non-traditional capacity to buy outwards retro. By harnessing non-traditional capacity as retro protection, they were able to win out in the signings battle, in many cases to retain market share.

Even though minds were focused on the 1.6 renewal that closed just a day before the discussion, there were naturally other topics to discuss.

There was strong interest in the casualty reinsurance market and how it might change as a result of the entry of hedge fund-backed reinsurers and other forms of alternative capacity.

There was also a focus on how the growing presence of hedge funds in the Bermuda market might play out in terms of the island's reputation and scrutiny from regulators.

And there was time to look at M&A strategies for Bermudians as market dynamics continue to change the industry.

We hope you enjoy the read…

David Bull
North American Editor
The Insurance Insider

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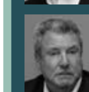
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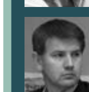
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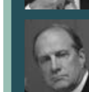
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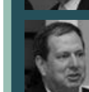
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Chief Underwriting Officer, Arch Re Bermuda


Peter Stubbings
Chairman, Guy Carpenter Bermuda

The Bermuda Roundtable 2014

David Bull
How did the 1.6 property cat renewal compare with the prior-year renewal and 1 January?

James Few
Property cat has been an important driver of profits for all our various companies for years, and so rate reductions of 15 points or more at mid-year is a little disappointing, given that the market was also giving similar reductions last year. The nature of cat risk is quite volatile, so what is a minimum return for that type of product? Different types of capital have different return hurdles and to compete nowadays, we need to rely on different forms of capital, not just our traditional equity capital. Calling new capital naïve is simplistic. There is an understanding about volatility, therefore I'm hoping the market will recognise that for volatile products like cat there is a fair price that that level of uncertainty and volatility should command. We've had false dawns before, but there were some signs of a floor on pricing in recent renewals.

Jeff Clements
There were definitely a few accounts that re-priced, particularly lower layers, and reinstatement premium protection (RPP) layers that struggled to get done, so you did feel like the market said enough's enough. But it took between 15 and 25 percent down in some cases. It's a direct relationship to the ILS funds that have to deploy their assets. There was the knowledge that some of the bigger ILS funds could do an entire programme with significant rate decreases. That was enough to empower the brokers to get those programmes done at maybe less of a decrease, but still a significant decrease.

Guy Hengesbaugh
Or to require the brokers to get it done, rather than empower them. When viable options are available they must be considered.

Kathleen Faries
We should definitely say that not all ILS funds are created equal. There are funds that have shown underwriting discipline. We see what various fund managers are doing and they're not all reacting the same. There are definitely those that are turning capital away because they can't find business that is profitable and is the business they want to be in. So there is a differentiation between funds.

"Roughly $2bn of new cover was purchased in Florida this year and a lot of the new money tried to chase that"
Jed Rhoads

Kathleen Reardon
Hats off to the traditional markets, because they really stepped up and said we can compete with the ILS market pricing by sharpening the pencil a little bit, and still offer that traditional re-instatable product. The traditional market was in protection mode, it wanted to keep that relationship with the direct client and that was worth giving some money back. Having said that, most of them are turning around and buying some retrocessional coverage, utilising the alternative market. In that way, everybody wins to some extent.

Peter Stubbings
From the retro perspective, we saw a lot more activity in the last couple of months in the lead-up to 1 June, and continued activity now. If you look at the retro arena, prices at 1 January were between 15 and 40 percent down, and they are probably about another 10 points off the 1 January pricing now. Have we hit the floor in the retro arena? Typically, buyers are going out with very aggressive pricing. Some of it is getting done and some of it isn't.

Kathleen Reardon
Florida used to subsidise some of the emerging market territories and that's probably not going to happen now to the same extent. But Japan and Australasia are still coming off post-loss pricing peaks so the overall portfolio still looks attractive.

