

Bermuda

Delivering solid, relevant products and services

Some \$4 billion was invested into Bermuda's insurance industry after Hurricane Andrew in 1992. Another \$10 billion arrived after the destruction of the World Trade Centre in 2001. When the storms hit the southern US coast in 2005, \$18 billion more flooded in. Bermuda has firmly established itself as the catastrophe reinsurance capital of the world.

Now home to 41 of the world's major insurers and reinsurers, the island has played an instrumental role in the industry's development. From captives and excess liability to structured risk and reinsurance, Bermuda has been a pioneer of innovative responses to market needs for 45 years. Gregory A. Wojciechowski, president and CEO of the Bermuda Stock Exchange (BSX), says the country's continuing ability to deliver solid, relevant products and services is its main advantage.

"Bermuda has always set the standard offshore and continues to do so in its core business areas. It is well accustomed to operating an international business platform and to monitoring international trends. The government and business operators are commercially focused and are committed to striking the delicate balance between proper safeguards and encouraging innovation," he comments. "BSX is today the world's largest offshore, fully electronic exchange."



"The BSX today is the world's largest offshore, fully electronic exchange"



A REPUTATION OF TRANSPARENCY

The reinsurance capital of the world

In recent years Bermuda has transformed itself into a world-class blue-chip financial center, home to 75 percent of Fortune 500 companies and top global reinsurance hub

Only a two-hour flight from New York, Bermuda has capitalized on its strategic location at the crossroads of Europe and America by implementing an efficient and business-friendly environment that has propelled the island to be regarded as the world's risk capital.

Tourism and financial services make up the bulk of the country's economy, accounting for more than 70 percent of GDP. Bermuda has one of the highest per capita incomes in the world and has become a global leader in high-stakes risk financing.

Even after having dealt with seven of the ten most expensive hurricanes in history, almost all the companies established in Bermuda since 1985 are performing well and reporting solid profits.

Over 50 years of servicing the international business community has contributed to the development of the island's premier service infrastructure. It offers a complete spectrum of financial service providers, including top international legal firms and reputable accounting firms. Add to this a strong banking system, state-of-the-art communications and high intellectual capacity and Bermuda has

everything that international business leaders need. Within a six-block radius people can do more business than if they were jetting around the world.

Designed with the intention of striking the right balance between high international standards and fostering an enabling environment, Bermuda has a well-deserved reputation for intelligent regulation.

The integrity of its financial regulatory system is globally renowned and is a result of continual efforts by the government to meet and exceed international financial standards. The Bermuda Monetary Authority, the independent body responsible for monitoring the financial sector, emphasizes transparency and rigorous entry controls that focus on quality over quantity. Furthermore, Bermuda's tradition of strong public-private relationships has allowed the island to remain at the forefront of developments in the global financial sector.

Already a leader in the insurance and reinsurance industry, as well as the global leader in the captives industry, the jurisdiction of choice is now flourishing as an up-and-coming center for investment funding, i.e. hedge funds.

The outlook for the future of Bermuda is very positive. Last year passed without any major natural disasters and provided the insurance and reinsurance companies with abundant revenues, which also influences other sectors on the island.



Ewart Brown
Premier of
Bermuda



Risk by design



Ariel Holdings
Insurance & Reinsurance

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INTERVIEW

“We aim to keep our reputation and A-grade calibre”

With two successful years under her belt, Minister of Finance Paula A. Cox speaks about the next two years of her term

Today we are building on some of our prior success. We are seeking to further liberalize and open up the economy. In the Ministry of Finance, we have been expanding on what already existed, from a legislative point of view, while continuously raising the bar and keeping pace. We do not change unthinkingly. We think things through and make the necessary regulatory changes that are in the best interests of not only our external reputation, but also in terms of what makes business work efficiently.



The Hon. Minister Paula A. Cox
Deputy Premier and Minister of Finance

In the next two years, the government will look to have a greater international reach. I believe you will see the premier's office setting up a branch in London, which will give us a greater strategic position and help us attract more business by providing a contact point for clients interested in coming to Bermuda. We are aiming to make sure that we have enhanced accountability models, and that all the necessary checks and balances supporting them are in place.

For both the government and the ministry, I think that there is still much to do and much we will accomplish. We have to do our part to ensure Bermuda keeps its excellent reputation and make certain the caliber of people operating in our jurisdiction remains A-grade. Bermuda is a place where you feel safe and can operate in a proper regulatory environment and if there is a question, we will take action.”

