AUGUST 2011

RISKY BUSINESS

A U.S. AND BERMUDA REINSURANCE UNDER 40S COLLABORATION

INSIDE THIS ISSUE:

TŌHOKU EARTHQUAKE	1
SOLVENCY II	3
EXECUTIVE INTERVIEW—SWISS RE	2
MEMBER SPOTLIGHT—JAHVON WASHINGTON	6
RE UNDER 40'S MEMBER HELPS OUT IN JAPAN	7

2011 TŌHOKU EARTHQUAKE & TSUNAMI: THOUGHTS FROM JAPAN (BY *VICTORIA CLIPPER, TOKIO MILLENNIUM RE*)

On March 11, 2011 Japan was hit by its most powerful known earthquake; a 9.0 magnitude undersea megathrust earthquake with the epicenter approximately 72km to the east. This triggered extremely destructive tsunami waves that struck the north east coast minutes later and damaged or destroyed over 125,000 buildings and caused explosions at three nuclear reactors. To date over 28,000 people are confirmed dead, injured or missing.

Working in Bermuda for a Japanese company, Tokio Millennium Re, I have felt more involved with the disaster as many of my Bermuda based colleagues originate from Japan and some of our co-workers from the parent company, Tokio Marine & Nichido, are among the missing and dead after their towns were wiped out by the tsunami. Other colleagues have lost family members, including one who lost both his daughter and granddaughter.

I sat down and asked a number of my Japanese colleagues a few questions relating to their experiences and opinions of the disaster and about the Japanese Insurance system.

The Tōhoku earthquake and tsunami caused a total economic loss of over $300 billion, making it the world's most expensive natural disaster on record, however, only a small portion of this will be covered by the Global Reinsurance Market. The reason for this is the structure of the Japanese Insurance and Reinsurance system and their relationship with the government. 60% of policies for the residential insurance market are written by traditional Fire Insurance Companies. The remaining 40% is written in the Mutual Insurance (Kyosai) Marketplace and these are private, not-for-profit companies who reinsure their portfolios in the global reinsurance market place. These Mutual companies are behind the large loss estimates coming from companies such as Munich Re and Swiss Re. (continued on page 4)

WHAT'S HAPPENING WITH U.S. REINSURANCE UNDER 40?!?

On May 25, the Re Under 40s Group hosted an informative and interesting panel discussion - What Aftershocks Will the (Re) Insurance Industry See from the Great East Japan Earthquake and Tsunami? Our panelists included Mark Lyons, Chairman and CEO, Arch Worldwide Insurance Group; Damien Magarelli, Analytical Manager for the Property/Casualty and Reinsurance Teams, Standard & Poor's Financial Services; Greg Schiffer, Head of U.S. Property, Swiss Re; and John Tedeschi, Head of U.S. Analytics, Guy Carpenter. Brian Green, the Re Under 40s Group's Education Chair, moderated the event, which was hosted and sponsored by Swiss Re.

Our panelists discussed recent catastrophic events, with a focus on the Great East Japan Earthquake and Tsunami, and led a discussion about how these have impacted and changed the market. We had a lively and interesting discussion about the insurance market and what might happen to the market if there is another devastating, and costly, event in the future.

We are currently planning our next Education Event, which will take place in New York in the early fall. Please contact Brian Green at bgreen@eapdlaw.com if you have any suggestions for topics and/or speakers. We look forward to seeing you at our next event.

RE 40 Under 40s Group, Inc. The U.S. Reinsurance

INTERVIEW WITH ROBYN WYATT, GLOBAL HEAD OF FINANCIAL PLANNING AND ANALYSIS, SWISS RE

Robyn Wyatt is a native of New South Wales Australia, having grown up in an area located approximately four hours west of Sydney. She attended public school there and later graduated from the University of New England in New South Wales with a major in Accounting. She joined what is now KPMG (then Peat Marwick Mitchell & Co) as a chartered accountant in Australia. She later moved to Canada with KPMG where she also became a chartered accountant. Her main clients were in the insurance industry, but she was also exposed to the manufacturing, entertainment, and telecommunications industries among others. From this exposure she learned that she preferred the conceptual nature of insurance over other industries.

