Autumn 2017

# THE INSURANCE Insider

## BERMUDA ROUNDTABLE 2017

# Watch this space

In the wake of Q3 cat losses, all eyes are on the retro market

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# All about the retro

Bermuda is blessed with some of the best restaurants I've ever had the pleasure to attend, and seafood features heavily – unsurprisingly, given the vast expanse of the North Atlantic surrounding Bermuda's beautiful beaches.

I'm told if you venture out to Bermuda's coral reefs you can truly get an idea of the entire food chain, from the bioluminescent fireworms to the rockfish and spiny lobsters.

Another sort of food chain was the topic of our annual roundtable, however – that of the (re)insurance market. All eyes in Bermuda were on the retro market to see how badly, if at all, third quarter hurricanes, quakes and wildfires might hurt the island's fortunes.

For the most part, our participants were bullish. Not only are they of a sunnier disposition in this part of the world, but Bermuda also benefits from a strong capital base and a lesser focus on some of the most affected lines, such as property D&F.

Similarly, much of the Caribbean market is either written in North America or picked up by the London binders market.

However, as our readers will know, it's not that simple. If the cost of industry loss warranties goes up for retro writers, they'll have to increase their prices. And if retro providers do turn out to have combined ratios of more than 400 percent – as was suggested during this roundtable – that will have to be passed on to their reinsurance clients in the form of double-digit rate increases.

Will the primary markets and the end customer suffer as a result? Or will we see retentions increase instead?

There are also question marks around how the insurance-linked securities (ILS) markets will respond. How much collateral will be trapped as a result of the recent nat cat losses? And is there really a wall of capital ready to come in and reload?

As one participant pointed out, it's likely that some investors will have come in for the early retro placements, ahead of the trio of hurricanes, and missed out on any potential rate rises, which could dampen their appetite for buying into any more.

Another factor which could temper investors' enthusiasm is that some standalone ILS funds don't add any of their own intellect to the models handed over by third party vendors. If those modellers have missed the mark, and the investors have ended up with bigger losses than they were anticipating, will they be willing to come back in?

This could actually be a turning point for ILS investors. In the same way that hedge funds suddenly demanded greater transparency and proper due diligence after being stung in 2008, could we see the same thing happen for ILS?

And what could that mean for the fees attached to such structures, given the shock of 2008 led to high watermarks being introduced and the death of 2 and 20?

Plenty of food for thought!

**Charlie Thomas**
Managing editor
*The Insurance Insider*

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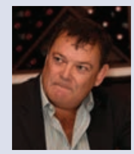

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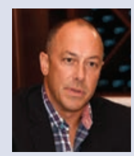

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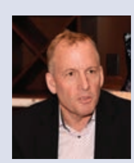

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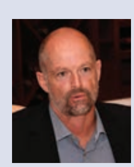

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# The Bermuda Roundtable Autumn 2017

**Charlie Thomas**
It's a fascinating time of year, given the North American wind season that we are still going through, so I would like to hear what some of the key points are that people are most interested in?

**Richard Askey**
I'm quite interested in the view on the ILS market because for the first time, with events such as these, we're going to see how that market reacts as far as current claims payment is concerned, and equally how it reacts with regard to whether there's significant amounts of trapped cash – and whether we see a full reload in 2018 from investors as well. And in terms of retro, will we see more looking back to the traditional market? Obviously, I'm interested in capital implications and what it means for us as an organisation as well – whether there may be more opportunities as you look forward to 2018 and whether it perhaps offers more favourable market conditions as well.

**Chris Coleman**
Our company doesn't actually write any property cat – we made a decision with our business model to take more risk on the asset side of the balance sheet. And we don't have an ILS fund, but, given the importance of property cat to the overall reinsurance market, we certainly have a perspective on it.

We're mindful of the potential implications of things happening on the property cat side to the capital positions of companies, and that has knock-on effects for some of the things we look to participate in on the back of large events like this. We believe that we may see opportunities to provide protection to cedants who have suffered hits to their capital.