QUALITY ALLIES WITH MINISTRY OF FINANCE

Market-responsive high standards provide basis of strong public-private partnerships



An international business destination of choice, Bermuda has the unrivalled integrity of its financial regulatory system and close working relationship with the private sector to offer partnerships a great deal



Within the same block, industry leaders can see everyone they need, from ministers to clients

Bermuda's Ministry of Finance is one of the key participants behind the country's successful climb to establish itself as a major global financial centre. Now world leader in the insurance and reinsurance markets, and home to most of the Fortune 500 companies, Bermuda has gained an impeccable international reputation as one of the most prestigious and stable jurisdictions for international business and finance. The country's emphasis on quality and not quantity has led it to develop a time-tested and successful regulatory and legal framework that has become known worldwide as the Bermuda model.

At the heart of the success of the Bermuda model is strong public-private cooperation. While emphasizing transparency and continually raising the bar in terms of international standards in its financial sector, the government has also worked to establish and maintain effective communication with the private sector. This relationship is considered to be a partnership and key business leaders are frequently consulted when new legislation is being drafted.

“The Bermuda model reflects the significant impact and influence of the Ministry of Finance working in collaboration with the Bermuda Monetary Authority and the private sector,” states Minister of Finance Paula Cox. “What makes us effective as the Ministry of Finance is that fact that we are able to talk and discuss issues. I would definitely describe the relationship between us and the private sector as a workable partnership.”

The growth in the registration of new companies is a sign that the world's business community continues to have confidence in Bermuda's economy and continually updated legislative framework. It also shows the country's reputation as a

domicile of choice remains strong. HSBC's recent acquisition of the Bank of Bermuda has brought new attention from European, Asian and Middle Eastern investors, and helped boost the country to a new plateau, according to the minister.

“There has been a growth in terms of insurance companies and reinsurance companies seeking to domicile here,” she adds. “The fact that Bermuda already has a cachet and a reputation as the risk capital of the world is certainly a key factor for investors. Also, we have credible and reputable players here. Bermuda's success has bred further success, and it is still seen as having a singular advantage in terms of what we have to offer.”

In addition to its idyllic setting, the country offers world-class infrastructure with state-of-the-art communications and intellectual capacity. The caliber of its professional services is unparalleled and the ease of doing business in the country is a major draw.

“What industry leaders find useful about Bermuda is that within just a block, they can see all the people they need to see, whether they are insurance managers and brokers, the government, the regulator or potential clients,” says Ms Cox. “We strive to be accessible, although not overly familiar, and also to be responsible. Often we don't realize the advantages this brings to those coming in as new business entrants.”

“Bermuda's success has bred further success, and it is still seen as having an advantage”

MAINTAINING BERMUDA AS THE PREMIER JURISDICTION OF CHOICE

By supervising the nation's economy and providing a flexible regulatory framework, the Ministry of Finance has created an open, prosperous and attractive financial environment for private sector enterprise along with effective public-private partnerships for an investor friendly future.

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ARIEL RE

The fresh face of insurance is a class act



Accumulated industry experience and maturity form the foundations of a dynamic new player with plans to diversify and broaden its horizons beyond property catastrophe reinsurance

Ariel Reinsurance was the first of a new group of startups that formed to fill the capacity shortage created by the severe hurricane losses of Rita, Wilma and Katrina. These 12 new Bermudian companies brought \$8 billion in new capital equity to the island. A hard market and an unusual absence of natural disasters last year gave this "class of 2005" a prosperous 2006. "It's nice to be smart and opportunistic, but also terrific to be lucky," comments Donald Kramer, Chairman and CEO of Ariel Re. "We had



Donald Kramer
Chairman & CEO
Ariel Re

bought by insurance giants ACE and XL Capital respectively. A second co-president at Ariel Re, Mark Herman, is a former CEO of ACE Bermuda. Co-president George Rivaz, who is in charge of reinsurance

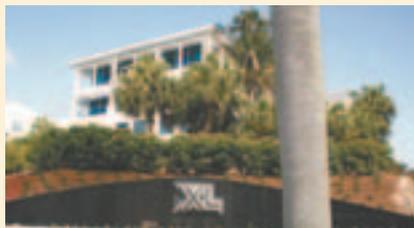
a spectacular launch and we are an exceedingly profitable company. We started with a clean slate and have had no serious losses; it has just been extraordinary."

Ariel Re is a fresh face on years of accumulated industry experience. Mr. Kramer previously founded two companies – NAC Re and Tempest – that were later bought by insurance giants ACE and XL Capital respectively. A second co-president at Ariel Re, Mark Herman, is a former CEO of ACE Bermuda. Co-president George Rivaz, who is in charge of reinsurance

underwriting, was a partner of Mr. Kramer's at Tempest in the 1993 wave of new companies.