It is not surprising then that her next career move was to work as a Chief Accountant at Manulife Financial, a leading Canadian-based financial services group that provides life and health insurance. She stayed there for five years and then left the company when her husband's job took them to New York. She was out of work for a mere five weeks before joining Swiss Re in 2002 as Head of Reporting and Analysis at the Senior Vice President level. Of her time off from work, Robyn confesses that she "doesn't sit still well" and was eager to find employment to engage her mind. She suspects that a former partner at KPMG who then was working at Swiss Re in the UK was instrumental in her hiring.

In 2005 Robyn became the CFO of Swiss Re's Life and Health product line. In 2007 her responsibilities were increased to include the duties of Financial Services CFO and in 2008 she became the Co-Head of Finance Operations on a global basis, all the while keeping her responsibilities as CFO of Life and Health. As of April 1, 2011 she was promoted to Global Head of Financial Planning and Analysis, reporting directly to Swiss Re CFO George Quinn. Essentially, her role has evolved from an operations-based set of responsibilities defined by the legal entity structure of Swiss Re to a global, consolidated financial function that supports product lines in their entirety across legal entity boundaries.

"Diversity of thought is key, but you have to be careful not to come across as a contrarian."

As for her greatest achievement, Robyn said she is most proud of the team that she has assembled over the past nine years in her former department. Their diversity of thought, experiences, and skill sets has created a complementary range of competencies. Moreover, their ability to engage in friendly debate along with the empowerment that Robyn takes care to instill have led to a strong environment of trust and collaboration. Robyn thinks it is critical in any company to find the best people you can and get them on board quickly. She is also proud that when a department needs a resource from her team, "they will be getting one of the best."

Though relatively new to her current role, Robyn cites the variety of the work she gets to do and the people she gets to interact with as her favorite part of the job. She is always learning and embracing new challenges. As for the worst part of the job, recent layoffs in her department were particularly challenging. From a purely financial perspective, those tough decisions made perfect sense – but from an emotional standpoint, losing dedicated and qualified staff due to circumstance was a hard pill to swallow.

Robyn admits that she must actively strive for a work life balance and notes that "it's easy to let your job get in the way" of other aspects of life. Personally she sets aside three weeks each Christmas to go back to Australia to see her family. Outside of that, she admits to working considerable hours including weekends, particularly when working to complete an important project. She credits her success in part to this work ethic, but is quick to note that working long hours does not necessarily make one a better employee – the quality of the work counts more.

When asked "Why are you successful?" Robyn paused before replying decisively "I own what I do. I am accountable for my team and accept responsibility when things go wrong, but I give them the autonomy to make their own decisions." She went on to include that a good boss is supportive but empowers the team to make decisions. Robyn also thinks it is important to have an opinion, and to be conscious of the hierarchy but in some sense to ignore it in order to speak your mind. Diversity of thought is key, but you have to be careful not to come across as a contrarian. Learning how to couch your message and also provide solutions for problems that you point out is an essential skill.

- Megan Miller, Engineering Underwriter, Swiss Re

SOLVENCY II: HOW EUROPEAN INSURANCE REGULATORS ARE GEARING UP

If when you hear the phrase *"Solvency II"* you think it is a new laundry detergent, you may learn something from this article. Solvency II is the name of the current in-depth reform of European Insurance Solvency regulations.

Insurance companies here in the United States have much to gain from becoming familiar with the regulations and monitoring the actions taken by their foreign counterparts. These regulatory changes are certain to impact their business as well.

This article provides the basics to understand the Solvency II concepts, the implementation issues, and the matters of interest for non-European insurers.

The Project

The Solvency II project was born from the common will of European regulators to reform and harmonize the solvency requirements in Europe. Under the current regulation referred to as Solvency I, requirements can be dramatically different from one country to another. More important, the current formula is not risk-based. For instance, the same ratio applies on life reserves without consideration of the underlying business. Finally, many risks are not integrated into the current formula, e.g. market risk or operational risk.

