THE BOTTOM LINE

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A new age has dawned:

it's the era of the employer

Kenneth LeStrange

on founding and building Endurance Specialty Holdings

The beneficiaries:

the astonishing economics of this reinsurance capital

TOP 10

Top 10 Employers That Stand Out

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This year's survey conducted in partnership with mindmaps

Bad news

Headlines like 'How Bermuda rigs insurance rates in Florida' raised eyebrows. But the stories, even thought they were written by an award winning journalist, contained untruths. Jonathan Kent sets the record straight

Boats piled together at a Florida marina after Hurricane Frances in 2004, one of several hurricanes that hit the state over a two year period that resulted in a $22 billion payout from the Bermuda insurance market

Paige St John won a Pulitzer Prize for investigative journalism with her series of articles on the property insurance system in Florida. However, it seems that the judges could not have been too fussy about accuracy — particularly when it came to her generally disparaging comments about the Bermuda reinsurance market.

Ms St John is, by all accounts, an extraordinarily hard-working reporter with a long history of reporting on insurance matters. And doubtless her stories casting offshore reinsurers as the villains of the piece, as long-suffering Floridian homeowners are forced to pay sky-high home insurance rates, went down well with the readers of the *Sarasota Herald Tribune*.

However, it was surprising, in a series which won American journalism's most prestigious award, to see a succession of misleading statements and even some downright untruths about the Bermuda re/insurance market. She portrayed it as price-rigging, unregulated, greedy and hell-bent on making sure that Floridians overpay outrageously to insure their homes.

She paid less attention to the fact that Bermuda reinsurers paid out more than $22 billion to US insurers, some in Florida, in the devastating storm years of 2004 and 2005, and to the fact that the Island specialises in covering the type of extreme risks that the US market is either unable or unwilling to cover. She didn't make it clear that Bermuda reinsurers cannot set Florida homeowners' rates — the Florida Office of Insurance Regulation does that. And she conveniently ignored the work of RenaissanceRe and others in investing in research on hurricane-resistant construction methods; and the support of Bermuda reinsurers for hazard mitigation legislation that would not only help to slash premiums, but would also reduce storm damage and save lives.

Indeed, some of the 'facts' Ms St John used to corroborate her description of the Island's 'famously light' regulation were blatantly false. "Only the island's 37 largest reinsurers must file audited annual reports," Ms St John wrote. Wrong. All Bermuda-licensed insurers and reinsurers must file annual audited reports to regulator the Bermuda Monetary Authority (BMA). This fact was made known to the *Herald Tribune* in a letter to the editor from the BMA, seen by this writer, which corrects other errors too.

The BMA letter was never published by the newspaper and only one of the errors highlighted was corrected. This related to Ms St John's claim that "new executives and their business plans are reviewed by a panel of executives from other firms, not by regulators". In fact, the opposite is true. Licensing applications are reviewed by the BMA's Assessment and Licensing Committee, which consists exclusively of regulators and members of the BMA's legal department — with no industry participants.

Bermuda's insurance regulation has been significantly bolstered in recent years and its risk-based capital requirements are widely recognised as being more rigorous than those applied by the 50 state regulators of the US. International recognition has come with Bermuda being in the first wave of countries to be assessed by European regulators for third-party equivalence with the EU's imminent Solvency II rules and in the form of a seat for BMA CEO Jeremy Cox on the Executive Committee of the International Association of Insurance Supervisors.

If regulation were as lax as Ms St John suggests, the proof should have come in the form of Bermuda reinsurers failing to live up to their obligations in the event of major storms. But as the Association of Bermuda Insurers and Reinsurers is happy to point out, there has never been an insolvency or a default of a Bermuda reinsurer impacting Florida hurricane claims.

The headlines from the articles in question, published last October, summarise Ms St John's position: 'How Bermuda rigs insurance rates in Florida'; 'Property insurers sending billions overseas'; and 'Bermuda's reinsurance record is not spotless'.

There was a clear implication from the stories that one of the reasons for high rates was a lack of competition in the reinsurance market and the articles depicted a market in which reinsurers called the shots and somehow controlled insurance pricing. The facts do not bear that out. Pricing of reinsurance renewal business at June 1 last year in Florida was down by an average of between 10 and 12 percent, according to reinsurance broker Guy Carpenter, the third decrease in rates in four years. If Bermuda reinsurers really were 'rigging' the market, why would the price of reinsurance fall?

