

# Specialty Practice Briefing

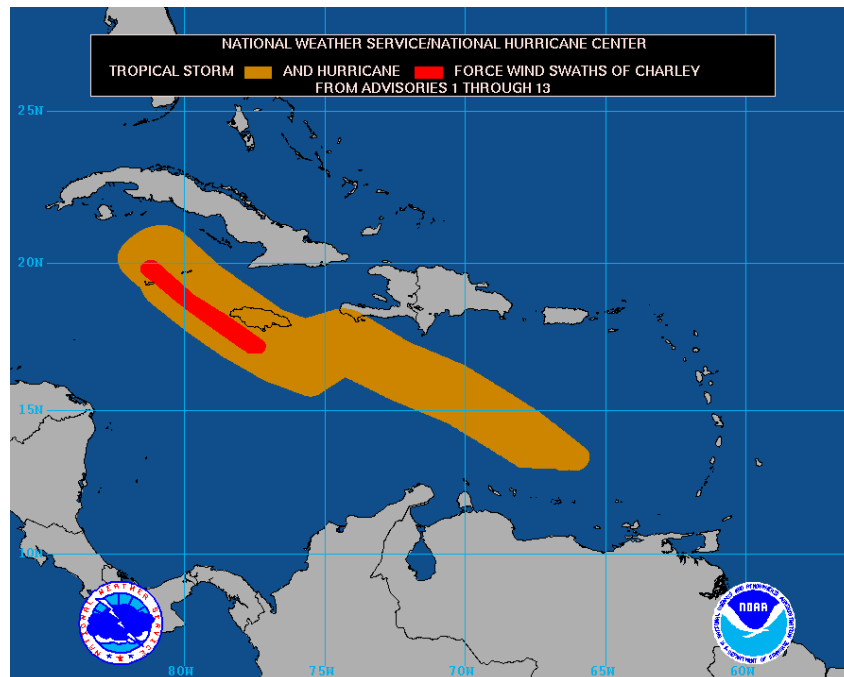
*An update from the Property Specialty*

September 17, 2004

## Hurricanes Charley, Frances, Ivan & Jeanne Caribbean Impact

### Hurricane Charley

Hurricane Charley passed the southern coast of Jamaica and the Cayman Islands on August 11 as a Category 1 hurricane. Up to 6 inches of rain caused flooding and mudslides in some villages of eastern Jamaica. Fallen trees, power outages and a few rooftops were also damaged in Jamaica. Damage on the Cayman Islands was minimal.



### Hurricane Frances

Hurricane Frances went through the Bahamas from September 1 through September 4. Maximum sustained winds ranged from 105mph to 145mph which decreased in intensity as the storm came near the populated islands of the Bahamas.

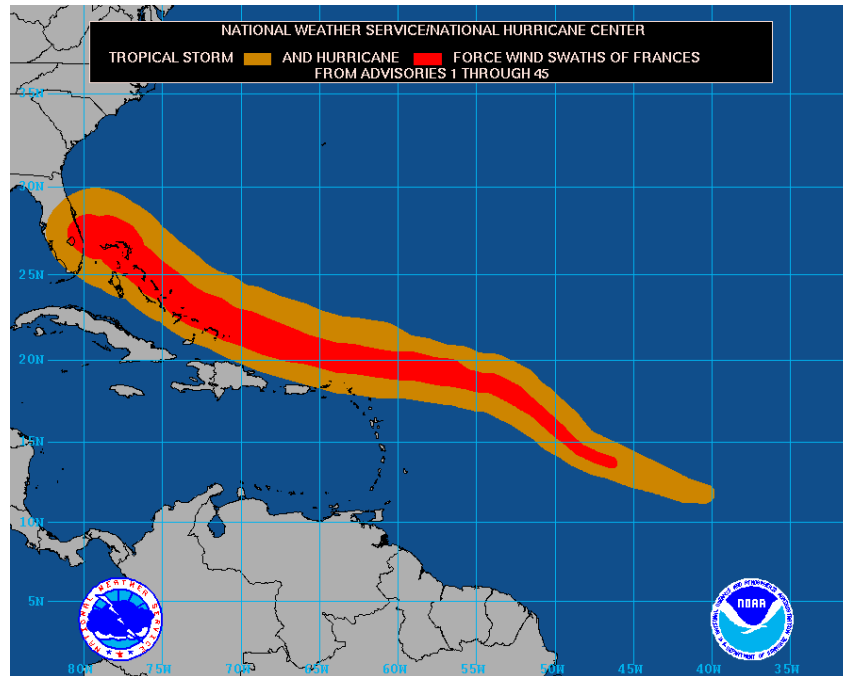
San Salvador Island was hit by sustained winds of around 120 miles per hour. “Between 15% and 20% of the building stock is reported to have sustained some damage. Many properties were rebuilt to high standards after Hurricane Floyd passed through the region.” – Risk Management Solutions