The purpose of Solvency II is to develop a more comprehensive set of rules incorporating all known types of risks either by applying a standard formula or by the use of a Company's internal risk-based model. It is also intended to improve the coordination of Governance, Transparency and Oversight.

The project was launched in the early 2000s and involves many European regulatory bodies coordinated through the Lamfallusy Process - a specific approach to the development of financial service industry regulations used by the European Union, named after its creator Alexandre Lamfallusy. The European Commission establishes the principles and process for submission to the European Parliament to establish rules and regulations. The process is essentially based on a combination of key factors from various studies including: the Waves of Calls for Advice in 2004, the Quantitative Impact Studies ('QIS') and the Consultation Papers ('CP'). In this context, the European Commission uses the European Insurance and Occupational Pensions Authority (EIOPA), the former Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), which issued the CPs and proposed QIS 1 to QIS 4. QIS 5 was submitted by the European Commission as the final decision maker.

The Solvency II European Directive was approved in 2009 and will be applicable for 2012 Year-End reporting.

The Regulation

Similar to its grand sister Basel II (the European Regulation for Banks), Solvency II is based on three pillars:

The first pillar aims to set quantitative standards for calculating reserves and capital. These levels are defined for regulatory capital as the Minimum Capital Requirement ('MCR'), which represents the minimum level of capital below which intervention by the supervisory authority will be automatic, and the Solvency Capital Requirement ('SCR'), which represents the target capital necessary to absorb the shock of a major hazard (e.g. an extraordinary loss event). Under Solvency II the reserves are calculated at the best estimate plus a risk margin. This is very different from the current approach and closer to the IFRS 4 Phase II three-block approach.

The second pillar aims to set qualitative standards for internal monitoring of risks companies face and how the supervisory authorities should exercise their powers. Identification of companies with the highest risk profile is the objective and supervisors have in their power the ability to require these companies to hold more capital than the amount suggested by the calculation of the SCR (capital add-on) and/or reduce their exposure to various enterprise risks.

The third pillar aims to define all the detailed financial and other information available to the public versus that available to the supervisory authorities.

The Challenges

Solvency II is undeniably a significant step forward in the supervision of insurance companies, but it raises many questions and concerns in its practical application by European Insurers and Reinsurers. (Continued on page 6)

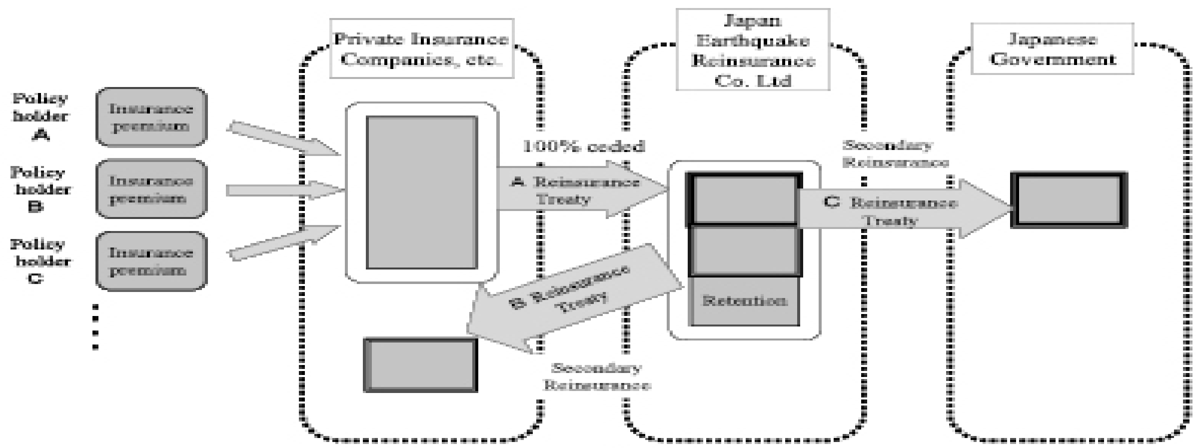
SOCIAL EVENTS

Our last event at the Frying Pan was a great time!

Keep your eye out for our next event!

