

BLAIS
EXCESS & SURPLUS
AGENCY OF TEXAS, LTD.



PRESS RELEASE

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**P&C INSURANCE RATES
AND
THE BERMUDA MARKET**

The losses from Hurricane's Katrina, Rita and Wilma have continued to challenge the insurance markets. Rates are hardening in both the insurance and reinsurance markets and we predict a rapid increase in alternative risk transfer vehicles, especially in rent-a-captive services, to assist and divert some of these rate hikes. Bermuda has seven (7) new insurance companies that have started with fresh capital to aid in these efforts.

Capital Influx - Bermuda

Both Hurricane Andrew and 9/11 led to increased activity in the creation of Class IV insurers in Bermuda. Bermuda has demonstrated a consistent ability to raise capital to replace that lost by the insurance industry. Since Katrina Bermuda has attracted more of this capital than any other sectors with over \$6 billion raised for new formations alone being:

Validus - Harbor Point – Lancashire - New Castle Re – Amlin – Hiscox - Omega

This confidence strongly endorses Bermuda's value across the globe and should lead to many new and exciting opportunities to place business in Bermuda.

Downgrades in Ratings

This has put added pressure on insureds in complying with loan covenant and contract requirements. Most companies, with a few exceptions have ridden this wave and look set to maintain the same, or close to the same, rating as prior to these events.

Market Predictions

Previous major catastrophes have had a pronounced effect on how the insurance industry views and underwrites risk. Beyond the losses and replacement capital, we speculate that the recent hurricanes will have the following effect on the insurance industry.

Hardening of Premium Rates:

This will be widespread and beyond the lines hardest hit by Katrina which were energy and catastrophe property. Expect to see significant rate increases in these lines but also non catastrophe property, liability, and even workers compensation. With the influx in new capital to the market we expect that the most significant rate hardening will be short-lived.

Increased Use of Captives for Property:

Coming at the same time as the US Treasury announced that it unlikely to extend TRIA in its current form and the Spitzer investigations into finite risk, Katrina is likely to lead to increased use of captives for property and other lines of coverage. As captives can not benefit from IBNR reserving for this line, a big focus will be on finding tax efficient ways to finance this risk.

Liability exposures from Natural Catastrophes:

Just as 9/11 led workers compensation underwriters to focus on concentrations of employees in single locations, Katrina will lead liability underwriters to give greater consideration to natural catastrophe exposures. Disaster preparedness in terms of evacuation procedures and management of environmental issues will be important considerations for quake and windstorm exposed locations.

Tightening of wordings:

The industry will face disputes between flood and windstorm issues on which policy should respond. This will lead to a tightening of policy wordings going forward. We expect US commercial insurers will look to push more storm related water damage to the federal flood program. We also expect to see broader exclusions for mold.

Multi-line Accumulations:

Single event accumulations are one of the biggest challenges in the industry. Hurricane Andrew led to an increased focus on catastrophe modeling to assess accumulations, but both 9/11 and Katrina have illustrated the potential for accumulations in multiple lines of coverage from a single event: property, liability, workers compensation, disability, life and health. Greater attention will be paid to managing retentions across multiple lines and modeling correlations between different risk exposures.

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