To establish the company, Mr. Kramer used the existing infrastructure of Rosemont Re, which Ariel Re bought in October of 2005. It took only four months to get fully operational, then less than two months to secure the \$1 billion needed in equity capital for an A-Excellent, Stable rating from AM Best & Company.

Ariel Re aims to broaden its scope outside of property catastrophe reinsurance to include some of the liability classes as well as direct insurance. It will target both the US and UK markets, and is studying the possibility of creating a franchise. Mr. Kramer states, "We were a player in 2006. We hit the decks running and so we pretty much wrote what we could write in the US in terms of our capacity limits. We will continue to write the volatile catastrophe sector as a segment of our business and build around that to diversify our business." ●



A formidable presence in the industry, XL boasts assets of more than \$60 billion and has 3,500 employees in 30 countries

XL CAPITAL LTD

Setting the standards in the global risk business



With more than 20 years experience of riding the waves of growth in insurance and reinsurance, XL Capital meets large complex loss situations with professionalism and timeliness

By successfully responding to market changes and competitive challenges, XL Capital Ltd has gained a formidable presence in global reinsurance. One of the key agents that launched Bermuda's insurance industry, XL began operations in response to a shortage in the market for liability coverage, and reported a net income of \$1.7 billion for 2006.

"The company started in 1986 with a visionary concept that would change the face of risk transfer," states Brian O'Hara, president and CEO of XL Capital Ltd. "We set out to change the standards in the industry in terms of reliability, particularly on large complex loss claims situations. This can be done by controlling your capacity and not using a lot of reinsurance. Using your



Brian M. O'Hara
President & CEO
XL Capital Ltd

professionalism and timeliness. "The whole point is to be at the forefront of providing effective risk transfer solutions and to be a large and reliable partner," says Mr. O'Hara, who has been at the helm of the Bermuda-based company since 1994. "XL has become a truly global company and is setting the standards in the global risk business."

XL has met market challenges head-on. It re-

capital base to provide the risk transfer allows you to be in control of your destiny. With these concepts we have paid billions of dollars in claims with hardly any litigation."

Over the past two decades, XL has forged strong relationships with clients and built up a reputation in the industry for resolving substantial complex loss situations with professionalism and timeliness. "The whole point is to be at the forefront of providing effective risk transfer solutions and to be a large and reliable partner," says Mr. O'Hara, who has been at the helm of the Bermuda-based company since 1994. "XL has become a truly global company and is setting the standards in the global risk business."

bounded from losses incurred after Hurricane Andrew in the early 90s and also led a major resurgence in the industry after 9/11. Similarly, in 2005, it recorded net losses of \$1.3 billion, but succeeded in raising \$3.2 billion through shares and equity security units. Mr. O'Hara says that Hurricane Katrina in August 2005 was especially damaging, as New Orleans was shut down for an entire year, causing the level of loss to rise to unprecedented levels. It prompted XL to review its risk analysis models. "What the world is learning is something we have known all along – that risk has high variability and is largely very unpredictable. On the other hand we have the capital strength, the fundamental strength, and the expertise to recapture that profit rather quickly," he comments.

Developing increased scale and diversity is the way forward for XL. It has based a great deal of its growth on a string of acquisitions in the past decade, such as Winterthur International in 2001, which enabled XL to extend its reach in Europe.

The US is the strongest market for XL, where it is opening new lines of businesses. Mr. O'Hara says the company will now lean towards organic growth. It has also received approval to open a representative office in Beijing, which will initially act as a non-income generating liaison point and demonstrate to regulators the added value XL can bring to the market and China's emerging growth opportunities. ●

XL FOUNDATION

Social responsibility and community service

Founded in 1992, the XL Foundation has been involved in numerous philanthropic initiatives and has awarded more than \$14 million in charitable grants. In addition to the XL Education Initiative in Bermuda, which trains students in IT, it has supported literacy programs in Sri Lanka, an inner-city charity in London and a career education program in Zurich. It also matched employee contri-

butions in the wake of the 2005 US hurricanes.

On June 16, 2006, XL organized a Global Day for Giving. Instead of going to work, XL employees around the world performed a community service of their choice, donating some 20,000 hours in 20 countries. XL president and CEO Brian O'Hara states, "Our employees were so enthusiastic about it that we are going to do it again in 2007." ●

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Visit www.xlcapital.com

*Rating as of November 9, 2006



FUNDAMENTAL STRENGTH – CAPITAL AND PEOPLE