2011 TŌHOKU EARTHQUAKE AND TSUNAMI (CONTINUED)

The Fire Insurance companies have a 100% cede of residential earthquake risks directly into the Japan Earthquake Reinsurance Company Ltd. The primary policies automatically cover EQ but coverage can be excluded if chosen – this accounts for 30% of these policies. The Japan Earthquake Reinsurance Co. (JERC) has a reinsurance treaty with the Japanese Government and so total losses are split between the Government, the JERC and a small proportion is ceded back to the Primary Insurers. In the case of the Tokio Marine Group, the cost of this loss should be well within the reserves and capital held. Consequently, the financial soundness of the Group should remain very strong.



While the take up of Residential policies in Japan is high, the Commercial market is not as strong. The mindset of the Japanese is to protect their assets rather than their bottom line and BI exposures are not usually covered as part of Commercial Property policies. Currently, Auto Property Damage (APD) policies do not cover earthquake and tsunami perils but there is a detailed application form to complete to add the peril which puts most policyholders off.

Regulation has played a strong part in the pricing of insurance and the government has been involved in the enactment of various Acts since the Niigata Earthquake of June 1964 and the initial implementation of the Earthquake Insurance System in 1966.

Rebuilding has already commenced and many people will rebuild their lives as they were before the earthquake hit; feelings of community and togetherness will keep them together. After the Kobe earthquake of 1995 it took less than 5 years to completely rebuild and less than 15 months after the earthquake, in March 1996, the manufacturing activity in greater Kobe was at 98% of its projected pre-quake level. This is due in part to the mentality of the Japanese people and one of the reasons they are one of the top major economic powers of the world.

With regards to the nuclear disaster, my colleagues explained that Japan was unprepared for an event of such magnitude to occur. They had not modeled the scenario and believed that they had the best nuclear power plants in the world. Hence, while the US and France were building robots to enter their reactors in the event of a meltdown, Japan decided that their system was perfect and they would never have need of such technology.

Unfortunately their plant technology, especially at Fukoshima, was 40 years old and while it was considered "cutting edge" years ago it required a lot more investment.. My colleagues suggested that the Japanese will now consider if Nuclear Power Plants should continue to be controlled privately. There are 5 different Electric Companies in Japan controlling 55 active nuclear reactors in Japan and they privately pool their Property Damage exposures. The power Companies themselves will be liable for any respirational/accident claims from the exclusion zone evacuees and workers and the government will assist as it was an Act of God.

In general the impression I got from my colleagues was one of extreme sadness for their compatriots and the belief that Japan will once again rise above this devastation. They were all well versed in earthquake warning systems telling me that in Tokyo you feel a tremor once every couple of months. Residents can tell by the intensity and dimensions of the shaking what it will be like and whether to continue what they were doing or get out of a building. There are warning systems in place but even with these there was simply not enough time for people to get to higher ground.

I would like to thank my colleagues at Tokio Millennium Re for their input, namely Kiichiro (Ken) Hatakeyama (COO), Akira Higuma (CRO) and Takeshi Iwaguchi (AVP).

MEMBER SPOTLIGHT— JAHVON WASHINGTON, CHARTIS BERMUDA

BDA RE Under 40s: How long have you been in the industry?

Javhon: I started in the industry as an intern in June 2004 and have been full-time for about 10 months (started July 2010).

BDA RE Under 40s: What made you choose to join the industry?

Javhon: The insurance industry has always been something I have been interested in since I was in high school. During a career shadow day I was gifted the chance to shadow an underwriter at the ACE Group of Companies which sparked my interest simply by the way they conducted business. The main aspect of the job which peaked my interest was the negotiating. Also, how personable the industry is has kept and will continue to keep my interest.

BDA RE Under 40s: Is there anyone who you feel has mentored you or pushed you along the way?

Javhon: The two people that have helped me along the way are Pandora Glasford and Marc Grandisson. Between the two of them they have continued to advise me on what steps to take to climb the corporate ladder and what I can expect along the way.

BDA RE Under 40s: What would you say to a young person to encourage them to join the industry?

