Gen Re | Intermediaries®

OAMIC – Property Catastrophe Presentation

February 16, 2012

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My Objectives

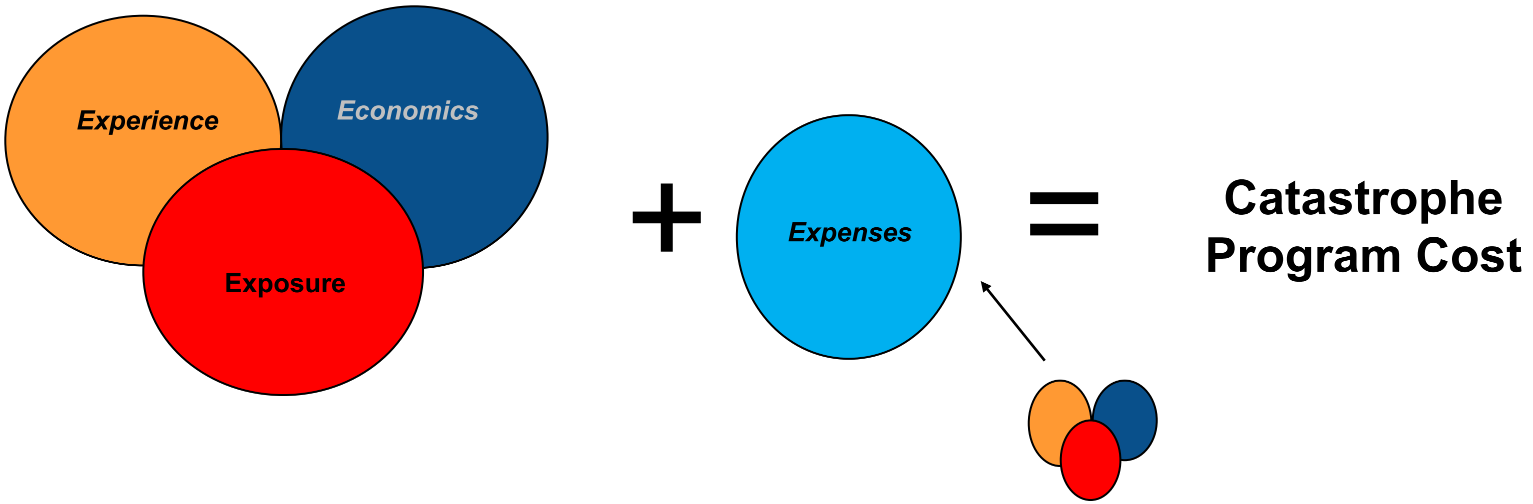
Predicated on the assumption that there has been some recent dislocation, disruption, and even disappointment in the process and results.

1. Try to provide a better understanding of how we arrived at this point.

2. Suggest some ways to better cope with a disruptive environment.

The Anatomy of Catastrophe Pricing

Economics -	**Simple principles of supply and demand**
Experience -	**Company and/or Industry loss experience**
Expense -	**Reinsurer's cost of capital, underwriting overhead, brokerage, and profit margin**
Exposure -	**What you write and where you write it**



The Perfect Storm and it's aftermath

Renewal Season 2006

- Changes in modeled expected loss (D&S)
- Rating Agency pressure held new capital in check and influenced old capital. (D&S)
- Lloyds RDS *(S)*

- No chance to recover from 2004 Losses *(Charley, Francis, Ivan, Jeanne)*
- Concerns over shift in frequency and severity of loss experience *(Cyclical?)*
- Dislocation between the ability for primary companies and reinsurance companies to get rate.

Rating Agency pressure forces companies to write less business against higher capital positions

Capital suppliers are requiring increased ROE's

Cost of Retrocession (when available) increased considerably.

- Peak zone supply crunch
- Questions of valuation and Data Quality *(accuracy and depth)*
- Modeling Inadequacy *(commercial vs. personal)*
- Un-modeled or poorly modeled perils

Summer 2008

Hey Lou,

Having fun
making things wet

Wish you were here!