"THIS IS ONE OF THE FIRST LARGE SEQUENCES OF CAT LOSSES UNDER THE NEW REGIME OF SIGNIFICANT ILS CAPACITY. THIS WILL BE A GOOD TEST CASE FOR HOW THAT'S GOING TO PLAY OUT"

**CHRIS COLEMAN**

**Sebastian Kafetz**
Following some of the big events of 2005 and 2011 we saw some companies get into trouble and that drove some M&A. We saw sidecars early on in 2005, new companies forming, so I'm interested in views about the evolving business models that we're seeing and whether these events accelerate changing business models – whether that's consolidation, or people setting up more funds or sidecars, etc.

**Charlie Thomas**
To put this in a historical context, with these three hurricane events hitting roughly the same region in North America and the Caribbean, is that enough to be a market-turning event? Are (re)insurers prepared for what's to come, given such a long period without major cat events?

**Jed Rhoads**
It would defy logic, reason and history to assume that, in a low interest rate environment where property cat has propped up most insurers' and reinsurers' results for many years, to have over $100bn of industry loss wouldn't result in a market correction. We've had several years of consecutive, meaningful rate decreases. My organisation writes an equal amount of casualty and specialty business as they do property, and those have been throwing off low single-digit returns, in a low interest rate environment, in the worst catastrophe year ever.

From January to August, $22bn of losses occurred around the world, and if you add the $70bn-$100bn that have happened since September, we have a dramatic increase in frequency and severity. As an industry, we always tend to focus too much on severity, but it's really a frequency play and I've always said that it's frequency of losses that will have a bigger impact than one big loss.

And there's another thing: we could have another event, whether it be a wind or an earthquake event, somewhere in the world before the year is out. Imagine the pressure that is going to put on the industry.

**Charlie Thomas**
Jeff, what has this meant for Bermudians in particular?

**Jeff Sangster**
If I look at Q2, which was a reasonably quiet cat quarter, the returns were not good enough. In the absence of cats the returns need to be better because we're going to have quarters like Q3. We've been reasonably fortuitous with cat events – or the lack thereof – for the better part of 10 years. Barely scraping a double-digit return or high single digits isn't good enough, so a lot of the Bermudians have changed their approach to the business and have de-risked the book.

That said, by and large the Bermudians are going to come out of these loss events looking reasonably good, because everyone has de-risked one way or the other, whether that's on the gross exposure or by buying intelligently with reinsurance and retro. If someone is an outlier when earnings get announced, I expect it to be because they didn't avail themselves of the coverage out there that for several years has been so comprehensive, so cheap, and global in nature.

As for what rates will do, it's not really an "if" – we need rate across a large number of lines and our investors and shareholders are going to be demanding that.

**Charlie Thomas**
If I can bring Jonathan in here, do you think there's a positive opportunity to come out of all this?

**Jonathan Reiss**
While I completely agree with everything these gentlemen have said, it's relevant to note that in dollar terms the World Trade Center attack wasn't that big an event. It's credited with being the market-turning event and some people will say that's because it was such a complex event and it affected so many lines. I don't know how true that is, but the reason it was the straw that broke the donkey's back was that it came off the back of a number of years of broad, inadequate pricing. 2017 is analogous to that because there's no doubt that the lack of cats has subsidised the industry broadly.

The other thing that is noticeable, especially with Harvey, is the protection gap. There's a tremendous amount of opportunity if these recent events encourage more transfer of risk to the private market. With respect to Harvey, the NFIP bought coverage for the first time; it bought $1bn of limit and paid about $75mn for it – that's a hell of a recovery. But also there's more to it than just dollar swapping. If you transfer more risk into the private industry, there's genuine expertise there. There's much to be said for the underlying risk management and we have a lot of expertise and we have the data.