Jeff Clements
I'd agree with that. We did an analysis of Florida and how it fits into the overall global portfolio and in 2013, the Florida portfolio had a RoE that was 20 percent higher than the average. And after rate changes, it is 20 percent lower than the average. So to Kathleen's point, it was subsidising, now it's not as attractive as part of the portfolio.

Justin O'Keefe
At Renaissance, we actually don't view capital as being different. Whether we're talking third parties, non-traditional versus public equity, private equity, public debt, private debt – whatever you want to call it, it is all capital to us. Actually, the biggest surprise to me at renewal was the irrational nature of the traditional market to follow the marketplace down a lot further than I expected. I believe that was driven by fear.

But as we all sit around the room, is it really the fear of capital that should be the controlling factor? Capital doesn't have the pen, underwriters have the pen, and at the end of the day it is just down to who is underwriting the risk. What happens when the market changes is that good underwriters tend to rise and bad underwriters tend to fall, through hard and soft markets. So it will be interesting to see through this market cycle, which is certainly softening, who ends up growing and who ends up shrinking.

David Bull
Jed, what's your observation on what you've seen on your portfolio business?

Jed Rhoads
We were re-pricing two top layers of a Florida programme for a client after the renewal date. We saw eight Florida programmes re-price upwards later on in the renewal season because they couldn't get them done at the firm order terms (FOT), and we saw two non-Florida accounts get re-priced late because they couldn't get them done at the FOT that were issued. But I'm still not convinced we've found the bottom of the market. If we go another year loss-free, will some underwriters delude themselves into thinking that rates are still adequate and justify knocking off another 5-10 percent? We see most of the accounts in the market and we actually think alternative capital may have lost market share in Florida this 1.6 because of lack of flexibility in terms and conditions. A lot of it is going towards second event covers, RPP covers and anything with a single limit. We even saw 100 percent authorisations of whole programmes and layers by some new capital providers. There's some naïve capital out there provided by some people that we used to view historically as very responsible. Some of it has gotten very, very irresponsible.

Justin O'Keefe
When the dust settles on this year's marketplace in Florida, the traditional reinsurers will have actually increased their market share. We've seen this recently in the marketplace deals being re-priced, because what the market wants to call collateralised or non-traditional capital is actually being more disciplined than traditional capital.

Chris Schaper
The key issue is to determine the degree to which profits exist within the business itself. So, with rates coming down do sufficient profits exist for capital to be deployed? Most people at this table would likely say yes, profits do still exist within the business.

Guy Hengesbaugh
That's right Chris. When you get to the question, Jed, about when we come up to next renewal, if underwriters find a reason to take off another 5 percent I believe that's going to largely be dependent on historical profitability. If you look at the last five years in the business, it's been phenomenally profitable and consequently the traditional market has about doubled its capital size and at the same time has been joined by the new alternative capital. So you have this exponential growth in the weight of pressure on rates and profitability.

Jed Rhoads
Roughly $2bn of new cover was purchased in Florida this year and a lot of the new money tried to chase that. But it was mainly interested in specific segments of Florida programmes, not the entire programme. Some clients were pushing for more bells and whistles and the new capital is fairly rigid. It can't easily provide and price multi-year, or manmade risk, or multiple reinstatements, or "top and drop" coverages, like traditional reinsurers can.

