The Financial Crisis
A Greek Tragedy

- Hubris: The Bubble
- Nemesis: Collapse and Insolvency
- Catharsis: Purge and Recovery
**GC Bermuda Composite**
Change in Shareholders’ Funds 2007-2009

**Russell 3000 P&C Index – Weighted Book Value**

Source: Guy Carpenter, Bloomberg data
1Q2010 Insured Catastrophes > USD250 million

USD mn

7,660
16,770

1Q09
1Q10

Source: Company Announcements, AIR, EQECAT, ISO PCS, Guy Carpenter

Chile EQ and Xynthia Estimates as percentage of 2009 SHF

% of SHF

0%
2%
4%
6%
8%
10%
12%
14%
16%
18%

Hardy
Lancashire
Hiscox (2)
Chaucer (2)
Validus
Brit
Amlin
Montpelier
Hannover Re (1)
PartnerRe
Omega
Flagstone
Catlin
White Mountains
Everest Re
Platinum
SCOR (1)
Aspen
AXIS
XL Capital
Allied World
Swiss Re
Endurance
Munich Re (1)
Transatlantic
Argo Group
Chubb
Arch Capital
Max Capital
ACE

Source: Company Announcements, Guy Carpenter
Windstorm Xynthia and Chile EQ Insured Loss Estimates
26 March 2009

Development of Catastrophe Losses

Source: Company Announcements, AIR, EQECAT, ISO PCS, Guy Carpenter
Yields to maturity on “safe” assets at long-term lows

Low Yields = Underwriting Stretch

Solvency margin = 80%
Technical provisions / premiums = 200%
Tax rate = 35%

Return on equity

Combined ratio

Investments = 280
Technical reserves = 200
Capital = 80
280
US P&C initial accident year loss ratios & subsequent development

- Accident year loss ratio development % (LHS)
- Initial loss ratio pick (RHS)

1st yr IBNR % of Incurred

KRW early paid claims effect
Western economies’ implied forward inflation expectations

- Inflation linked to nominal sovereign spread
- Implied forward rate of inflation at Y_i

Source: Bloomberg data, Guy Carpenter

Regulatory Squeeze – more capital, better capital
Solvency 2: QIS4, QIS5 and S&P “A” Non-life Reserving Factors

Source: CEIOPS, Standard & Poor’s
All As are Equal…
S&P Ratings Distribution: Global Reinsurance

Note: Shows Guy Carpenter's estimate of the lowering of Berkshire Hathaway's rating from AAA to AA+ on 4 February 2010

Valuation dispersion could lead to additional M&A

Source: Guy Carpenter, Bloomberg data
2010 Outlook – Returns under pressure

- **Bottom line pressures**
  - Weak investment yields
  - Reserve deterioration
  - Inflation

+ **Top line pressures**
  - Lower premium volumes:
    - Recession overhang
    - Short-term price cutting
  - Regulation – more capital per risk

= **Pressure on returns:**
  - Lower valuations
  - Consolidation
  - Return capital
  - Medium-term price rises

“Capitals are increased by parsimony, and diminished by prodigality and misconduct.”

Adam Smith, The Wealth of Nations, Book II, Chapter III