**Chris Coleman**
It's quite possible that these storms are going to expose some underpricing of risks within the business, and the point about how reported results have held up on the back of a relatively benign cat environment – that's been a big struggle for us in terms of reconciling our underwriting results with the questions we get from insurance investors. They're looking at our combined ratios of 105 and saying "Why can't you generate 85s and 90s like your peers", and we need to explain that once you get out of the property cat space where there's the potential for margin, there's a tremendous amount of risk that comes with that. And a lot of the casualty business is underpriced as well.

"THERE'S A TREMENDOUS AMOUNT OF OPPORTUNITY IF THESE RECENT EVENTS ENCOURAGE MORE TRANSFER OF RISK TO THE PRIVATE MARKET"

**JONATHAN REISS**

We've started writing mortgage and some other things around the edges, but really in the core casualty business a lot of programmes are being written with expected losses, where we're competing against more traditional reinsurance companies and oftentimes being priced out.

There's obviously still a lot of excess capital out there and potentially this will chew through that. And, of course, this is really one of the first large sequences of cat losses under the new regime of significant capacity in the ILS space. This will be a good test case for how that's going to play out and for what that does for pricing.

**Angus Ayliffe**
As something of an old hand myself, Jed said something that resonated with me. In 2004, we saw four hurricanes that year and prices hardly budged. This time it may be different because of trapped capital. The capital structures created in the last 13 years are completely different and that's going to be the key dynamic – certainly in the reinsurance and the retro space – this time around.

Jonathan was talking about the transfer of risk from the public market into the private market by flood. If that happens, insurers and reinsurers have to be very careful what they wish for, because that may actually come with some sort of political trade-off.

How it all flows into the ILS markets is incredibly interesting for me, because if you look at all the preannouncements, everybody is announcing relatively low net losses; nobody shows you what their gross loss is, but that has to go somewhere, so where has it all gone?

**Jeff Sangster**
A lot of those ILS funds buy outwards protection as well. Where does that go? Is it just going into the industry loss

"AS SOON AS YOU END UP WITH A 25 PERCENT LOSS INSTEAD OF 10 PERCENT, OR AS SOON AS YOU END UP WITH A SIGNIFICANT AMOUNT OF TRAPPED CASH, THEN YOU'VE GOT SOMETHING THAT MAY HAVE BEEN LESS WELL EXPLAINED TO THOSE INVESTORS"

**RICHARD ASKEY**

warranty (ILW) market that's basically backed by the derivative market – and the other side of that is some nameless, faceless Asian bank?

**Jed Rhoads**
You will see a disproportionate amount of this loss in the ILS market – not directly, but indirectly flowing through. One of the largest brokers in the business said they believe that all retro accounts are going to run a 400 percent loss ratio – they just look at what's being reported and what's likely to be reported. Well, who controls the retro market?

**Seb Kafetz**
There is also a diversification play in that if you look at the investors in these funds, they're generally different to the investors in publicly traded Bermudan companies. Admittedly, when you get down to it and look at who invests in the investors, you do come back to the same big pools of capital, the big pension funds etc. However, if you look at the first line of investors who are taking the loss, as opposed to maybe 10 years ago when there was a relatively small pool of investors such as the smaller private equity companies, today they are much broader in terms of diversity and scale.

**Charlie Thomas**
And what's your experience when you're dealing with that side of the market, in terms of their appetite for coming back in to the market?

**Sebastian Kafetz**
There are two angles to that. As a financier, we're getting a lot of questions about bank liquidity facilities and funding solutions to help people re-invest capital where some of it may be trapped as collateral and new investors may be coming in and old investors may be exiting. So there seems to be a greater need for liquidity, which is a new need for the market.

As far as appetite is concerned, everyone we've spoken to remains very bullish. Fundraising has already started and it's 50 percent up, and it's finding the opportunities to deploy it and sell it, trying to see where rates get to.

**Jeff Sangster**
It will be interesting to see the reaction when the actual numbers come out. It's easy to talk in theoretical terms – that it doesn't matter if it's a $100bn event – but when you realise what that actually means in lost capital for you, how does that change?