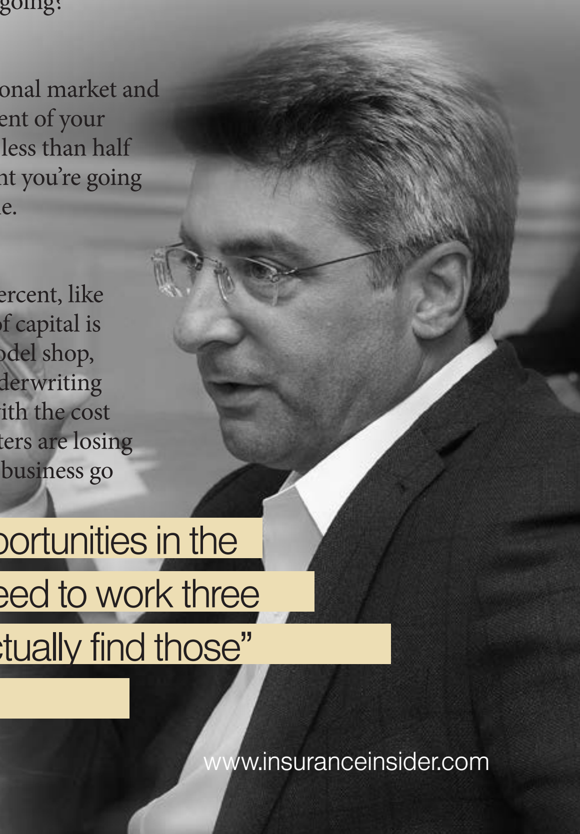
Kathleen Faries
This is the first year I had investment managers coming to me multiple times saying is there anything you can do about helping us with collateral on multi-year deals? Clearly, they are feeling the pressure, because on a fully collateralised basis there's just no way we can write that business. So that is definitely one way that the traditional markets are holding market share.

Chris Schaper
Most would say they're not trying to hold market share, but when it's time to execute their actions do not match up.

Kathleen Faries
My question to all the traditional players is psychologically, knowing that you have new capital out there that is operating under a completely different cost of capital, does that influence how far you can go on price? I'm concerned that, particularly in Bermuda, property cat-focused companies have been built knowing they've got a certain profit margin, or did have one, from for example, Florida business, so their cost of capital and their expense ratio is built around that. How quickly can we all adjust to where the market is going?

Kathleen Reardon
I agree. And if you're a traditional market and you used to retain 80-90 percent of your portfolio but now only retain less than half of your cat book, at some point you're going to lose underwriting discipline.

Jeff Clements
What about ceding out 100 percent, like the ILS funds are? Your cost of capital is being used as an excuse to model shop, not underwrite – you lose underwriting discipline. We can compete with the cost of capital but when underwriters are losing discipline, you have to let the business go and not compete with it.



"There are still opportunities in the market, but you need to work three times harder to actually find those"

Chris Schaper

Jed Rhoads
Jeff, I love that comment. The traditional markets may be ceding out larger percentages of their business, but these guys cede out 100 percent. They keep no risk and I just heard today from a source that some of these new capi tal providers don't even use a detailed model for underwriting. They're using aggregate-level data. I don't know if that's true or not. I also heard many don't have a claims department either, so I'm not sure what business they are actually in, because most natural cat claims have some level of uncertainty of coverage for a portion of the event (e.g. peril, event or coverage confusion).

Jerome Halgan
When you talk about their cost of capital, it's supposedly lower than ours but their cost of capital hasn't been really tested. So the day something happens in Florida, and, say, 20 or 30 percent of their capital is trapped for the following year because you have a trapping provision in the contract – when you have 20 percent or 30 percent less of capital to go forward, how do you track that, what kind of return do you then need to deliver based on 30 percent less capital being available? We don't have the answer to that.

James Few
When alternative capital's coming to the market through traditional underwriting expertise, in other words it's a partnership, then the detailed modelling and intelligent view of risk is what we do, and the provision of capital is what they do. As far as underwriting goes, certainly for all the time we're underwriting, we are accessing a pool of different types of capital. If we're competing directly against alternative capital that doesn't have underwriting expertise in partnership then I agree, that's a different situation.

"When alternative capital comes to market then detailed risk modelling is what we do and provision of capital is what they do"
James Few

John Rathgeber
The good news is that while there's a lot of capital, there aren't that many good underwriters.

