
Amlin plc
Presentation to Analysts:
Catastrophe Underwriting and Risk Management
July 2011

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Catastrophe Underwriting
Kevin Allchorne, Head of Reinsurance

Catastrophe Risk Management
James Illingworth, Chief Risk Officer

Catastrophe Underwriting - Agenda

- Interaction between Amlin's reinsurance businesses
- A typical catastrophe programme, a typical client
- Gross underwriting, spread & texture
- Size and make up of account and market position
- Gross historical results
- Industry losses
- 2010 & 11 losses and lessons
- Retro & positioning for remainder of 2011
- 2012 Outlook

Interaction between Amlin's reinsurance businesses

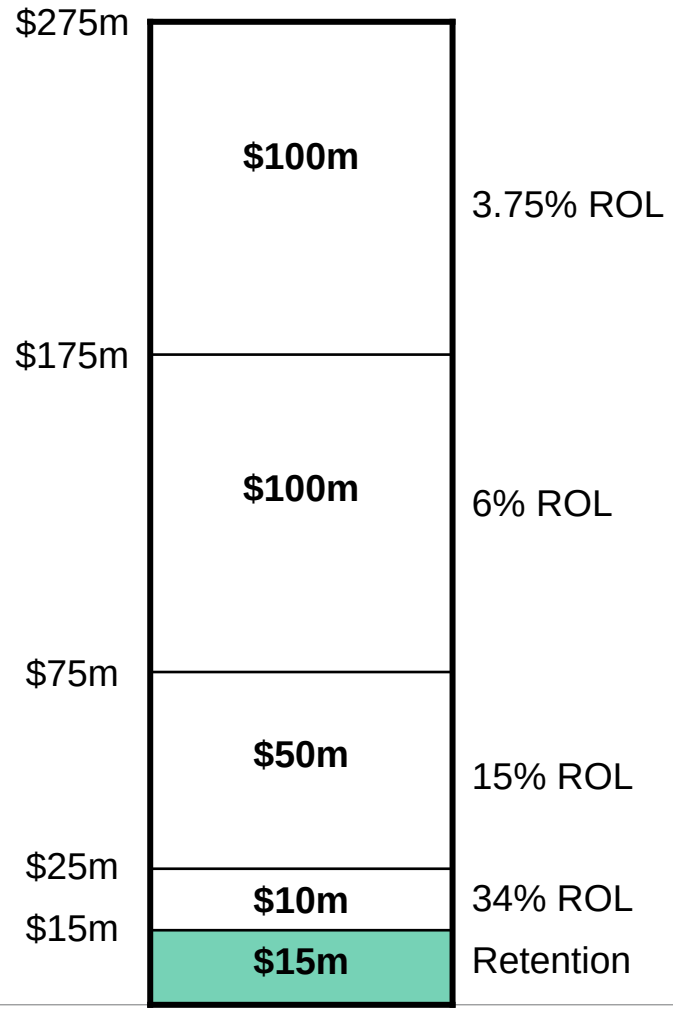
- Amlin Bermuda established 2005 post KRW

  - Same distribution (Lloyd's broker) and virtually identical client base
  - Successfully enabled growth in Reinsurance market share at the best possible time
  - Generally following market behind London
  - Independent decisions but close co-operation

- Amlin Re Europe established 2010

  - Set up to access business from continental Europe which doesn't get to London and Bermuda
  - Multi-line client emphasis with limited catastrophe appetite
  - Leveraging London & Bermuda cat relationships where appropriate