Hurricane Ike

Market Metamorphosis

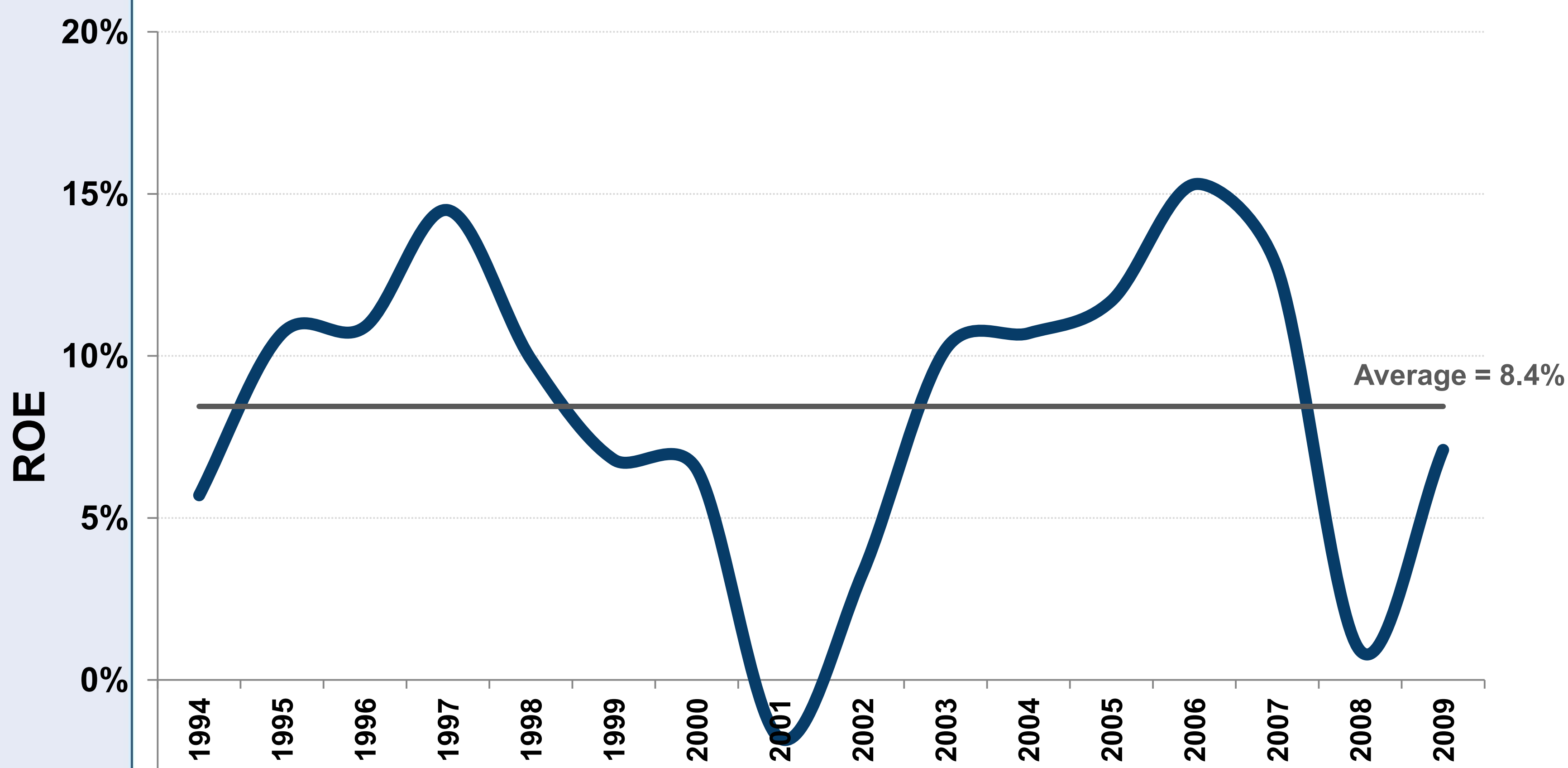
	Then	Now
Purchasing Decision	Ceded Re Mgr / U/W Department Head	CEO / CFO & Actuaries
Cedent /Broker Dynamic	Bottle of Johnny Black and a round of Golf	Value added driven Price Hypersensitivity
Cedent / Market Dynamic	Relationship Oriented (Controlled By Broker)	*Relationship Oriented? "Transaction P&L"*
Broker / Market Dynamic	Relationship Oriented ("Potentially Levered")	Effectiveness dictated by Technical Arguments

Now that we have some idea as to why,

how do we deal with it?