**Jed Rhoads**
Talk is really cheap, right? Everyone says we're awash with capital and in Monte Carlo the investors are queuing up to put more money in.

Well if the investors are queuing up to put more money in, why is the retro market locked down right now?

**Sebastian Kafetz**
The trapped collateral point is key. What we're hearing is where people have a 1 percent allocation, if that 1 percent allocation is locked up, it's hard to then get another 1 percent or say 2 percent to roll over for the next year. So that's the lockdown that you're talking about.

**Jed Rhoads**
I'm not saying that it's completely frozen, but it's sort of at a standstill. At this time last year, a good portion of the retros were done and we were out selling our product. Those investors are going to want to know "What are my returns going to be? What kind of rate increases are you going to get?" before they give you more money. If you have a 400 percent loss ratio, do you really want to rush back into harm's way, when events seem to cluster, and say "Yes, I'll double down on that"?

**Charlie Thomas**
I wonder then, given the wide divergence between modellers' estimates for these events as well, whether some of them may have lost faith in modelling what those expected returns might be?

**Richard Askey**
Yes, I think so. Equally, there's quite a difference between firms that have been in this market for a long time – using Nephila as an example – that have significant scale and that have been through similar industry experiences along with their investors previously, compared with newer entities with more limited capital resources and which have investors who may only have been in the market perhaps for two or three years.

The key to it, ultimately, is if you've promised your investor a certain level of ongoing return, and in these kind of modelled events, if you've told them you're going to make a 10-15 percent loss – or whatever the number is – as long as you hit those, then that's absolutely fine. The investor has got what he expected. As soon as you end up with a 25 percent loss instead of 10 percent, or as soon as you end up with a significant amount of trapped cash, then you've got something that may have been less well explained to those investors.

**Charlie Thomas**
Samir, what is your take on what we've discussed so far?

**Samir Lalvani**
We have been hearing quite a lot about the liquidity facilities to the ILS funds. Interestingly enough, from a financing perspective, there are some structures that exist in the market which may not necessarily be specifically targeted to the insurance base. For instance, we lend to private equity funds and we put in place capital call subscription or subscription facilities and take LP investor risk – however, it's different, it's cross-collateralised etc. And we've been hearing about what we can do to help facilitate or help provide liquidity for trapped cash, for instance. In terms of the duration, it could be three weeks to two years.

So, as these discussions have started and some of the clients have been starting to speak to some banks, and it doesn't seem to me that there's anything in place over the next four to six weeks, it would be interesting to see which investors actually come back for the next renewal cycle, as well as the financing structures that could be put in place. But we are probably anywhere from three to six months away from that.

**Jed Rhoads**
Are the investors asking questions about how Puerto Rico models up – about what you charge for Puerto Rico? Is this an understandable event? Were the exposures clearly identified in the investor documents? And do investors view this as a surprise, or do they view this as: "We had absolute transparency, we knew what was charged and we're comfortable with what happened"? Or has the focus been largely on peak zones and, ignoring Puerto Rico, what about all the other Caribbean losses? Were they well informed about that in addition to Puerto Rico and do they feel like they got paid for it?

**Jeff Sangster**
With certain standalone ILS funds, when you point to model risk, that's all they have. So when they're modelling, they're not adding any level of their own intellect to that model, they're taking third party vendor models off the shelf. And if that third party vendor model got Puerto Rico wrong, or the correlation of the Caribbean with the Southeast wrong, they're also going to get that wrong. And the same point, going back to resources, in terms of getting their head around what the numbers are going to be post-loss: (a) they're in retro so they're the last to find out; and (b) they don't have a team that's staffed up to do a ground-up analysis – it's the underwriters who are doing the reserving, but it's the actuaries who are paid to do that more analytically.

**Charlie Thomas**
We've seen a lot of question marks being raised about PMLs this year. Is that something that investors are looking at now and will look at ahead of reloading again?

