

Specialty Practice Briefing

An update from the Property Specialty

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Winterstorm Kyrill: Reinsurance Market Roundup

Winterstorm Kyrill battered north-western Europe with hurricane-strength winds on 18 January 2007, killing at least 47 people, ripping roofs off properties, knocking out power to hundreds of thousands of homes and severely disrupting all forms of transport. Reports said strong winds swept off the Atlantic into the United Kingdom, northern France, the Netherlands, Germany, Austria, Poland and the Czech Republic. As insurers gather information and begin to process claims, it is clear that Germany bore the brunt of the storm and will be the main territory driving the final loss amount.

The current estimates from the various modelling providers are as follows:

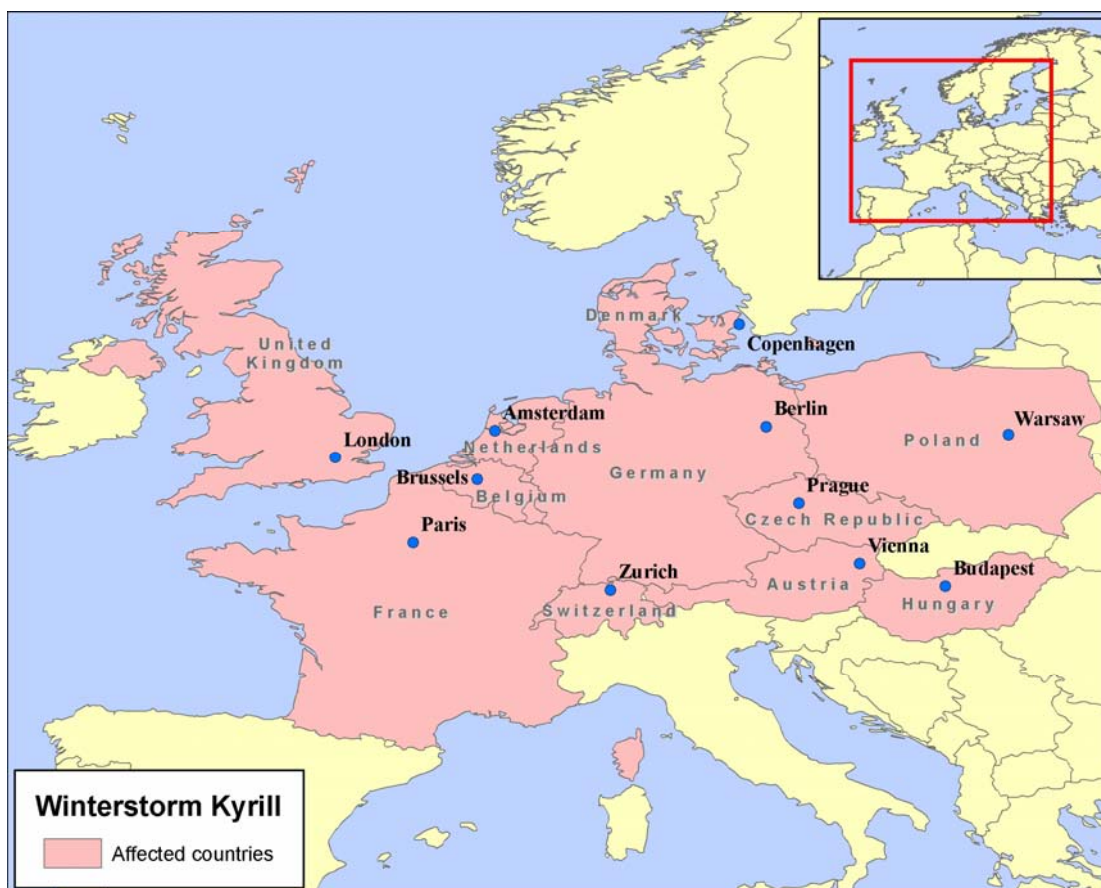
- RMS : €3bn to €5bn
- EQE: €2.5bn to €5bn
- AIR : €4bn to €8bn.

AIR also predicts that the cost of the event in Germany could exceed €2bn. The German Insurance Association the GDV recently revised their estimate of the German loss from €1bn to €1.9bn.

Historical European Natural Catastrophe Losses

Insured Property Loss (incl.BI) USD m (indexed to 2005)	Date of Loss	Event	Countries Affected
6,864	25.01.1990	Winterstorm Daria	France, UK, Belgium, NL, Germany et al
6,802	25.12.1999	Winterstorm Lothar	Switzerland, UK, France et al
5,157	15.10.1987	Storm & floods in Europe	France, UK, Netherlands, et al
4,770	25.02.1990	Winterstorm Vivian	Europe
2,814	27.12.1999	Winterstorm Martin	Spain, France, Switzerland
2,621	06.08.2002	Severe Floods	UK, Spain, Germany, Austria, et al
2,233	03.12.1999	Winterstorm Anatol	Denmark, Sweden, UK et al
1,947	04.07.1997	Floods after heavy rain	Poland, Czech Republic, et al
1,887	08.01.2005	Winterstorm Erwin	Denmark, Sweden et al.

Source: Swiss Re Sigma Report 2006



Neither AIR nor RMS plan to release a footprint of Kyrill. However EQE plans to release a footprint before the end of the month.