U.S. Property / Casualty Industry

Source: Highline Data



DuPont ROE Decomposition

- Formula the DuPont Corporation Started Using in the 1920s
- Breaks Down ROE Into Three Parts
  - > Operating Efficiency
  - > Asset Use Efficiency
  - > Financial Leverage

DuPont ROE Decomposition

ROE = (Net Profit) / (Equity)

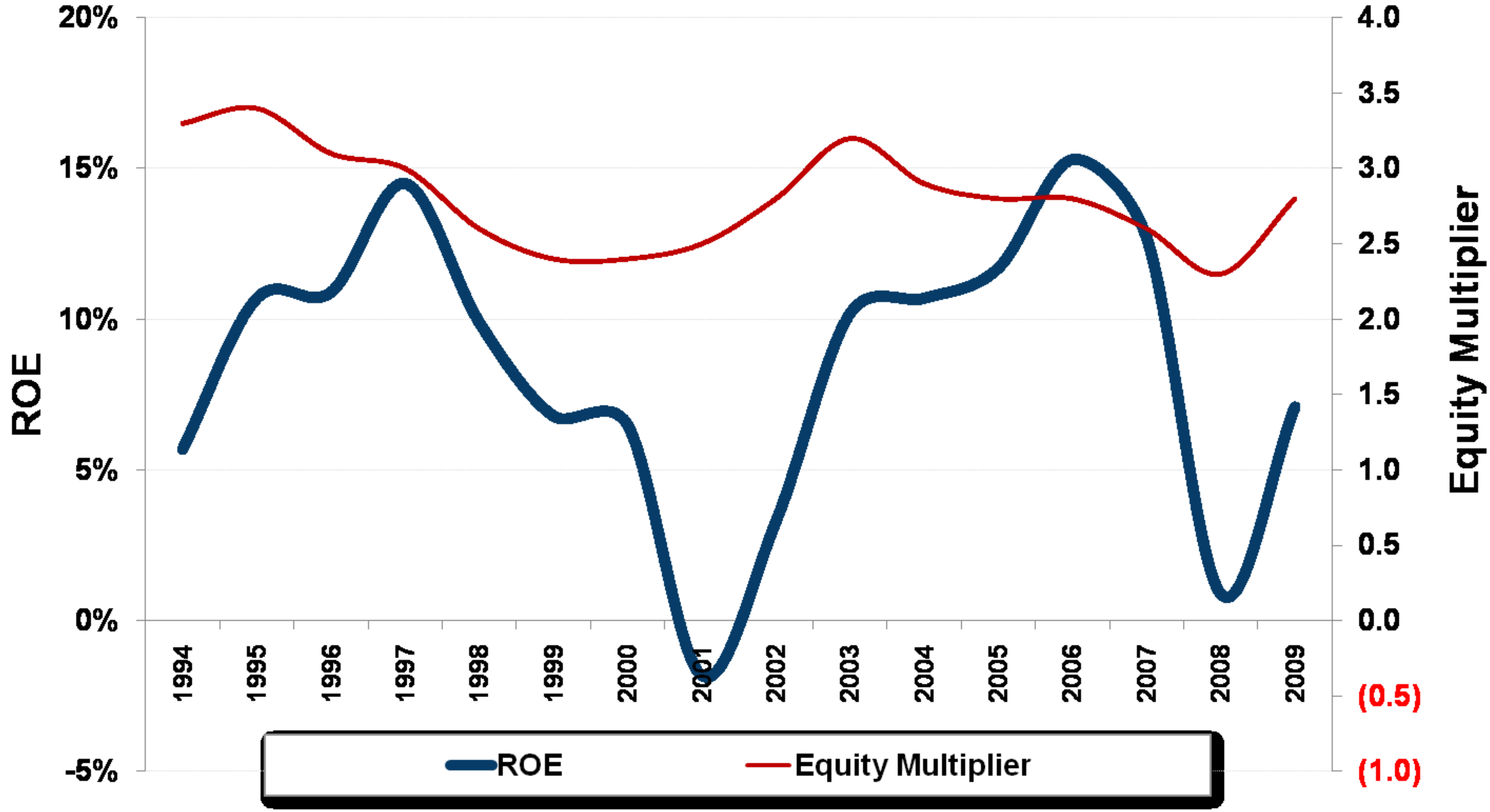
$$ROE = \left[\text{Operating Efficiency}\right] \times \left[\text{Asset Use Efficiency}\right] \times \left[\text{Financial Leverage}\right]$$