A typical catastrophe programme, a typical Amlin client



A Texas Mutual Insurer protecting homeowners and farmowners

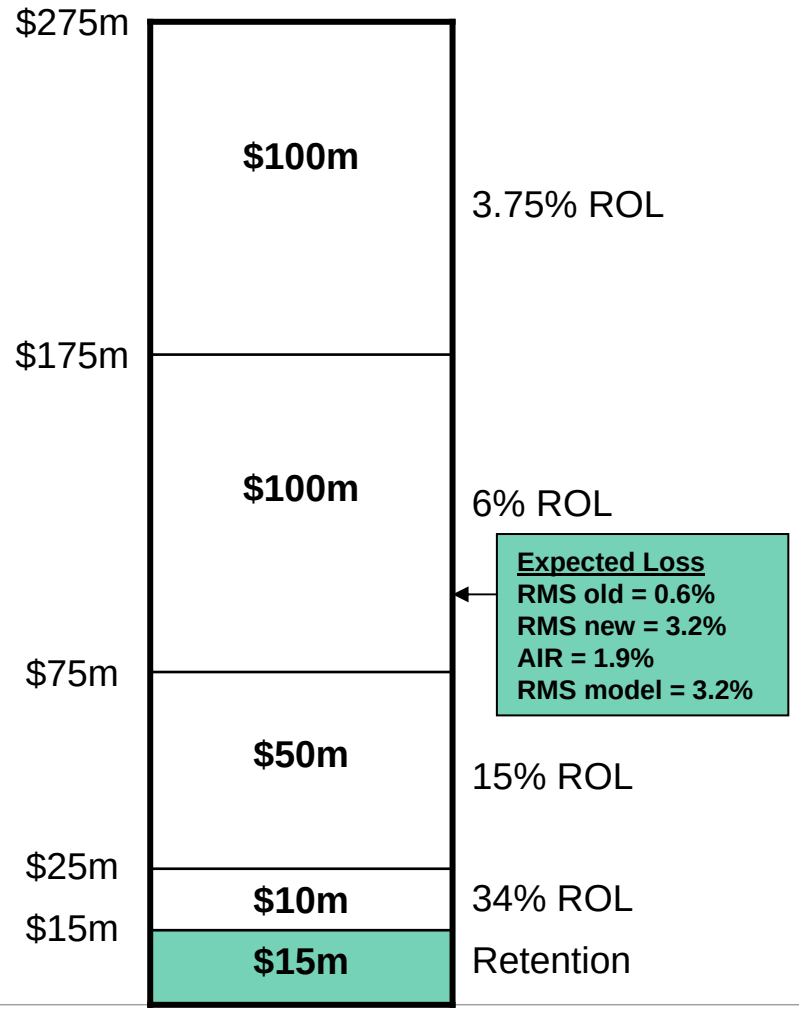
Total Insured Values – $60,755m
Total Premium – $231m

Spread throughout Texas with $1,214m of insured values in Harris/Houston

Amlin Line - $15m

Return Period	RMS v10
25	$37m
50	$61m
100	$92m
250	$144m
500	$196m

A typical catastrophe programme, a typical Amlin client



A Texas Mutual Insurer protecting homeowners and farmowners

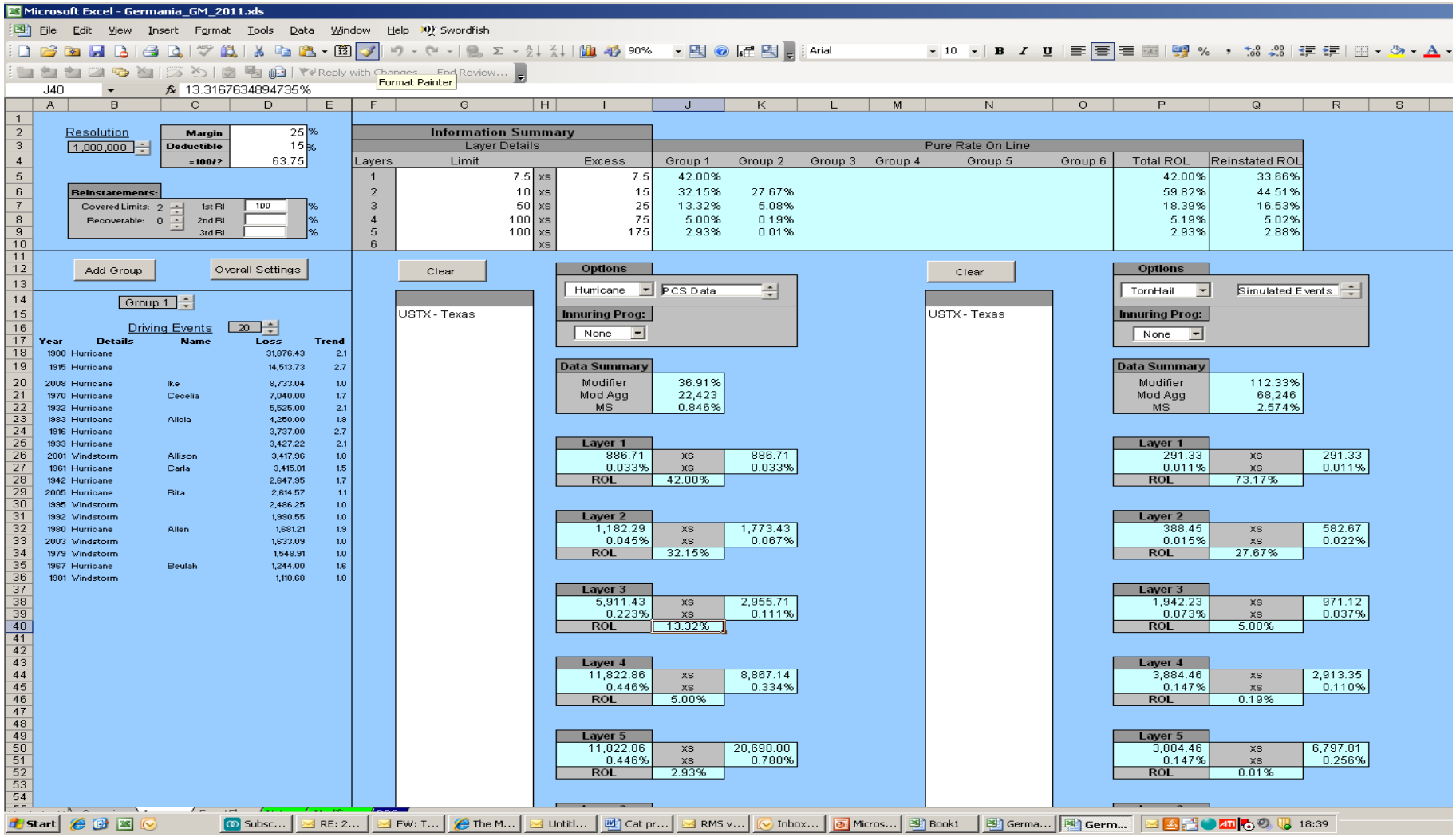
Total Insured Values – $60,755m
Total Premium – $231m