**Samir Lalvani**
You've raised an interesting point there, around the investor due diligence. When we entered into this did we really know, or were we told? It will be interesting to see now what happens once the losses have actually materialised.

**Sebastian Kafetz**
And who is liable, if there are lawsuits? Is it the underwriter of the cat bond? Is it the issuer?

**Angus Ayliffe**
This is an inflection point for the ILS market. It strikes me that it's very similar to the hedge funds in 2008. All of these funds have been making money; their boats have all risen on the same tide. Now investors have got access to some proper data points and their investment consultants are going to line them all up to see who has made the returns; see who said what. And suddenly you might actually get some investors trading out of one fund into another fund.

The other thing that might happen, just like in 2008 with the hedge funds, is they may actually demand greater

"WE'RE GETTING A LOT OF QUESTIONS ABOUT BANK LIQUIDITY FACILITIES AND FUNDING SOLUTIONS TO HELP PEOPLE RE-INVEST CAPITAL WHERE SOME OF IT MAY BE TRAPPED AS COLLATERAL"

**SEBASTIAN KAFETZ**

transparency, proper due diligence, a high watermark on the fees – which we don't currently have in the ILS market. This could be a massive shake-up.

**Charlie Thomas**
Let's move on to looking at things like the total return model and what the future is for that.

**Chris Coleman**
With the hedge fund re model, assuming things hold up, certainly this year to date is a validation of our model. We post our monthly investment returns to our website and for 30 September, we were at 14.4 percent for the year; about 1.5 percent asset leverage – so it's a significant contribution to our RoE. And we preannounced that we had less than $10mn in cat losses.

I think that for the future of the hedge fund re model, certainly the independent model like ours, the challenge of access to business is a huge barrier to entry. I'm not sure I see other companies like ours being formed any time in the immediate future.

The interesting thing to me is the sidecar model. There's a number of variations out there and they're still relatively new in their lifecycle. The big question mark is that none of them have gone through a monetisation event with their investors. With a number of those vehicles you could question whether there's an adverse selection element to them and how that is going to resonate with the investors when it comes to considering an IPO.

As for what's likely to play out over the next couple of quarters, we feel that there's always been this perception of a company like ours having a lot more volatility relative to other companies because of what we do on the asset side. But because we've gone through this tremendous period of time with reasonably low volatility on the underwriting side, then people think that's the norm now. What the next quarter is going to flush out is that there is the potential for significant volatility on the underwriting side of the business when things happen.

**Jed Rhoads**
There are a lot of total return reinsurers and insurers in the market, but we just don't call them that. Markel has been a total return insurer for 35-plus years. We own roughly 20 companies that don't do any insurance at all. We employ more people in non-insurance operations than we do in insurance operations. Berkshire Hathaway is the same way. I don't think the total return (re)insurer is a new concept; it's been around, it's a tested model.

But there are a number of companies out there that would put themselves out as taking risk on the asset as well as the liability side, so I think you will see growth there – where people are willing to take a little bit more risk on the asset side.

**Jonathan Reiss**
I agree with that. And the term hedge fund re is a real misnomer. It's an attempt to group certain companies in a way for the sake of convenience and fails to recognise that there are more differences between companies within that supposed sector than there are similarities. We take enough risk on the underwriting side and in order to take that risk, you need to have a very liquid investment portfolio – and we have that. What's different today, than maybe 20 years ago, is there are many more different types of investments. Publicly traded securities that are highly liquid are more so than they were even as recently as 10 to 15 years ago. So that does give you more possibilities to have high liquidity on the asset side.

**Charlie Thomas**
As we enter our last quarter, I thought it would be interesting to talk about the growth of new lines that we've seen over the last couple of years – not just reinsurers investing more underwriting skill in primary business, but also specific things like mortgage re and cyber risks.