One of the reasons, of course, is the existence of brokers, who work on behalf of their clients, the insurers, to get the best deal they can in buying reinsurance. This simple aspect of how the market works was all but ignored amid the complexities of Ms St John's theory on how reinsurers were rigging the market. Brokers facilitate a competitive market.

If big, bad Bermuda reinsurers are overcharging to the extent Ms St John claims, then why don't the likes of Berkshire Hathaway, Swiss Re, Munich Re and Lloyd's reinsurers come rushing in to undercut them and increase their own slice of the pie? Perhaps because they estimate that the risks of more exposure in Florida are not worth the reward offered by current pricing.

The stories were peppered with statistics, many of them derived from databases Ms St John built herself, which left the reader in no doubt of the stark reality that Florida homeowners pay more than most for their property insurance and that the state is heavily reliant on non-US reinsurers. This should not be a surprise, given Florida's remarkable vulnerability to hurricanes.

A 2007 assessment by catastrophe modeller

AIR Worldwide found that Florida had $2.46 trillion of value in coastal properties exposed to hurricanes, more than any other American state and 79 percent of Florida's total property insurance exposure. People have flocked to live on Florida's long coastline, attracted by its pleasant climate, adding to development in wind-prone spots. The US Census Bureau found that the population of Florida's coastal counties grew by more than 10 million between 1960 and 2008, a 262 percent increase. The US county most frequented by hurricanes during that 48-year period? Monroe County, in — you've guessed it — Florida, which was hit by 15. Not far behind is Palm Beach, hit 12 times, where the population grew an astonishing 455 percent. It is little wonder that the Sunshine State has one of the highest concentrations of risk in the world.

Florida Insurance Council president Cecil Pearce spelled it out in an op-ed published by the *Herald Tribune*, stating the experts' view that Florida is subject to an average annual loss of $9.7 billion per year. "This represents more than 60 percent of the expected average annual loss for windstorms in the entire United States, and is more than six times higher than the next closest state, Texas," Pearce writes.

Given the extraordinary risks, no-one should be surprised that, a) Florida home insurers are themselves taking on extraordinary levels of risk; and b) they are likely to buy reinsurance to spread those risks.

Bermuda reinsurers supply about 40 percent of the US property catastrophe reinsurance market and meet a hefty proportion of Florida demand. These companies reinsure risks all over the planet, a point well illustrated in the first quarter of this year when the Bermuda market paid out more than $6 billion in claims resulting from events including earthquakes in New Zealand and Japan, flooding in Australia and social unrest in the Middle East. Buying reinsurance from Bermuda allows Florida insurers to plug into a network covering a diversified portfolio of global risks. Mr. Pearce, whose organisation represents Florida insurers, puts it succintly: "If risk is effectively spread, no single company is saddled with a financial burden beyond its ability to pay."

Ms St John's work certainly pointed out some of the challenges that make Florida's property insurance market unique. Carriers have fled the state and there are increasing concerns about insurer solvency. The state-run Citizens Property Insurance Company is the largest writer of homeowner's insurance, with about 1.3 million policyholders. The state also has its own reinsurer, the Florida Hurricane Catastrophe Fund. The hurricanes of 2004 and 2005 plunged them both deep into the red and proved beyond doubt that Florida cannot insure its own property risks without outside help.

Robert Hartwig, president of the Insurance Information Institute, wrote a blunt letter to the *Herald Tribune* protesting Ms St John's suggestion that policyholders would be better off if their premiums from recent, storm-free years had gone to the state entities, allowing them to finance future hurricane losses. "Does St John really believe that in a state where the insured value of coastal property exceeds $2.4 trillion, a sum that is more than three times the size of Florida's entire $744 billion economy, that the state should even try?" Dr. Hartwig wrote. "Had a major storm struck in recent years, the ensuing bailout of the state's insurers could have forced Florida to float the largest municipal bond issuance in United States history, potentially bankrupting the state."

The recent evidence is that the state sees Bermuda's reinsurers as part of the solution, rather than part of the problem. The Florida Insurance Department has a legal cooperation and information-sharing agreement in place with the BMA. Florida's insurance regulator has also dramatically reduced collateral requirements for non-US reinsurers, effectively lowering the barriers of entry to the market for those it considers financially sound. Thirteen of the 14 reinsurers approved by the time of writing were Bermudian. It all suggests the realisation of a symbiotic relationship.

What is certain is that if the Sunshine State has the misfortune to be ravaged by a major storm this summer, an influx of billions of dollars from Bermuda will be instrumental in getting Floridians back on their feet. BL