Spread throughout Texas with $1,214m of insured values in Harris/Houston

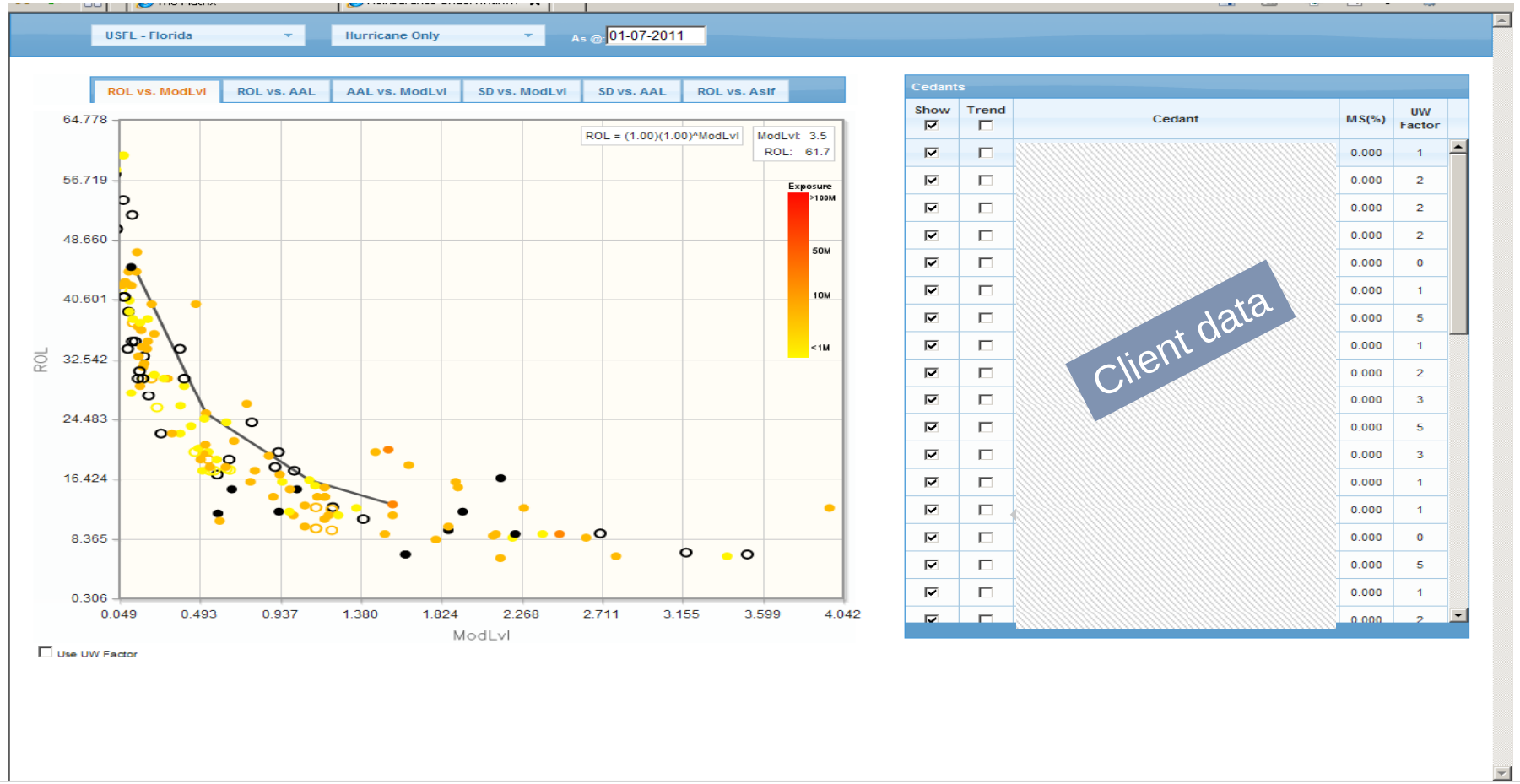
Ike Loss - $117.5m

Return Period	RMSv10	RMSv11	AIR v12
25	$37m	$94m	$76m
50	$61m	$169m	$112m
100	$92m	$273m	$164m
250	$144m	$463m	$283m
500	$196m	$651m	$386m

Market Share Model



Opportunity Cost – an intranet based layer comparison tool



Gross underwriting, spread & texture

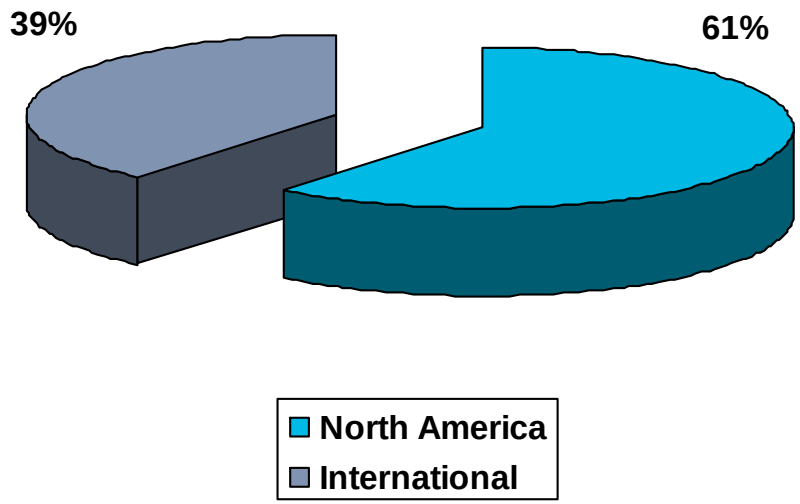
- Fundamental Strategic Aim when constructing a catastrophe portfolio…
  - Maximise the pool of premium income in the portfolio relative to its maximum potential losses, whilst maintaining a sufficient underwriting margin in normal loss years
- Over time gross underwriting should be viable on its own, but inherent volatility in the class means Retrocessional R/I has its place
- Pricing
  - Utilise many model outputs, proprietary and in-house + “old school” methods
  - Key is underwriter judgement in blending these approaches into a sensible price
- Where possible we aim for simplicity in the underlying business e.g., homeowners, small - mid sized commercial vs large industrial / shared and layered business
  - Homogeneity = more data, more reliable modelling + easier to apply underwriter judgement