**Jeff Sangster**
Mortgage insurance and reinsurance has been a great diversifying asset class. You can take it on either side of the balance sheet and being able to take it on the underwriting side of the balance sheet is helpful for Bermudians. Will the next five years be as good as the last five? If you look at the history of the mortgage cycle, you would think not, but this has also been one of the longest, slowest cycles in history so, potentially, the good years last much longer than they would have in the past.

On cyber, it's probably among the best opportunities we have as an industry. It's also one of the risks where we're

"CYBER IS PROBABLY AMONG THE BEST OPPORTUNITIES WE HAVE AS AN INDUSTRY. IT'S ALSO ONE OF THE RISKS WHERE WE'RE DOING ONE OF THE POOREST JOBS OF REACTING TO CLIENTS' NEEDS"

**JEFF SANGSTER**

doing one of the poorest jobs of reacting to the needs of our clients' risk managers. It scares the hell out of us, across the board, and that's why we exclude everything that's valuable to the buyer. The aggregation risk – selling cyber and excluding BI – is just like selling property but with no wind, flood or earthquake coverage. It's too limiting. However, it's a fantastic opportunity for the industry if we can get it right.

**Samir Lalvani**
But how do you price cyber?

**Jonathan Reiss**
We're trying to get our head around it. It comes back to the protection gap. The industry is scared of it for good reason because we should be scared of anything that we don't feel we can appropriately underwrite. But at the same time, we need to provide solutions and cyber risk is something that we've got to get to grips with. If we don't solve some of the problems, we could end up being liable anyway in the way we ended up with pollution; losing court cases and paying. We tried to cover it and sub-limit it and things like that. So, it feels like that's the way we have to go, otherwise we're going to end up paying for it without ever getting compensated.

**Jed Rhoads**
We tend to think about new opportunities that people typically think of as protection gap products under four generic categories: there's the man-made, the nat cat, the credit and the loan guarantee. Examples of man-made would be cyber and terror; nat cat would be NFIP; credit would be, say, the mortgage business or other import/export bank; and then there's loan guarantees, whether they be student loans or other things.

The low-hanging fruit is probably the nat cat first, credit second, man-made perils third and then loan guarantees, which are challenging. Man-made perils are especially challenging because they're difficult to underwrite and price and we don't have a lot of data on it.

I just want to mention that we've kind of had a casualty cat year as well: we've had Equifax, Merck, Toys R Us and a few others that are meaningful losses on the casualty side. So it's not like everything is happening on the property side of the balance sheet. It's just been a miserable year for nearly everyone and there won't be many reinsurers that are not going to be over 100 percent on their combined ratio this year.

**Charlie Thomas**
So can we expect further consolidation?

**Jeff Sangster**
I would say if somebody stumbles and they were already under pressure because of all the things we talked about earlier, the interest rate and their returns, then they're kind of in "last chance" territory with their board anyway. For example, Flagstone stumbled in 2011, their business model wasn't particularly working in advance of that, and ultimately they had to run a process. But it takes time to play out; that didn't end up getting announced till August the following year. So I don't think we will see a flurry of M&A announcements in the fourth quarter.

"QUITE A BIT OF CAPITAL HAS BEEN DESTROYED AND THAT NEEDS TO BE REPAID BACK, AND WE HAVE TO GET IT THROUGH RATE"

**JED RHOADS**

**Charlie Thomas**
Looking at the Floridian primary carriers, there was already a lot of pressure on a number of them. And when you look at what happened after Superstorm Sandy, there were a number of failures of primary carriers.

**Jonathan Reiss**
Other than small, thinly capitalised primary companies, such as perhaps some Florida carriers, I don't expect to see failures. Our industry is so well capitalised and the regulatory requirements now are so much more robust than they were as recently as 10 years ago, and certainly 20 years ago, that it's not something I envisage.