Justin O'Keefe
If you talk about the single model view of risk, the irony is that from the outside looking in, one could see what is going on in our market right now as a commoditisation, which is somewhat synonymous with efficiency. But actually it's completely the opposite. I think our market is more inefficient today. I haven't seen it as inefficient since probably going back to 2006 – and that was a different market from a hardening standpoint. But when you talk about efficiencies and inefficiencies, it's really the spread between deals in the marketplace that is interesting, and that is wider than I've seen since 2006, and that creates opportunities. For the outsider looking in, it may seem that we're being commoditised, that things are going to a single view of risk, and that everything is priced the same with the cat bond ILS marketplace, but the reality of it is that you can really pick winners versus losers.

Peter Stubbings
We track the quoting behaviour and pricing and generally the quoting band for Florida was pretty tight. It wasn't exactly commoditised, but getting close to that. If you look at the data at the moment on the quoting behaviour at 1.6 there's a huge spread, which could be why you see people coming back and re-pricing.

Chris Schaper
Are the clients choosing the lowest point or are they pushing it further?

Peter Stubbings
Typically, Chris, if you go back 12-18 months people would be going in at firm order terms around about the lowest quote, but in many cases they're now going at firm order terms at 10 percent below the lowest quote.

Chris Schaper
There are still opportunities in the market, but you need to work three times harder to actually find those risks that you view as preferred risks for your portfolio. One of the issues out there that companies use to market themselves is that capital size is very important. Although in general, capital capabilities are important, we view having a more modest surplus position in this type of market as more beneficial and it can create more relative value for shareholders than having a very large balance sheet and trying to fill that up.

David Bull
That's quite an interesting counterargument when we listen to some of the M&A talk…

Tom Dawson
Are buyers buying more protection? They're getting these rate reductions year on year, are they buying more or are people buying about the same limits?

Jeff Clements
In Florida we saw limit go up but it was more to keep up with the growth in the portfolio. It wasn't buying further out on the loss distribution.

Guy Hengesbaugh
Overall, you'll find that the pie is shrinking. There is less demand and more supply, and that is the environment that we're operating in. Florida is an interesting case because it is so

reinsurance dependent. Some of the operators chose to buy a lot more limit, but if you look at the average spend rather than the limit purchase, it's about 40 percent compared to about 60 percent of income a couple of years ago for a typical Florida insurer. But in general, if you look at the US and across the world, clients are choosing to take higher retentions and are buying more limit for less premium up top.

Tom Dawson
What about terms and conditions, is there movement there?

Jerome Halgan
Given the environment, we see some deterioration of terms and conditions. Our job is to bifurcate between what you can and cannot price for. I am not sure as an industry we have a good track record of doing this right, especially in an environment where the brokers are always pushing very hard to make us do what we wouldn't do otherwise.

David Bull
Is there a relationship left in the US property cat market between buyers and sellers in the current market?

Guy Hengesbaugh
Yes, relationships are important. We often assist our clients with managing the dilemma of respecting the long-term relationship they have developed while exploring new and viable options in the marketplace.

Chris Schaper
It depends on the type of client and business. With national or global accounts, pools and government enterprises, I would say there's very limited or no relationship in general. But with regionally oriented accounts and single state accounts it's there, without a doubt.

James Few
If the buyer buys multiple products, relationships can be valuable. If it's in a pure cat environment, relationships are less solid. If you've got more ways of dealing with your customer, it's helpful.

Jeff Clements
If you bring some analytics to the table, if you differentiate yourself, even in property cat, which is starting to be a commodity, you get the best crack at getting your signings and you can get the biggest shares on the best deals.

David Bull
How would you characterise the casualty reinsurance market?

John Rathgeber
It's a very difficult and challenging market for sure. It's maybe not the bloodbath that it is in the property cat market, but some of the same factors are at play and you get companies with bigger balance sheets that are able to take more risk. If you look back over the past 10 years, the amount of casualty business that has come out of the market is staggering. The results have been quite good for most casualty lines for the past several years, so that kind of reinforces people's desire to keep more risk. And then we have the low interest rate environment, which makes it very difficult for reinsurers to find deals that are attractive. Five years ago, a deal might have been written at an acceptable RoE. Today, while everything about the deal might be the same, it just doesn't make the RoE hurdle due to the low interest rates.