Size and make up of account and market position

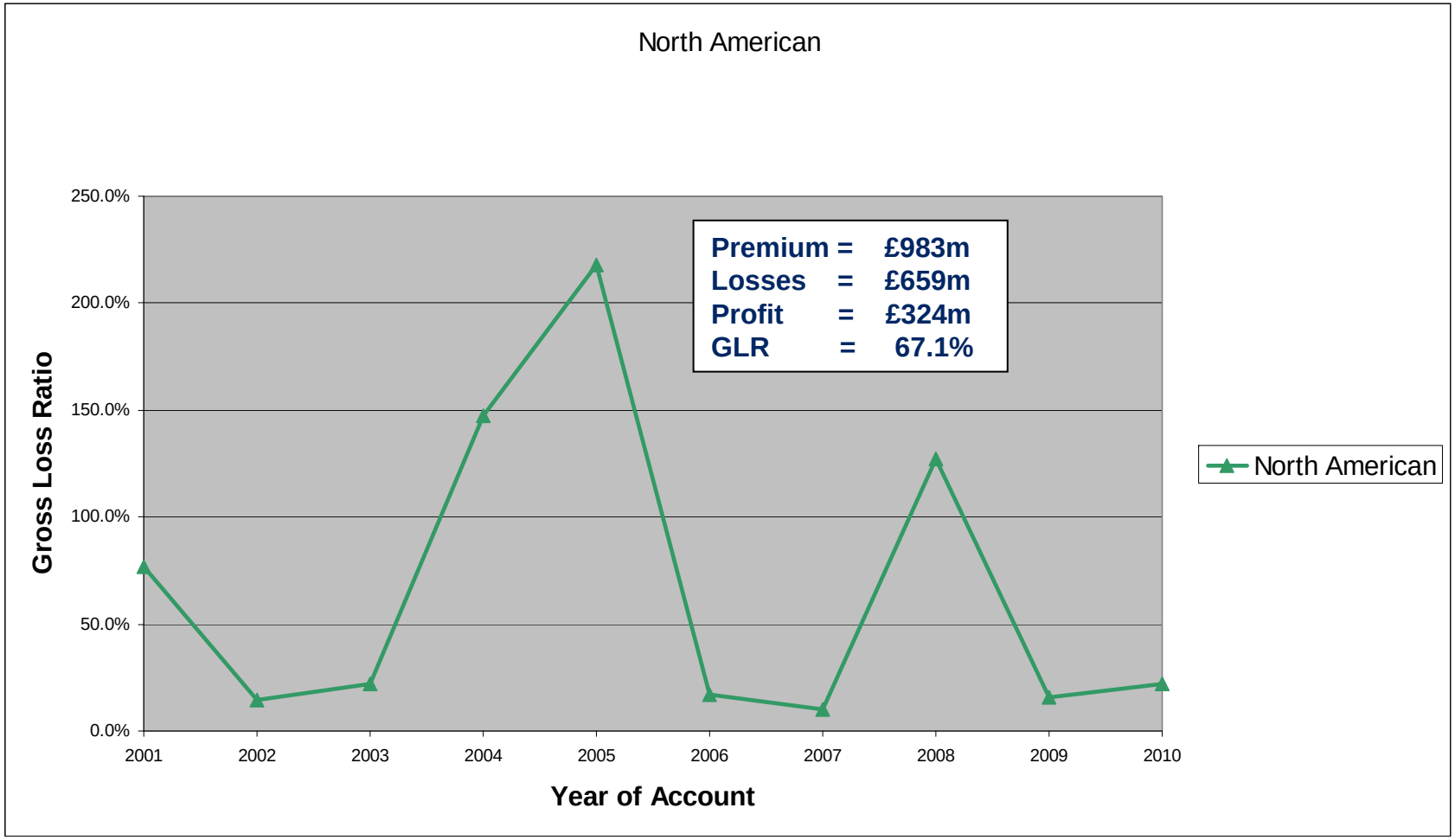
- Amlin Group Catastrophe Reinsurance gross premium 2010 - £391m
- Amlin London gross Catastrophe premium 2010 - £231m
- Market leader in London and global market