Javhon: If you are looking for a dynamic, innovative, personable, and social environment to work in; the insurance/reinsurance industry is for you. This industry also gives you a chance to discover new products that you will not come across during your average day to day. This is also an international business which means you have the possibility of working in different locations across the world.

BDA RE Under 40s: What is the best part about your job?

Javhon: The best part about my job is that I get to see new and unknown products that are not known by the public at large.

BDA RE Under 40s: What is the worst part about your job?

Javhon: The worst part about my job is the multi-tasking with six or seven projects that all have top priority at the same time. This is very stressing at times but well worth it in the end.

BDA RE Under 40s: What has been your most embarrassing moment in your career?

Javhon: My most embarrassing moment was at a Risk Management and Insurance Society, Inc. (RIMS) Annual Conference after party, where I went freestyle with my own version of Sugar Hill Gang's song - Rapper's Delight. It was quite hilarious and being that it was recorded, the video spread like wildfire.

BDA RE Under 40s: What would you be doing if you weren't in the insurance industry?

Javhon: If I wasn't in the insurance industry I would most likely be trying to play football (soccer) professionally or coach in an official capacity.

WANT TO WRITE AN ARTICLE OR CONDUCT AN INTERVIEW FOR THE REINSURANCE UNDER 40'S NEWSLETTER???

SEND US AN EMAIL AT NEWSLETTER@REUNDER40S.ORG

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SOLVENCY II—CONTINUED

The Challenges

Solvency II is undeniably a significant step forward in the supervision of insurance companies, but it raises many questions and concerns in its practical application by European Insurers and Reinsurers.

First, Solvency II should not be considered as merely another exercise in compliance. It is such a significant reform that it will have an impact on the entire business organization. Playing the Solvency II game will no doubt be cumbersome, but for those who see an opportunity to align their risk management and decision-making processes, substantial value can be attained. For example, the use or development of an internal business model of a company's insurance risk profile could result in significant efficiencies in obtaining reinsurance.

Second, Solvency II is very interrelated with two other key industry initiatives: IFRS 4 Phase II and Market Consistent Embedded Value ('MCEV'). In fact, all three projects are using the same building block approach, albeit with some differences. Thus companies need to avoid creating "silos" as they work through the process. They need to understand the similarities and differences in the principles and data used so as to synergize as much as possible.

Finally, the need for immediate and reliable financial data will require rethinking the IT Systems link between Risk Management, Underwriting, and Financial Reporting. Again, this will add to the complexity of the project but it provides another opportunity to rethink and improve operations in their entirety.

The Conclusion

Solvency II is more than another regulation; it is another way of thinking about risks along with decision making tools to deal with them. Although the reform is seen as beneficial by the majority of stakeholders, the current transition phase is still raising concerns such as: will the European insurers still be attractive to investors if additional capital requirements are put in place? How will small and mid-size insurers and mutual companies find the resources to cope with the stringent CEIOPS requirements?

Do not be mistaken though; Solvency II is being recognized as the future in the world of insurance regulation and while it is happening tomorrow in Europe, other countries (Switzerland, Australia, Singapore, Canada, Bermuda, Mexico) have proposed or introduced significant changes to their framework for assessing the solvency of insurers. At a global level, the International Association of Insurance Supervisors ('IAIS') has launched the *ComFrame* project aiming at revising its Insurance Core Principles, therefore taking the Solvency II road.

On the United States side, the NAIC has launched the Solvency Modernization Initiative. Although this 'critical self-examination of the United States insurance solvency regulation framework' is not intended merely to align on Solvency II, it is likely to converge toward the best practices of Solvency II. It is therefore high time we understood the fast-changing regulatory environments and their direct and indirect impacts for United States firms.

-By Guillaume Wadoux, CPA, and Vincent R. Burke, CPA, both of WeiserMazars LLP

WHAT'S HAPPENING WITH BERMUDA REINSURANCE UNDER 40?!?