Paul Markey
Multi-year is back. But if you put the whole casualty reinsurance market into perspective, post-2002 you had a perfect convergence of a tightening of the product in the insurance world and, to some extent, reluctance on the reinsurance side to follow fortunes, probably because the previous decade had seen widespread losses for many reinsurers. As it has turned out, our insurance clients have had an extremely profitable experience in many areas of casualty since 2002. As clients' capital has grown along with their confidence in the actual product and coverage, the need for reinsurance evaporated. Whether the insurance area of casualty remains as profitable as people anticipate and the net approach is a good thing is highly debatable. There are reasons to buy reinsurance other than just for capital purposes – reinsurers provide a fantastic function of audit, and markets can change very quickly. Also, if you are not a centralised insurer, any issues in branch offices can take a very long time to filter through, which means it can be highly important to have the continuing support of an effective reinsurance programme, Based on current dynamics, I would say that we are not going to get much traditional casualty reinsurance back into the market for quite some time, but there will be some areas of opportunity.

James Few
Casualty underwriters are worried about a couple of things that are challenging to get your hands around. Modelling in property does provide a certain kind of framework, even if we think it's not the complete solution. Casualty is exciting for not having that kind of background. How much of the run of improved loss trends is actually down to better risk management or narrower products in D&O, for example? If you believe in today's pricing you've got to cross your fingers and hope it's the new norm. You've also got to think about inflationary and interest rate trends in the future. Are we adequately pricing for that or not?

"Clients are choosing to take higher retentions and are buying more limit for less premium up top"

Guy Hengesbaugh

John Rathgeber
We talk about loss trends, but we're not going to know what the trend is for more recent accident years for 10 years.

Paul Markey
Are original clients buying enough coverage? In the Bermuda market we were selling $500mn to $1bn of cover for 20 years. Why aren't we now selling $5bn? There seems to be a mismatch between enterprises' strategy and the need to buy insurance.

Guy Hengesbaugh
Looking at the D&O market, after the financial crisis you would think there's a train coming down the tunnel with losses, but it hasn't come to fruition. That could be because of the narrowing of coverage, and when our clients find that they can face that sort of storm and come through it without reinsurance, that's not a good time for us. It takes innovation, or re-innovation, on our side.

Jed Rhoads
Markel writes more casualty than property reinsurance business and we think casualty is travelling a pretty rough road at the moment too. In looking at recent renewal cedes on most of the casualty treaties, we think overrides increased by 2 to 5 percent, with the average being around 4 percent. That's a pretty big increase in a single renewal, particularly when the starting point was high to begin with.

Buyers are purchasing less limits than before, and that's forcing the reinsurance market to be more competitive on other lines of the business.

We saw pressure in workers' comp, in general liability, in professional liability and also last year in auto. Casualty reinsurance is also seeing exclusions being broadened, and in some cases eliminated. And the starting base for rate adequacy in casualty reinsurance is not as high as where property was recently.

John Rathgeber
Casualty has been much more affected by low interest rates, which is like an invisible deterioration in pricing.

James Few
The proportional casualty reinsurance market is very challenging. With those increases in the cessions, sometimes the primary carrier might have an 8 or even a 9-point advantage over the reinsurer. There isn't casualty business out there with that kind of margin.

David Bull
Where are the opportunities to grow the reinsurance market?

Jed Rhoads
Mortgage reinsurance. That brings a significant new opportunity to the market. Significant new limits are being bought by very large buyers, and if Fannie and Freddie come to the market, it's a bottomless pit. Our little industry couldn't possibly handle all the needs. Cyber and mortgage are two areas that seem to be flavours de jour in new reinsurance products.