**Chris Coleman**
There's not a lot left, really. There's very few standalone Lloyd's companies left. There's been a lot of consolidation already, and what I've heard a lot is that it's very situational, it's very idiosyncratic situations that drive the M&A – it's not trends. If you look back, historically it seems like there's been a lot of M&A, but if you look at every single situation, they're all quite different.

**Jonathan Reiss**
If there was a trend that drove it in the last few years, it was the stress of the soft market. Nobody could go and put a business plan in front of their board that looked very appealing. The predictions will be true that the ILS markets

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**ANGUS AYLIFFE**

aren't going away and there's enough capital to take the top off the old hard market spike.

The other thing is that it's true that many of the strong companies have plenty of excess capital, but most of them also rely quite heavily on the retro market that is challenged right now to manage their risk tolerances. With that in a state of high uncertainty, and all that excess capital, until you figure out how to raise rates or you don't want to pay, you may not have that nicely affordable coverage in the retro anymore, so you may retain more risk.

There's more robust reporting today about cat risk and, with the amount of information you provide to the rating agencies and other parties, I don't think you can assume the levels of cat risk that companies took on in 2006 without being transparent on risk appetite.

**Charlie Thomas**
When the dust has settled and there is an opportunity to come back in, who is going to be the first mover? Will it be Bermuda or London? ILS or traditional markets? Or something else?

**Sebastian Kafetz**
Linking that discussion on capital flowing in and M&A, our view is that if there is M&A, it will be between experienced players who can take advantage of the opportunity, understand it and price the deal properly. Or it's private equity again, that knows the space and can take a smaller company private. It's less likely to be the inexperienced capital we've seen with some of the M&A in the past few years – like Chinese capital coming in, high valuations from the Japanese, etc.

**Charlie Thomas**
Any final thoughts on where Bermuda will come out of this? Post-renewals, where will Bermuda sit?

**Angus Ayliffe**
Just going back to retro, that's the theme of the moment. What's interesting on traditional retro is that there's about $20bn of limits placed out there. How much of that is going to be trapped? I'd take a stab at 50 percent. Will that not encourage investors to come back in? How much retro has already been placed pre-Monte Carlo at set rates and terms and conditions? That's an issue nobody has even considered yet. But perhaps 20 percent of retro was placed before Monte Carlo, so investors coming back in won't get the rate rise. That will dampen their returns as well. So for the next quarter, it's all about the retro market for me and that will drive everything else, apart from casualty.

**Jeff Sangster**
With a company like Jed's or mine where we have been taking advantage of the retro market, if it's not there our capital becomes a lot dearer because that's a big chunk of our risk management. We need to get paid a lot more rate because we're going to have to shrink the capital that we're able to dedicate to this market.

We've talked about this top-down hardening: it starts with retro. If your retro is not available, the reinsurers need to charge more, the insurers need to charge more. It's definitely conceivable and we may see that play out to a degree.

**Jed Rhoads**
Bermuda comes out of this, relative to other markets, looking very strong, mostly because of the larger capital bases and the lesser focus on direct and facultative (D&F) and cat on D&F. In the cat on D&F market, we're probably talking 750 percent, maybe 1,000 percent, loss ratios this year, but I don't think Bermuda writes a lot of that – or a lot of Caribbean business.

I agree with Jeff that the entire insurance industry is a food chain: if the cost of ILWs goes up for retro writers, they have to increase prices; and if retro writers have had 400 percent loss ratios, they have to pass some of that on to the reinsurers in terms of meaningful double-digit rate increases; the reinsurers pass that on to the cedants, the cedants have to raise their rates; and that gets passed on to the original customer, who buys the policy that starts the food chain.

So we have a platform for a very broad-based, rising market environment – not just for property but for casualty and specialty lines. I'm hoping that we will be here next year talking about additional rate increases that are responsible and reflective of our customers' needs. The original policyholders don't need large spiky rate hikes –that's not good for the industry – but quite a bit of capital has been destroyed and that needs to be repaid back, and we have to get it through rate.

**Charlie Thomas**
That's a nice point to end on. Thanks very much.