Similar to the U.S. group, Bermuda Under 40s' primary aim is to promote and foster interest and knowledge in all areas of insurance and reinsurance by providing a forum between members for topical comment, educational and networking opportunities and initiatives and events focused around this mission. Over the last few months the group has held a series of Knowledge and Networking workshops to provide access to specific industry knowledge in an informal networking environment. Topics have included: *An Overview of the Japan Insurance Market Knowledge and Networking series* and an *Investments Insight Knowledge and Networking series*. These were in addition to panel discussions on topics such as "Bermuda: A Seat at The Table?" in which panel members were open about their views about the future of the Bermuda Insurance market

In addition to educational events our friends in Bermuda have a bit of fun as well. On July 4th, the group held a golf day that was a resounding success. It was a chance for members to get out and enjoy a day of golf and networking. Other social events include a series of Quiz Nights at a local bar, which is another excellent way for members to get out and test their general knowledge and unwind with peers. Also, as mentioned in the last newsletter, 18 group members traveled to the U.S. for an educational/networking trip.

Future events to look out for in Bermuda will be the Summer Cocktail hour at The Lemon Tree, the next quiz night in September, panel discussion and the next tour in 2013. We will e-mail our members in advance with details of the exact dates for each of these events, and if you are a U.S. member that happens to be in Bermuda come out and say hello!

RE UNDER 40'S MEMBER TRAVELS HALF WAY ACROSS THE GLOBE TO ASSIST IN JAPAN TSUNAMI CLEAN UP OPERATION

Following the devastating earthquake and tsunami that hit Japan in March 2011, my company, Tokio Millennium Re, decided to send 3 employees on a volunteer mission to the devastated area to assist with the cleanup operation.

We left Bermuda on June 11th and were based in Sendai, the closest Japanese city to the epicenter of the earthquake, about 200 miles north of Tokyo. Our first two days were spent visiting the Japanese Red Cross and the Mayor of Tagajo City, one of the most devastated areas along the coast. The Mayor took us to an evacuation center and then on a tour of the area. Driving around the city you could see the earthquake damage and could see the water level mark on the outside walls of buildings. The coast was devastated; there were still containers on the beaches but most of the wreckage seen on TV in the aftermath of the disaster had been cleared and they were re-building roads, bridges and the electricity grid. It was amazing to see how much has been done in the past 3 months but also quite sobering to see the extent of the damage.

The second day saw us head out to a school located near Sendai Airport. The wave hit the playground and some children were killed on their way home and a lot lost family and homes. We sat with the head master for a while and were then joined by some of the children who were 10-11 years old. They were very excited to see us and kept saying good morning to us! It was refreshing to see the children acting like children, laughing and giggling even though outside the window lay the ruined rice paddies and remains of their houses; a stark reminder of what had occurred only a few months before.

That afternoon and for the rest of the week we assisted the Tagajo City Volunteer Center with cleaning out properties damaged by the earthquake and tsunami. We spent one afternoon cleaning a restaurant and 2 days clearing mud out from under the floorboards of houses. Speaking to one of the home owners, there had been 3 waves, the last one stayed for 3 days at 4ft. In that time the mud settled out under the floors and needed to be cleared out. The mud was extremely sticky and smelled of oil, sewage and a whole host of other disgusting things. It was fairly back breaking as we had to work between the joists in the floors and get in under parts where the floor boards wouldn't come up.

On the final day we were sent to clean out a ditch on the side of a road. There were about 30 of us that day, including a large contingent from the Japanese Red Cross, which was a good thing as the road was long and the work was tough. We started by pulling up the concrete slabs on the sides covering the ditch and then had to shovel out the mud and debris. We managed to clear the ditch in time for the impending rainy season and thankfully the rain managed to stay away and we were blessed with clear blue skies most days!

The week in Sendai and Tagajo was unbelievable – we managed to communicate the message that the people of Bermuda, and the rest of the world, are still thinking about them and we were amazed at the strength of the Japanese people in the aftermath of the disaster. They were astounded that we would come so far to assist them in the recovery operation while being very thankful as well.

Bror, Takeshi and I were given the opportunity of a lifetime and I'm sure we will hold memories of the trip for years to come. Working for a Japanese company made the trip all the more real and worthwhile and even though there is still much to be done I know that the Japanese people have the strength, attitude and diligence to rebuild their nation back to regain their position on the world stage.

-Victoria Clipper, Tokio Millennium Re

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