Kathleen Reardon
Terrorism is another one. The (re)insurance industry can handle this exposure. But I guess that isn't going to happen in the near term. The problem with cyber risk is the buyer's expectation of loss is different than the seller's.

James Few
Private market solutions for government covers is one area where we don't have to get too clever. It's just simply about trying to win the intelligent argument about what's best for the buyer. But other areas are complicated and that's probably why we haven't done them yet. The definition of a loss in cyber is really quite complicated. What about reputational risk or share price fluctuation? We want to try and grow demand but it's not going to be an easy road. It's going to be challenging.

David Bull
Do you see alternative capital coming into the casualty space as a threat or an opportunity for traditional reinsurers?

Kathleen Faries
Rated capital still has an advantage over alternative capital. They know what their strengths are, they can play across a programme, they can offer products other than property cat, they can offer multi-year. For alternative capital, it's more difficult to build all of this expertise. Reinsurers have to play to their strengths because it is going to be more difficult for alternative capital to catch up on that market.

John Rathgeber
The basic premise for Watford Re is: if you can earn more on your investments than the ceding company is earning on its investment portfolio, there's a potential opportunity. They're more likely to give you their cash because you're earning a higher return. Obviously, you've got to embed some of that differential in the pricing to make it an attractive proposition. If you can earn a higher return on investments, you can offer more competitive pricing to the client and hopefully that brings business back into the market that's been lost.

Kathleen Reardon
I don't see the Watford Re model flooding into Bermuda. There's only so much underwriting talent and that is very important to get the rating. I also don't see a ton of the multi-

"The problem with cyber risk is the buyer's expectation of loss is different than the seller's"
Kathleen Reardon

line model like Hamilton Re coming out because there are only so many investment firms that have the profile, the low volatility and the liquidity to write the cat business.

Chris Schaper
I think it's a really good tool frankly. Those organisations that actually have the underwriting expertise for this business can have decent conversations with investors discussing how they would ultimately construct a portfolio and use the investor's own capabilities to enhance the business and portfolio they're building.

Guy Hengesbaugh
There's always a tremendous amount of focus on the ratings and security and clients can gain a level of comfort if they're dealing with people they've dealt with in other organisations or in an entity that's bolted on to an existing organisation.

David Bull
What about the pressures on the intermediary model as the market softens and the pie gets smaller?

Peter Stubbings
The intermediary model has changed in a wholesale fashion over the last five to 10 years in terms of what we have to provide. It's gone from execution to consultant to strategic advisory. When you look at pricing pressures, there's the brokerage versus fee income discussions that we all have now. It's tough because we're having to offer a lot more for less, just to stand still.

But also, from a broking perspective, you have to look at how you invest in areas where there's low insurance take-up. We have to continue to invest in the analytics and consultancy side of the business. If we don't offer that, we don't get the door opening any more.

Paul Markey
It's going to be more for less for quite a long time. The world of reinsurance specifically isn't growing at the pace that we would like. As you said, it's a challenge for companies to develop everything, clients, products – and the challenges will be exacerbated if there's a huge swathe of M&A. It's not just going to be in the reinsurance business, it could be across tranches of insurance. That tends to consolidate reinsurance.

Justin O'Keefe
I spent the first half of my career as a broker so I empathise with how difficult it is on that side of the fence. Good brokers add value and value is differentiating your clients to the marketplace. I have to say I was really disappointed in the property renewal over the past few months at the lack of differentiation that happened in the marketplace. That's going to be the threat to the broker model: how you continue to add value in a marketplace where there doesn't seem to be a lot of differentiation happening.

Scott Stirling
One way they've done that is with their facilities, allowing people to access business at lower cost. They've actually had facilities getting done where it's 10 percent off the marketplace. So they're [helping] their client. Brokers always seem to find some way to keep going on and broker relationships make a big difference in the business we do and how we are perceived in the marketplace.