Frances also brushed past Crooked Island and Acklins Island, cutting power and telephone lines. Tropical force winds were felt on Nassau knocking out power and littering the streets with debris and three boats.

Officials estimated that hundreds of homes were damaged or destroyed on Grand Bahama Island. Flooding was also reported at the airport and other parts of the island. Freeport was hit by sustained winds of up to 105mph. The authorities said Frances only delivered glancing blows and that the storm appeared to have caused no major concentrations of damage.

### **Hurricane Frances Loss Estimates**

- A survey of insurers and reinsurers estimated industry insured losses at \$300 million for the Bahamas.



### **Hurricane Ivan**

Ivan struck Grenada on September 7 with sustained winds of 120mph. According to local officials, around 90% of homes were damaged. Ivan also damaged hundreds of houses in Barbados, Haiti, St. Lucia and St. Vincent.

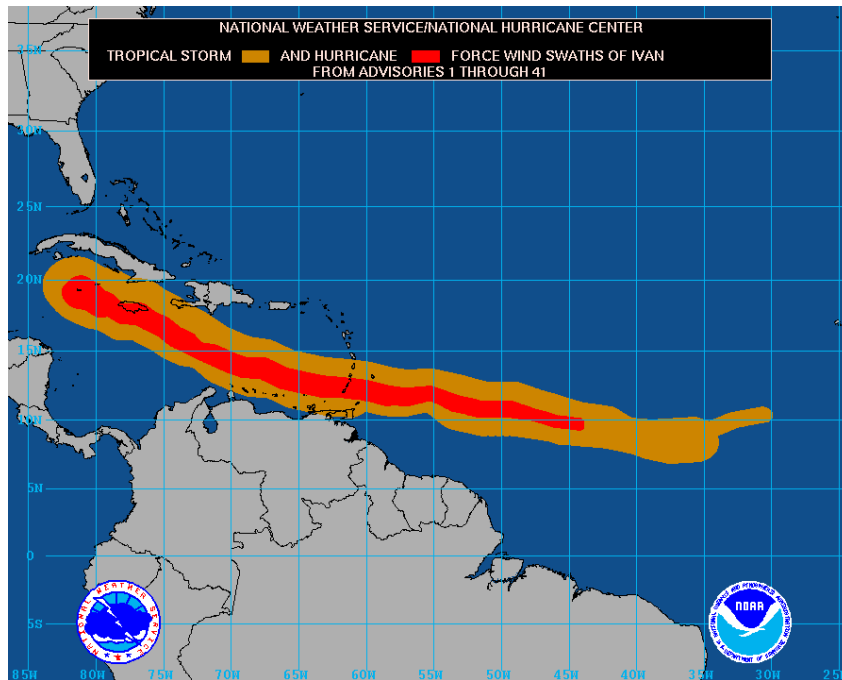
Ivan passed to the west of Jamaica on September 11, sparing Kingston and several tourist areas a direct hit. Yet, reports indicate Ivan inflicted heavy and widespread damage on the island. Virtually the entire island was without electricity. Homes and roads were swept away in flooding caused by heavy rain and huge waves around two-storeys high.

Although the storm's center missed Grand Cayman Island, the largest in the Caymans, by about 30 miles, extensive damage has been reported. The British Government has stated that 80% of approximately 15,000 homes on Grand Cayman suffered roof damage. Much of Grand Cayman is said to be flooded, which is covered by insurance policies.

Ivan's sustained winds as it passed Jamaica and the Caymans ranged from 145mph to 165mph.