ROE = (Profit Margin) x (Asset Turnover) x (Equity Multiplier)

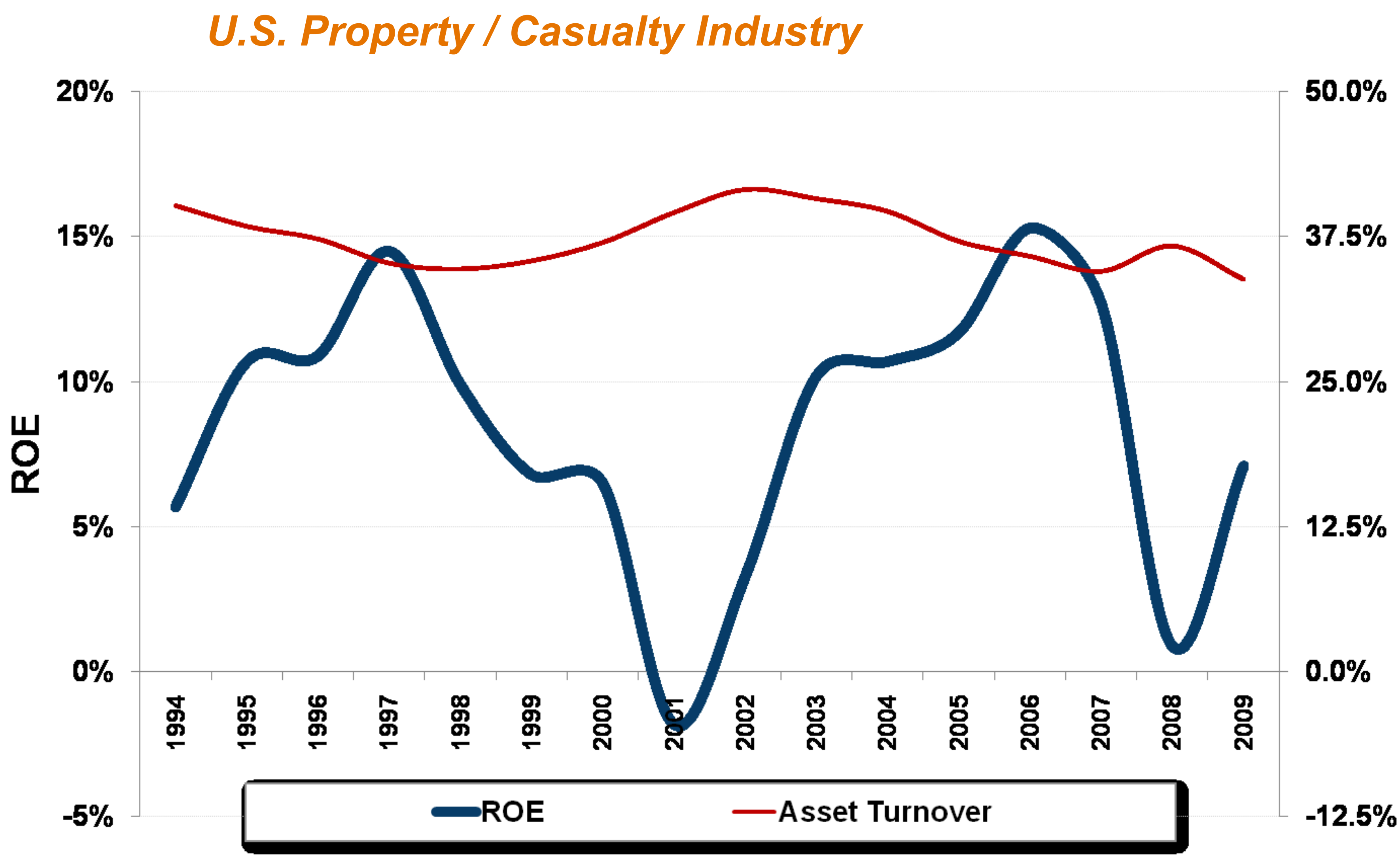
$$ROE = \frac{\text{Net Profit}}{\cancel{\text{Sales}}} \times \frac{\cancel{\text{Sales}}}{\cancel{\text{Assets}}} \times \frac{\cancel{\text{Assets}}}{\text{Equity}}$$