Guy Hengesbaugh
This part of the market cycle is very difficult on everyone. But as difficult as it is for the broker market, it's also an opportunity, because we're doing more than executing transactions, we are required to bring to the market a consulting role with a rounded view to our clients. And we are also required to be advocates for our markets, our traditional reinsurers, while introducing new capital or new structures when most beneficial for the client's long-term interests.

Paul Markey
Innovation and ideas tend to flow faster in the reinsurance business, and I suspect that the insurance side is going to see more connection directly with reinsurance. We're interested in helping big insurance clients to find solutions that are being developed in the reinsurance sector. There's still a lot of uninsured risk in the insurance business, and there's still not as much of an analytical view of a client's enterprise – whether it's cyber or operational risk, or some pretty sophisticated areas of concern for CEOs and CFOs. The reinsurance industry has the opportunity to add something to the insurance market other than just capacity.

David Bull
Does the evolution of 'preferred' markets favour or threaten Bermuda's future in the global reinsurance market?

Kathleen Reardon
Bermuda is well equipped to handle the Tier 1 strategy. There are lots of well-rated companies here offering big capacity with relationships that started a long time ago. And my company hopes to be part of that at some point. But what matters is the best thing for the client, so doing more with less sounds like a great idea, but post-loss or some big event in the industry you might have competition issues. If the idea of syndication has gone you could get caught out at some point with only a few markets and those markets leading you down a road that you wouldn't otherwise be on.

"In the Bermuda market we were selling $500mn to $1bn of cover for 20 years. Why aren't we now selling $5bn?"
Paul Markey

Peter Stubbings
Bermuda is very well positioned to take advantage of it. When we look at our book and we look at the signings that the Bermuda markets are getting versus some of the smaller markets, then they're in a very good position. You've obviously got the issue regarding the big continental reinsurers that are still striving for market share and are offering multi-line cover. But from Bermuda's perspective, with the markets that are here – as Kathleen said, well-regulated markets, with a good reputation and highly technical – it's in a prime position.

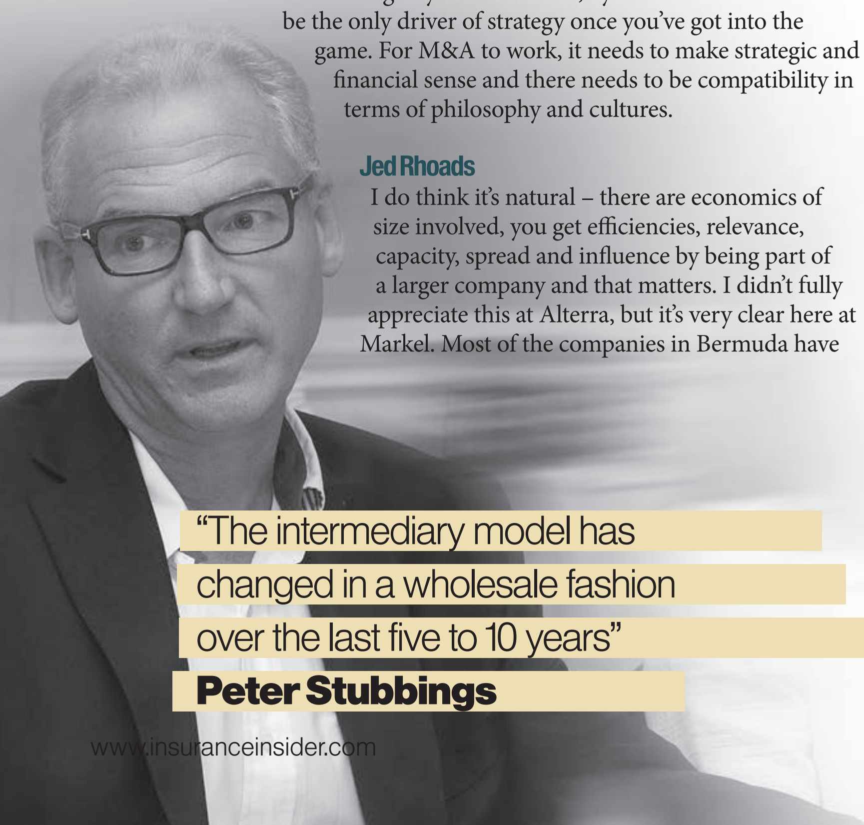
Kathleen Faries
It's not just the traditional part of that, it's also sidecars and cat bonds and everything else that we're doing on the securitisation side. Collateralised reinsurance in the form of ILS funds and investment managers is setting up here and we have clearly recaptured the cat bond/SPI market over the last two years. So, broadly speaking, Bermuda is well placed.