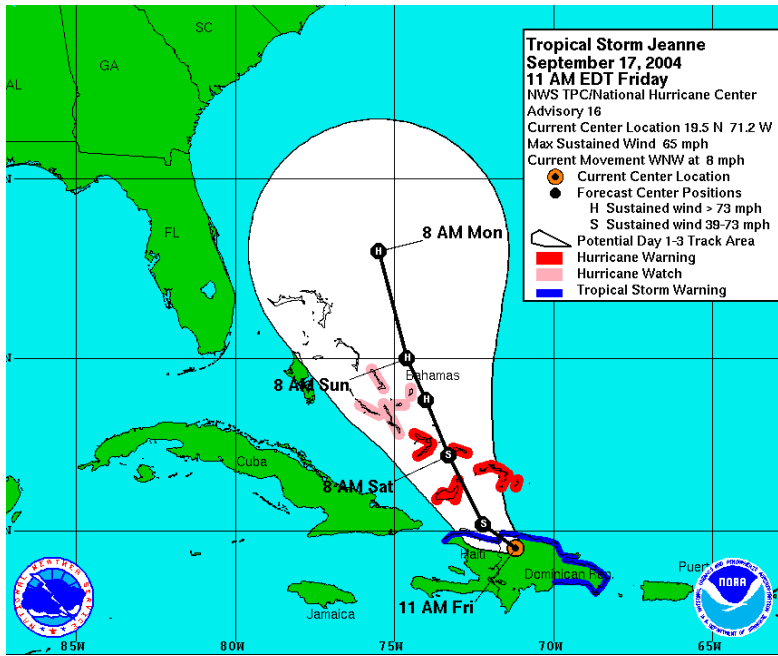
### Hurricane Ivan Loss Estimates

- AIR Worldwide has estimated insured losses up to \$1 billion for Jamaica and up to \$2 billion for the Cayman Islands. These estimates are near the upper end of AIR's Ivan loss range.
- RMS has estimated \$1-2 billion of insured losses in the Caribbean, with the majority of the loss occurring in the Cayman Islands.
- A survey of insurers and reinsurers estimated industry insured losses \$75 million to \$300 million for Grenada, \$350 million to \$850 million for Jamaica and \$600 million to \$2 billion for the Cayman Islands.



### Hurricane Jeanne

Jeanne went through Puerto Rico on September 15 as a tropical storm. On September 16 Jeanne became a Category 1 hurricane as it briefly touched the Dominican Republic. This storm is forecast to increase to a Category 1, as it passes through the Bahamas. Based on this prediction, minimal damage is expected from this storm in the Caribbean.



**Catastrophe Modeling Analysis Available**

AIR released a series of scenario event sets for each hurricane. AIR’s loss scenarios and industry loss estimates are based on simulating the actual event using available data on the event as it develops. The multiple files give clients a probabilistic range for the losses. The scenario storms require the events to be analyzed within AIR’s CLASIC/2™, CatMap™ or Catrader™ applications.

EQECAT released instructions to create a user defined storm event.

RMS identified a handful of pre-defined storm tracks from its stochastic database. These events are an attempt to recognize geographical impact and intensity for each storm which can be pulled from their pre-simulated database of stochastic storms. Using the pre-defined storm tracks, losses for each hurricane can be estimated.

**Market Implications from Hurricane Frances and Ivan**

The overall loss to the reinsurance market from these events will be similar in size to the loss that Hurricane Georges developed for reinsurers operating in the Caribbean. While none of the Hurricanes have individually caused a large reinsurance loss, the aggregation of losses is impacting the results of reinsurers that are active in the Caribbean.

We do believe that this will impact the upcoming January 1 renewal season, below is a brief summary of the areas that maybe affected:

**Immediate Impact**

- The market is currently quoting various types of covers. Several insurers operating in the Caribbean impacted by Hurricane Ivan and Frances are quoting back-up or third event covers. Particularly affected are companies with multi-island exposures. In some cases both first and second event limits have been utilized. This is creating need for additional mid-term purchases in an unfavorable market.
- Guy Carpenter has been actively keeping track of the market for ILW and back-up covers and we are in a position to advise clients about the feasibility and effectiveness of these coverages. We have

also been actively working with clients and markets to develop a variety of other products that are available to cover immediate needs.