Financial Leverage = Assets / Equity

U.S. Property / Casualty Industry

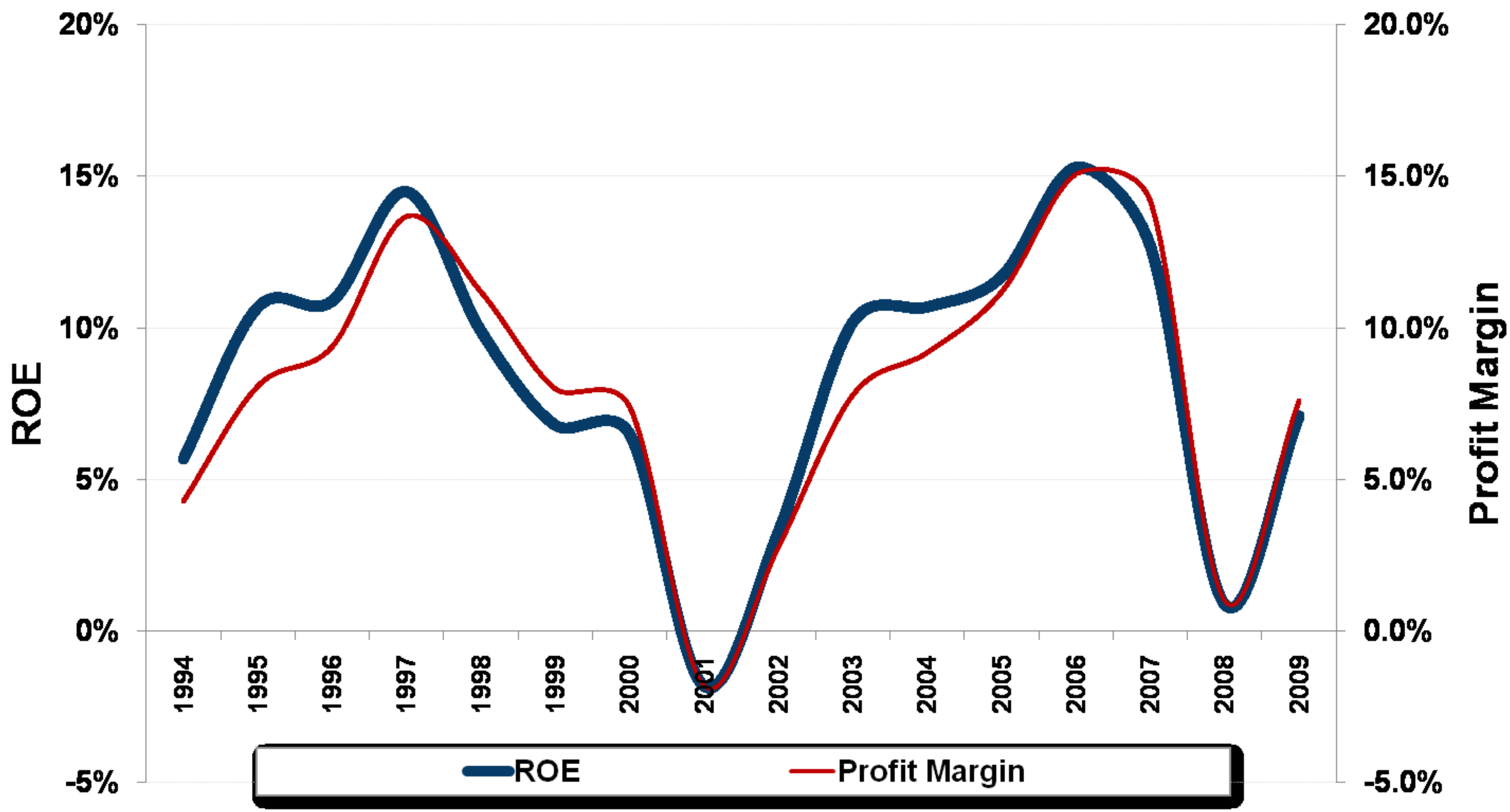


Asset Use Efficiency = Sales / Assets

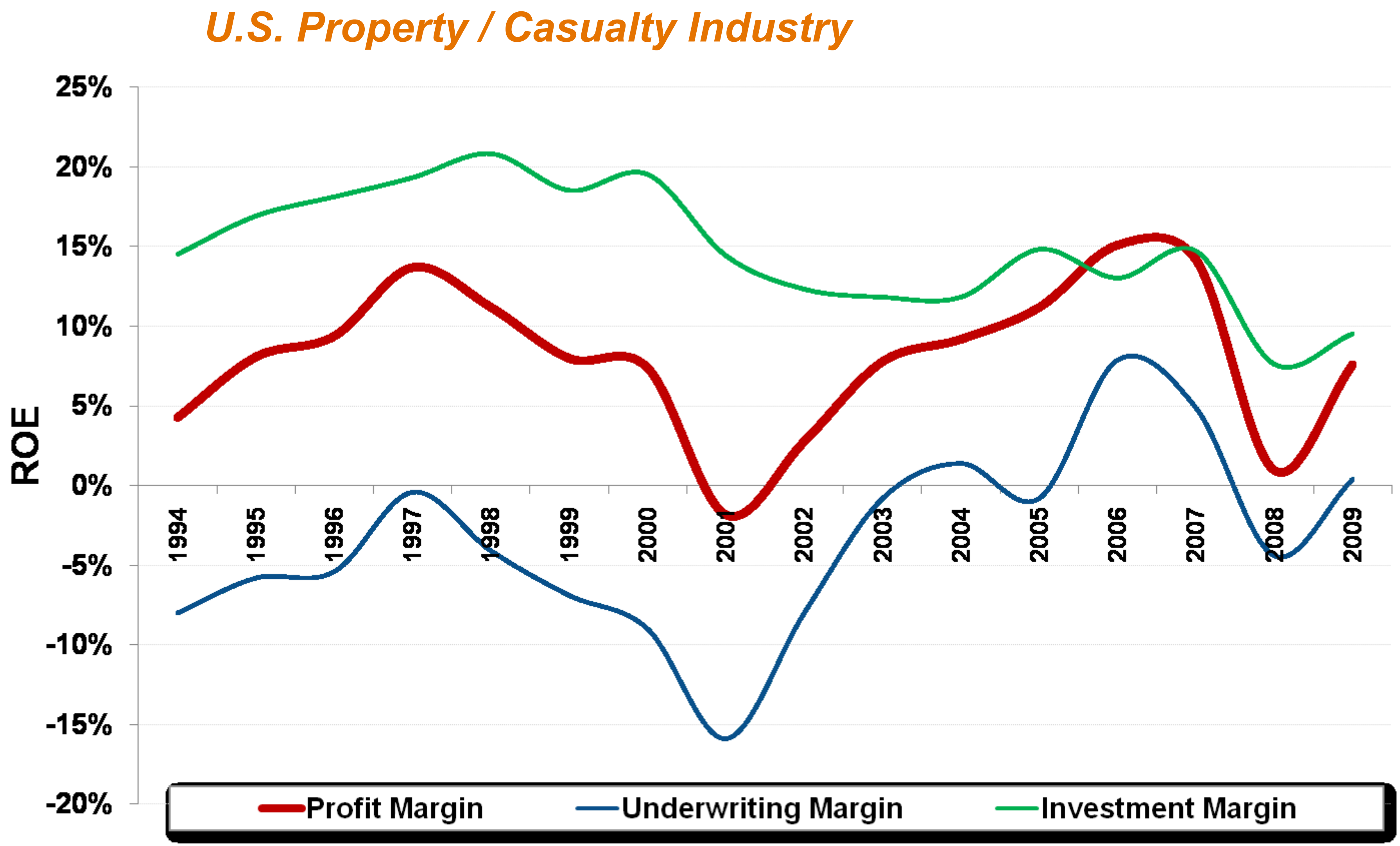


Operating Efficiency = Profit Margin

U.S. Property / Casualty Industry



Profit Margin = Net Profit / Sales



How do I Cope With Such a Fluid Environment?

Change the Way You Think About the Catastrophe Purchasing Transaction

View yourself as a *Supplier of Risk* to the global reinsurance marketplace
Not a *Consumer* of property catastrophe capacity.

You are competing with other firms for Capacity and Terms

How do you gain and sustain a competitive advantage?

Cost Leader

Differentiation

Focus your negotiation from a technical perspective

1. ***What differentiates you from other firms?***
2. ***Why does your firm deserve optimal Terms and Conditions?***

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