David Bull
More generally, how is the M&A outlook?

James Few
It's an inevitable part of this industry. But the right way to go about it ought to be what's in the best interests of our shareholders and our customers. The general trend, certainly among reinsurers anyway, suggests fewer, bigger reinsurers taking more of a play. I like syndication, but there's probably going to be a little less of that over the next 3-5 years.

The minimum size to get into the game has been gradually going up. But once you are big enough to be in the game, and Aspen certainly is, and you've got a business model which can offer your investors a decent RoE, then the question is whether you can improve the RoE to your capital providers, or the offering to your customers, by M&A. Scale shouldn't be the only driver of strategy once you've got into the game. For M&A to work, it needs to make strategic and financial sense and there needs to be compatibility in terms of philosophy and cultures.

Jed Rhoads
I do think it's natural – there are economics of size involved, you get efficiencies, relevance, capacity, spread and influence by being part of a larger company and that matters. I didn't fully appreciate this at Alterra, but it's very clear here at Markel. Most of the companies in Bermuda have the size and the relevance to matter, but M&A activity does make some sense for some companies like it did for us at Alterra at some point in their life cycle. But it takes willing and skilled senior management to make it work.



"The intermediary model has changed in a wholesale fashion over the last five to 10 years"
Peter Stubbings

Jeff Clements
The Insurance Insider called us serial acquirers! So I would say that our team is evaluating every company out there that has less capital than we do, and it's in our culture to know if it's a fit. If it's a price that we think is a good value, then it's something that is worth looking at.

David Bull
For the brokers around the table, is the size argument as important when it comes to placing business for your clients?

Peter Stubbings
It's not necessarily the size of the company here, as Jed said, there's just the demand from the client for the large capacity now. We are probably looking in a Lloyd's environment where those large line sizes aren't necessarily available, so you are going to have to see consolidation.

Joe Seiler
We get asked frequently – weekly, monthly, daily – about the issues that would be raised by transactions. And transactions are not just M&A, but it's people looking for a broad range of ways to combine and to grow and sometimes to get rid of pieces as well. It's not all coming together. There are times when people decide it's not a good fit, or they don't want to continue in an area – then we're happy to talk and assist.

Chris Schaper
I break M&A down to financial M&A and strategic M&A. What we're going to see going forward is more financial M&A because if rates decrease, expense ratios are going to go up and companies with expense issues are just going to have to either shed people or reduce their surplus, to enhance returns, or they go and acquire others to reduce the expense burden.

Joe Seiler
It depends a little bit, though, on the target. There are large strategic acquirers out there still very much looking to grow their business. And there are some large global companies that want to get into lines of business in areas that they haven't been in before, and will pay for that.

Chris Schaper
I agree. Specialty lines, certain lines of business and also geographic platforms can make sense. But the broad strategic play, I don't see that as going to happen.

Kathleen Reardon
There is value to the shareholders, accretive value to the bottom line in having a global platform. So at the moment, a Bermuda standalone company is attractive to some extent, but a global platform through a Lloyd's syndicate, or some presence in the US, that obviously should increase the trading value of a company. So it will be certainly something we consider.