**Medium and Long Term Impact**

We believe these losses will also have a medium and long term impact to [on] three key issues important to the Caribbean marketplace as follows:

**Pro Rata Capacity**

- As we have experienced in past catastrophic events, reinsurers supporting pro rata programs will be impacted. Historically, the tendency is for these reinsurers to review and in many cases tighten pro rata conditions at renewal or cease providing pro rata support. Our prior experience showed that pro rata terms did become restrictive or unattractive, for some clients, relative to other options. It will likely lead to the need to replace certain pro rata support or find alternatives to pro rata structures.
- In some cases companies may be better served to switch to excess of loss structures. In order to do that it will be important that these companies take into full account how they are setting their PML’s, how they are quantifying their accumulation of loss from multiple events, how they are setting retention levels and the impact of reinstatements.

**Original Rate Levels**

- Due to the fact that this wind season is having a broad impact across many different islands we believe this will impact how reinsurers differentiate between the islands. Specifically, we think reinsurers will increasingly be asking the question: Does selling my capacity in one market make sense compared to selling it in other Caribbean markets? Issues such as the movements in original rates, post loss underwriting positions, the imposition of sublimits or deductibles, and the response of the local Governments will all be closely monitored. Below are estimated original rate levels by of some of the key islands:

Antigua	1.83% to 2.47%
Bahamas	0.98% to 1.32%
Barbados	0.60% to 0.81%
British Virgin Islands	0.94% to 1.27%
Cayman Islands	0.94% to 1.27%
Dominican Republic	1.06% to 1.44%
Jamaica	0.85% to 1.15%
Puerto Rico Personal	0.28% to 0.35%
Puerto Rico Commercial	0.70% to 0.90%
Puerto Rico Beachfront/Condo	1.50% to 2.00%
Trinidad	0.55% to 0.75%
U.S. Virgin Islands	1.87% to 2.53%

We believe that this is an important issue for our clients to track because it may affect how they are treated at renewal.

**Use of Modeling**

- We believe that similar to other catastrophic events this year losses will increase the importance of modeling. There may be increasing pressure on reinsurers to justify their exposures based on modeling output. As a consequence, insurance companies may be well served to increase their own use and familiarity with the latest actuarial and catastrophic modeling techniques.

We at Guy Carpenter are organizing our resources around these issues. We are uniquely positioned to provide our clients with a broad enough perspective on the overall market to design and develop appropriate solutions. We are also well positioned to deal with the increased level of actuarial and modeling resources that our clients may require. Lastly, we have unparalleled relationships with the

global reinsurance marketplace, which assists Guy Carpenter in its efforts to negotiate the most favorable terms, conditions and security currently available.

### Florida Impact

The market terms and conditions in the Caribbean are greatly affected by what happens in the Florida market place. It is still very early to tell what impact Hurricanes Charley, Frances and Ivan will have on the reinsurance market. It is important to note, however, that despite the significant insurance loss estimates, the reinsurance component is still estimated to be relatively small. There are several issues specific to the Florida market that supports this statement:

- There are a few very large Florida market players that do not buy meaningful external reinsurance. Citizens, Allstate and State Farm alone are estimated to represent more than 40% of the homeowner’s market. (Market share estimate by Fitch Ratings based upon estimate of 2003 direct written homeowners premium)
- Property catastrophe program retentions for the national writers have grown over the last several years to the point where Charley, Frances and Ivan were largely net retained events. It is still early to tell, but the current Hurricane activity could alter how carriers ultimately decide to manage their catastrophe accumulations.
- The Florida Hurricane Catastrophe Fund (FHCF) is the largest reinsurer in the state. Even though the current estimated loss amounts for both storms appear to fall below the industry attachment for the FHCF, the Fund will draw some potential loss out of the reinsurance sector.

In summary, we do not anticipate that the recent Florida activity will have a meaningful impact on the 2005 U.S. property reinsurance market. The reinsurance prices for the Florida specific companies that have been impacted at least once, and in some cases three times, will likely increase at renewal. The rest of the industry should continue to work within a flat to slightly softening pricing environment.

The aggregation and correlation from the multiple hurricanes will probably cause both insurance companies and reinsurers to review how they manage their exposures.

If you have any questions or require additional information regarding the concepts detailed in this report, please contact any one of the Guy Carpenter colleagues listed below.

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