

Association of Bermuda Insurers & Reinsurers (ABIR)



LDI

Louisiana
Department of
Insurance

March 7 | LDI Conference 2022

**Trends in Reinsurance Related to
Climate, Catastrophe and More**

Presented by John Huff, CEO ABIR

The ABIR logo, featuring a stylized blue and green wave icon to the left of the letters "ABIR" in a bold, blue, sans-serif font.

Introduction & About ABIR

- **John Huff: Former Missouri Insurance Commissioner (8 years); Former President of National Association of Insurance Commissioners (2016)**
- **ABIR has nearly 30 years of collective advocacy & education for Bermuda's leading insurers & reinsurers**
- **The Original Disruptor – post Hurricane Andrew in Florida. Addressing political and natural catastrophe uncertainty**
- **Bermuda market provides about a 1/3rd of global P&C reinsurance and over 50% capacity for US mortgage reinsurance, helping to facilitate home ownership for all Americans**
- **Why Bermuda: Pooling uncorrelated global risks to help keep insurance affordable and accessible in all markets**



Bermuda Market: Snapshot

- ABIR members generate income from **150 countries**
- Wrote **USD\$93 billion** in global **gross written premium** (CY 2020)
- Aggregate **global capital** totaling **USD\$124 billion** (CY 2020)
- Bermuda re-insurers **~36% of the global P&C reinsurance** market (2018 AM Best)
- **Paid \$9.2B** for 2017-2019 California Wildfires
- Protect **50% of US Mortgage Reinsurance** – Making Home Ownership Affordable
- ABIR members provide **over 42% of Lloyd's capacity**
- Paid over a USD **quarter of a trillion** to U.S. & EU consumers in past 20 years

Hurricane Ida

Bermuda market is estimated to pay claims of **US\$6 billion** as payments to United States (US) policyholders and cedants to cover the damaging effects of **Hurricane Ida**, which became the second most destructive hurricane to make landfall in Louisiana, behind Hurricane Katrina in 2005.

Source: Bermuda Monetary Authority



Bermuda Regulatory Recognition:

Endorsement of regulators on both sides of the Atlantic.

The **European Union (EU)** awarded Bermuda full equivalence with its **Solvency II** insurance regulatory regime (one of just two non-EU jurisdictions).

Bermuda also earned **Reciprocal Jurisdiction** status from the US National Association of Insurance Commissioners (NAIC), highest tier of regulatory recognition in the **United States**.



Advantages of Leveraging International Reinsurance Capacity:

- (1) Ensure consumer coverage remains affordable and accessible
- (2) Diversify risk pooling
- (3) Export risks away from jurisdiction
- (4) Non-correlation of risks
- (5) Private market solutions
- (6) Protect communities and taxpayers
- (7) Help close the protection gap

Trends in Reinsurance:

Head Winds & Tail Winds

- (1) Close the Protection Gap – *win for consumers and communities***
- (2) Inflation – *It's Back***
- (3) Rate adequacy – *Accessibility & Affordability pressure***
- (4) Global minimum tax proposals – *net negative for U.S. consumers***

Closing the Protection Gap: Reducing economic recovery time after disaster

Centre for Risk Studies (CCRS) at Cambridge Judge Business School report, titled 'Optimizing Disaster Recovery: The Role of Insurance Capital in Improving Economic Resilience,' the annual average loss from natural disasters worldwide jumped from US\$27 billion in 1970-1980 to nearly US\$200 billion in 2010-2019.

The 'Optimizing Disaster Recovery' recovery report of 2020 analyses over 100 natural catastrophe case studies from around the world. One of the key findings was that countries with higher insurance penetration were able to recover far more quickly than communities with lower insurance penetration.

In fact, for each percentage point increase in insurance penetration (non-life premiums divided by a country's GDP) a country's economic recovery time reduced by almost 12 months.

The IDF is a public/private partnership led by the insurance industry and supported by international organisations.

The IDF was first announced at the UNFCCC COP21 Paris Climate Summit in 2015, and officially launched by leaders of the United Nations, the World Bank and the insurance industry in 2016.

About the IDF

- **AIM:** To optimise and extend the use of insurance and its related risk management capabilities to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks.
- **5 Working Groups**
 - Risk Modelling
 - Law, Regulation & Resilience Policies
 - Sovereign & Humanitarian
 - Inclusive Insurance
 - Investment
- Over 200 experts and practitioners from industry, governments, international institutions, NGOs and academia

Trends in Reinsurance:

Head Winds & Tail Winds

- (1) Close the Protection Gap – *win for consumers and communities*
- (2) **Inflation – *It's Back***
- (3) Rate adequacy – *Accessibility & Affordability pressure*
- (4) Global minimum tax proposals – *net negative for U.S. consumers*

Inflation

- 30 years without inflation
- Consumer Price Index now over 7%
- 40 year high in US
- COVID served as kick-start
 - Surge in demand
 - Constrained Supply
 - Increase in Production Costs
 - Rapid rising energy costs
 - Labor shortages
- Long term or transitory
 - Record levels of debt
- Impact on Midterm elections

- Reinsurance Impact: Reserves and Claims



Trends in Reinsurance:

Head Winds & Tail Winds

- (1) Close the Protection Gap – *win for consumers and communities*
- (2) Inflation – *It's Back*
- (3) Rate adequacy – *Accessibility & Affordability pressure*
- (4) Global minimum tax proposals – *net negative for U.S. consumers*

Climate Driven: Change in Weather Patterns

Driving increased severity of loss events

Driving increased frequency of loss events

Simply:

Warmer oceans fuel storms

Sea level rise makes storm surges worse

Hurricanes are stronger, intensify faster

Trends in Reinsurance:

Head Winds & Tail Winds

- (1) Close the Protection Gap – *win for consumers and communities*
- (2) Inflation – *It's Back*
- (3) Rate adequacy – *Accessibility & Affordability pressure*
- (4) Global minimum tax proposals – *net negative for U.S. consumers*

OECD / US Corporate Minimum Tax proposals could cost consumers in Louisiana millions:

1. Louisiana relies heavily upon international (including Bermuda) diversified, noncorrelated **reinsurance** to ensure underlying wind & hurricane coverage is affordable and accessible.
2. Bermuda market plays significant role in providing reinsurance to Louisiana companies. Bermuda companies pay consumption, fit-for-purposes taxes in Bermuda but not corporate tax.
3. Expected Tax Proposals would require corporate minimum tax mandates **(required to be paid in Bermuda)** will essentially be **paid disproportionately by consumers in Louisiana** to maintain existing insurance coverages by homeowners and Louisiana businesses.
4. Dr. Lars Powell analysis predicts that a global minimum tax of 15% would **increase annual Louisiana property insurance premiums by \$137 million**, while a 21% tax rate would increase annual premiums by **\$315 million."**

5. Budget reconciliation process in US would enact these changes on partisan basis.

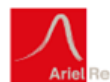


Association of Bermuda Insurers & Reinsurers

Bermuda's Leading Insurers
& Reinsurers for 2022



CHUBB



Thanks to all our partners for their support.

www.abir.bm



Q & A

Twitter: ABIR_Bermuda

Linkedin: ASSOCIATION OF BERMUDA
INSURERS & REINSURERS

Web: www.abir.bm

Email: John.Huff@abir.bm