- "Amlin [London] is the most used insurer for reinsurance and ranks 1st for share of mind and service leader status"

  Gracechurch survey March 2011

Amlin London Catastrophe Premium



Amlin London Gross Historical Results 2001 - 2010



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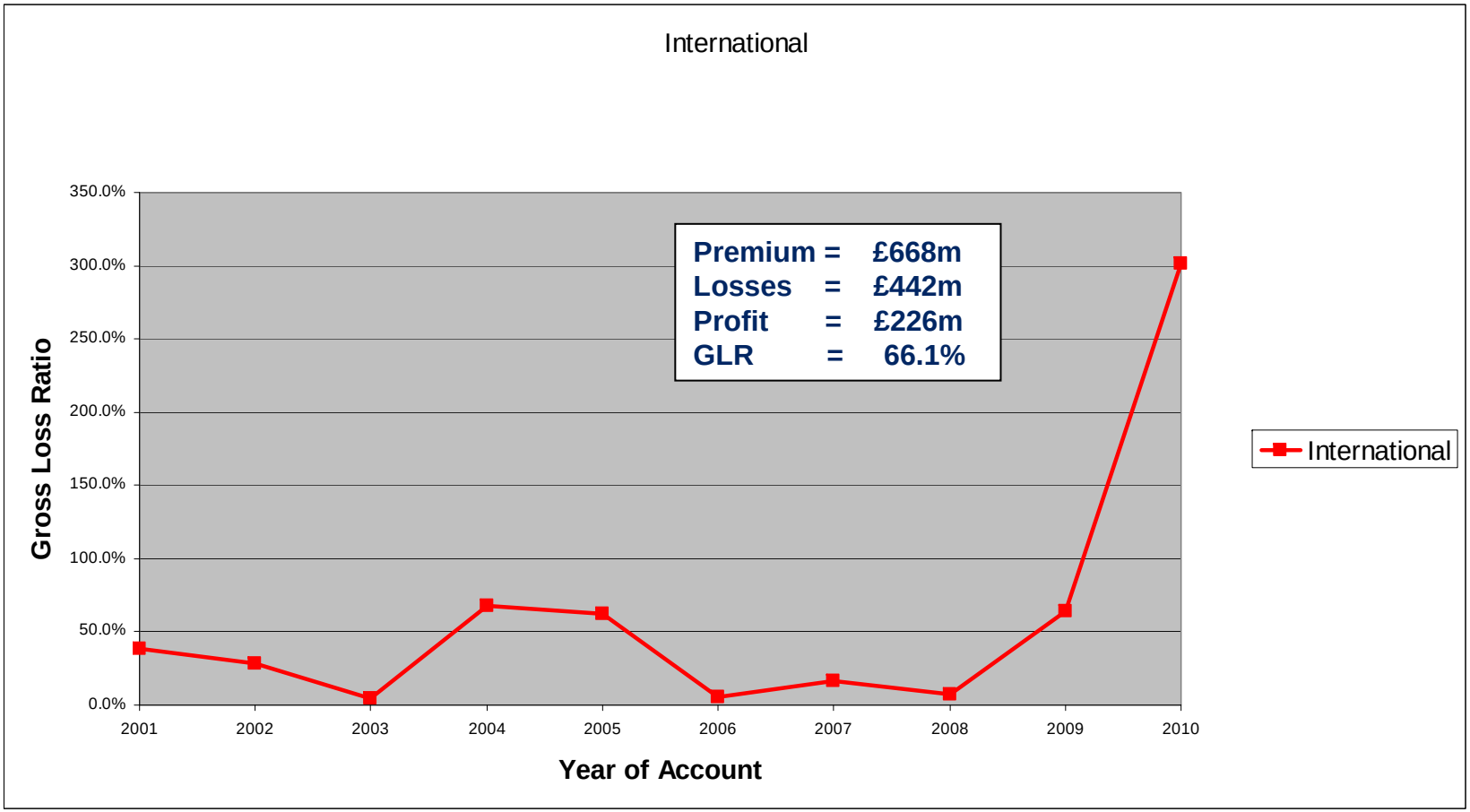