United Kingdom

Winterstorm Kyrill is not expected to affect catastrophe programmes in the UK. The average attachment point for UK programmes is estimated at a 9 year return period which equates to approximately a €1.65bn event loss. At the time of writing there are also no reports of large commercial losses which could affect risk programmes.

Germany

Germany has been most impacted by Kyrill and will be the driver of the overall industry loss from the event. Estimates are currently between €1bn and €2bn. The GDV (German Insurance Association) recently announced a revised loss for Germany to €1.9bn from original estimates of €1bn. Consequently it is expected that as well as the proportional market suffering losses, most German companies will recover from the first layers of their catastrophe programmes with some partial losses to the second layers.

Austria

The Austrian Market is estimating a loss of around €150m to €200m. The losses in Austria are mainly limited to the north-eastern part of the country around the states of Upper and Lower Austria and Vienna. Kyrill is expected to have little financial impact on regional companies concentrated in the worst affected regions as natural peril stop loss protections behind the catastrophe excess of loss programmes are common. It is expected that some of the larger national companies will recover from their first layers.

The event had the most impact in the north-eastern part of the country along the Danube river, most especially the state of Oberösterreich. The loss in that state is estimated at approximately €60m, of which the local state insurer (Oberösterreichische) is expected to have a substantial share.

Czech Republic

In the Czech Republic the current market estimate is in the region of CZK800m, of which approximately 60% is expected to be from the Ceska Pojistovna. The other two companies to have been affected to any great extent will be the Kooperativa and Allianz. Regardless this loss is still not expected to have a significant impact to their catastrophe programmes.

France

Kyrill has not had a significant impact on the French market as the total amount of insured property losses is estimated around €50m to €100m. Consequently, individual company losses are not likely to reach the first layers of catastrophe programmes as the first loss retention in the French market is estimated at an industry loss of approximately €50m.

Netherlands

The current industry loss estimates from the Dutch Insurers Association have recently been revised from €200m to €330m. Driving this increase has been a larger than expected loss from the agricultural sector due to the broken glass and following frost which badly damaged crops. Approximately 90% of the current estimates of €330m are building and contents claims which includes business interruption and damage to crops in the agricultural and horticultural sector. It is still anticipated at these levels that the large Dutch nationwide programmes will not be largely affected, only the smaller regional companies with substantial market shares in the affected areas of Holland will be affected.

Poland

Loss estimates to date have been almost inconsequential in the Polish market. It appears that only small amounts will be recovered, if any, from the larger programmes.

It is likely that some of the pro-rata treaties in the market will be affected, although this will be dependant on the exclusion or inclusion of natural perils in each specific treaty.

Switzerland

The market in Switzerland does not regard Kyrill as a major loss-generating event. Most nationally focused companies in Switzerland are posting losses less than €1m. The companies that have interests in other affected countries such as Germany or the Czech Republic are reporting higher losses, but also at levels which will not affect the market or their own solvency going forward.

Reinsurer Loss Estimates

- Bermuda reinsurer XL Capital Ltd. said it expects pre-tax net loss of US\$60m to US\$75m.
- Axis Capital said its losses are expected to be between US\$40m and US\$55m.
- Swiss-based reinsurer Converium said on 1 February it estimated claims of €25m to €35m, based on an assumed industry bill of €bn to €bn.
- German insurer Allianz said on 31 January it expected damage claims from Kyrill to cost it around €350m before tax, adding that the amount of expected claims is within the scope of expectations based on the company's risk modelling systems.

- Zurich has announced that they expect no more than US\$150m in claims from Kyrill.
- French reinsurer Scor said on 29 January that the pre-tax cost of the storm would be between €25m and €30m. It said claims from Germany would make up about 75 percent of its overall bill.
- Hannover Re, the world's fourth-largest reinsurer, on 29 January estimated its Kyrill losses at €120m to €180m before tax. The loss was dampened by Hannover Re's "K5" securitisation, which shifted some of the reinsurer's risks to the capital markets. The insurance industry faces losses of €4bn to €7bn, Hannover Re said.
- Munich Re, the world's second-biggest reinsurer by premiums, estimated on 26 January that the overall insured market loss would be €5bn to €7bn. It said its own share of damage claims, including from its primary insurance unit, would be in the order of €600m based on a preliminary assessment that it said was subject to considerable uncertainty.

The largest claim is likely to come from the container ship MSC Napoli which went aground on the southern coast of England. It also surmises that it has a significant primary exposure from its insurance arm ERGO. As a result the Munich Re €100m cat bond Aiolos may be triggered. To this end S&P has responded by placing the company's BB+ senior secured debt rating on Credit Watch with Negative implications. Munich Re, which launched the Aiolos cat bond in November 2005, has notified the special purpose reinsurer that it may be covered by the transaction.

- Swiss Re, the world's biggest reinsurer by premiums, said on 26 January the overall insurance bill could be up to €3.5bn. It said it expected its own net claims to be about €140m based on preliminary estimates.
- Bermuda-based reinsurer Partner Re Ltd. said it expected claims of between US\$50m and US\$65m.
- Property and casualty reinsurer, Platinum Underwriters Holdings Ltd., said it expects initial losses of US\$10m to US\$20m from winterstorm Kyrill.

Whilst it appears that Kyrill has not had as significant an impact in Europe as might have been anticipated, and historically is still a "medium sized" storm, it is important to note that as in the Gulf of the US, the Atlantic and North Sea have seen a higher than average number of weather systems that could have made landfall and had larger and more severe impacts than Kyrill.

Whom to Contact

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