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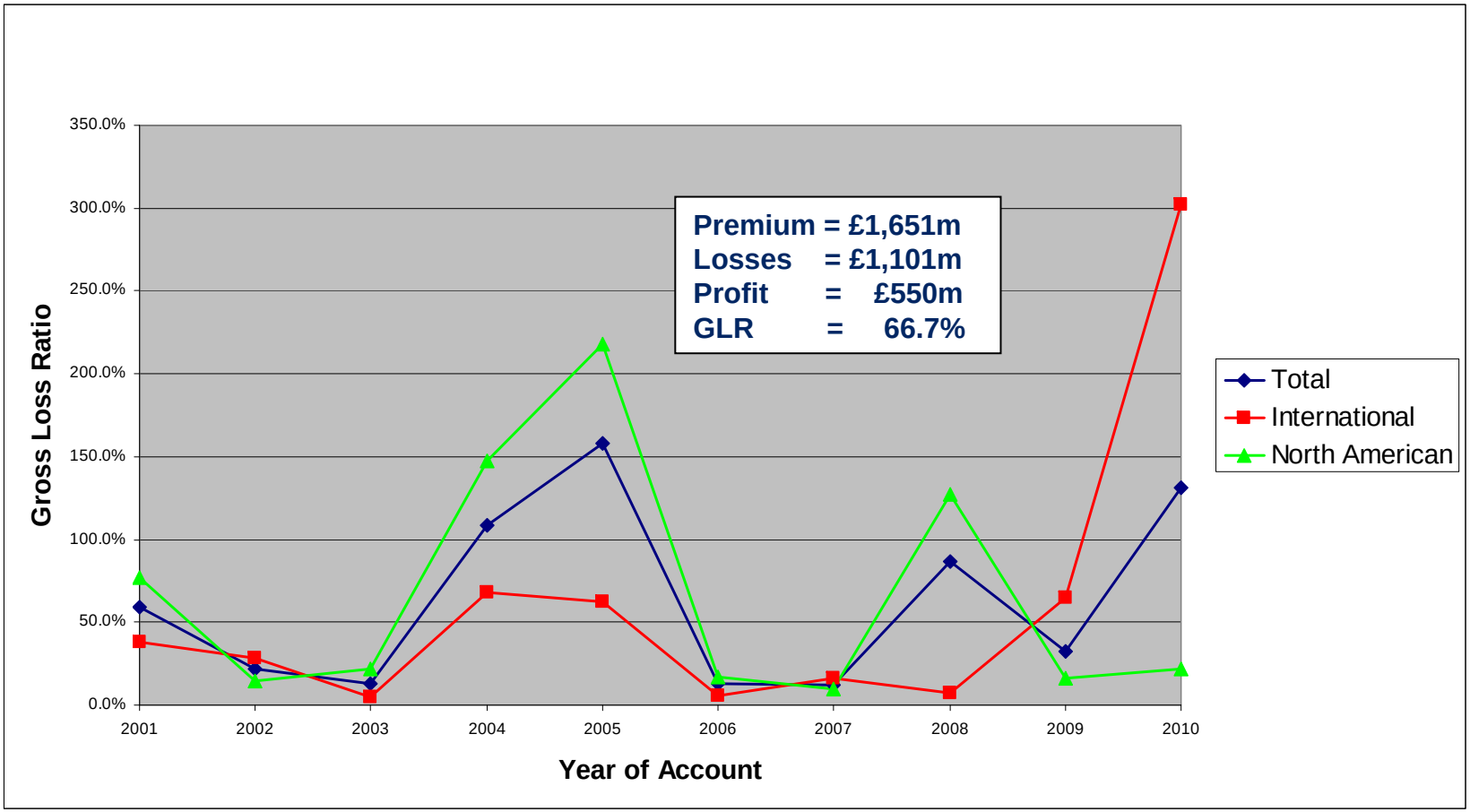
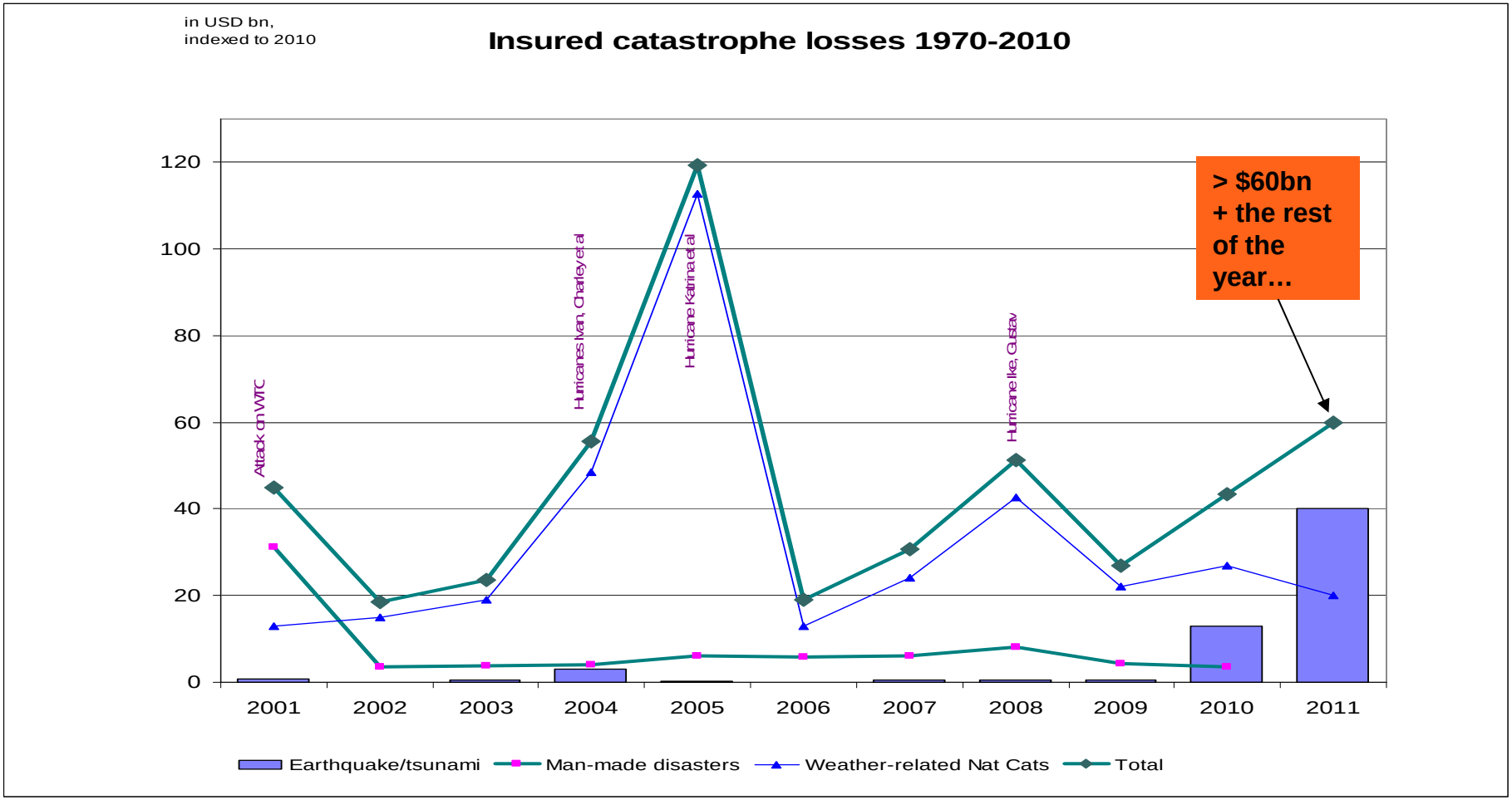
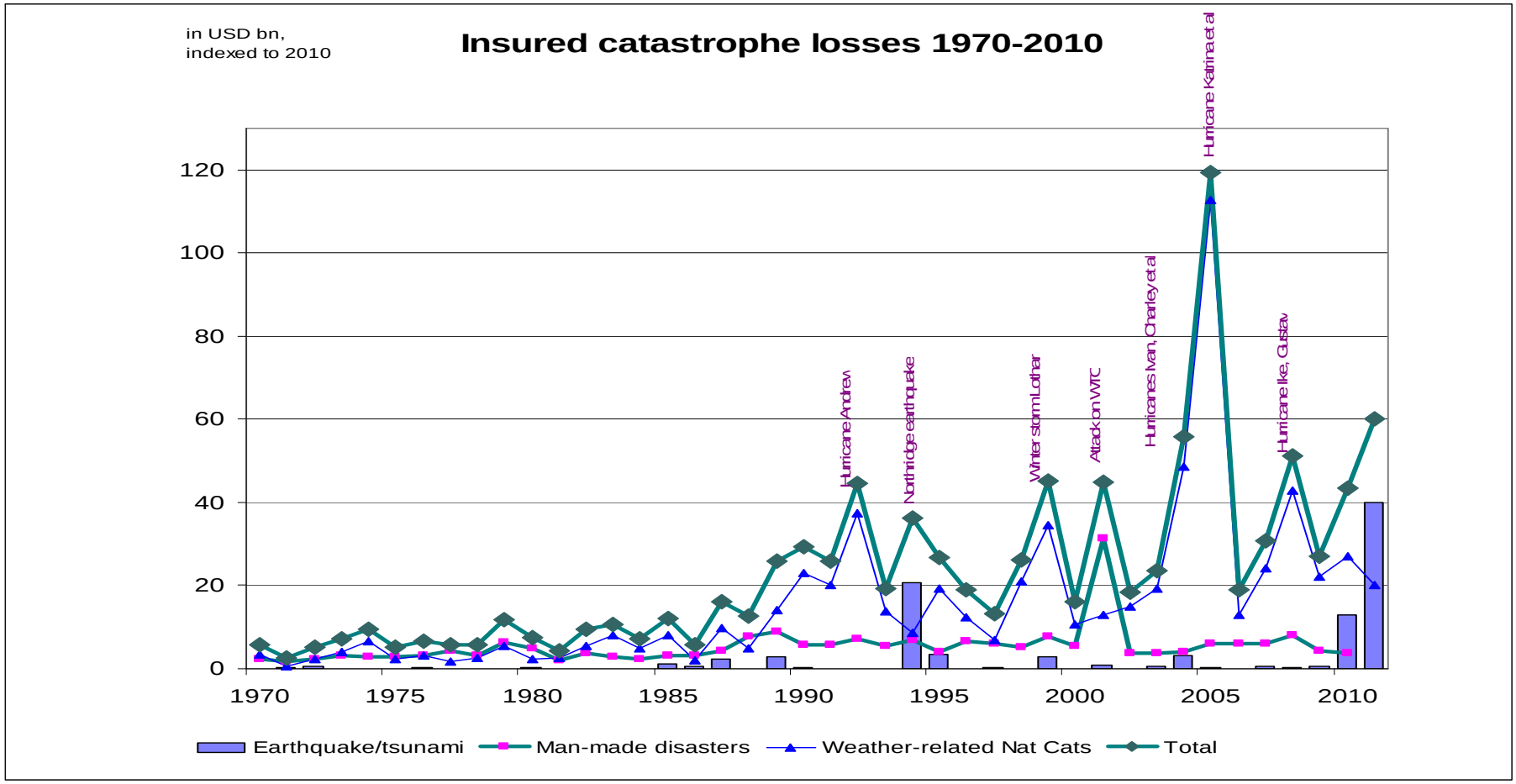


Industry losses



Source: Swiss Re sigma

Industry losses



Source: Swiss Re sigma

2010 & 11 losses…

- Like London buses!

- After a fairly quiet decade, International losses have come thick and fast
- Profitability of North American portfolio in 2010 helped to offset International catastrophe claims
- Retro cover provides further protection against additional catastrophe events during the remainder of 2011

…& lessons

- Longer term view suggests strategy of maintaining a global spread of business works but large lines on low rate-on-line cat business (whatever the models say) no longer seem worthwhile

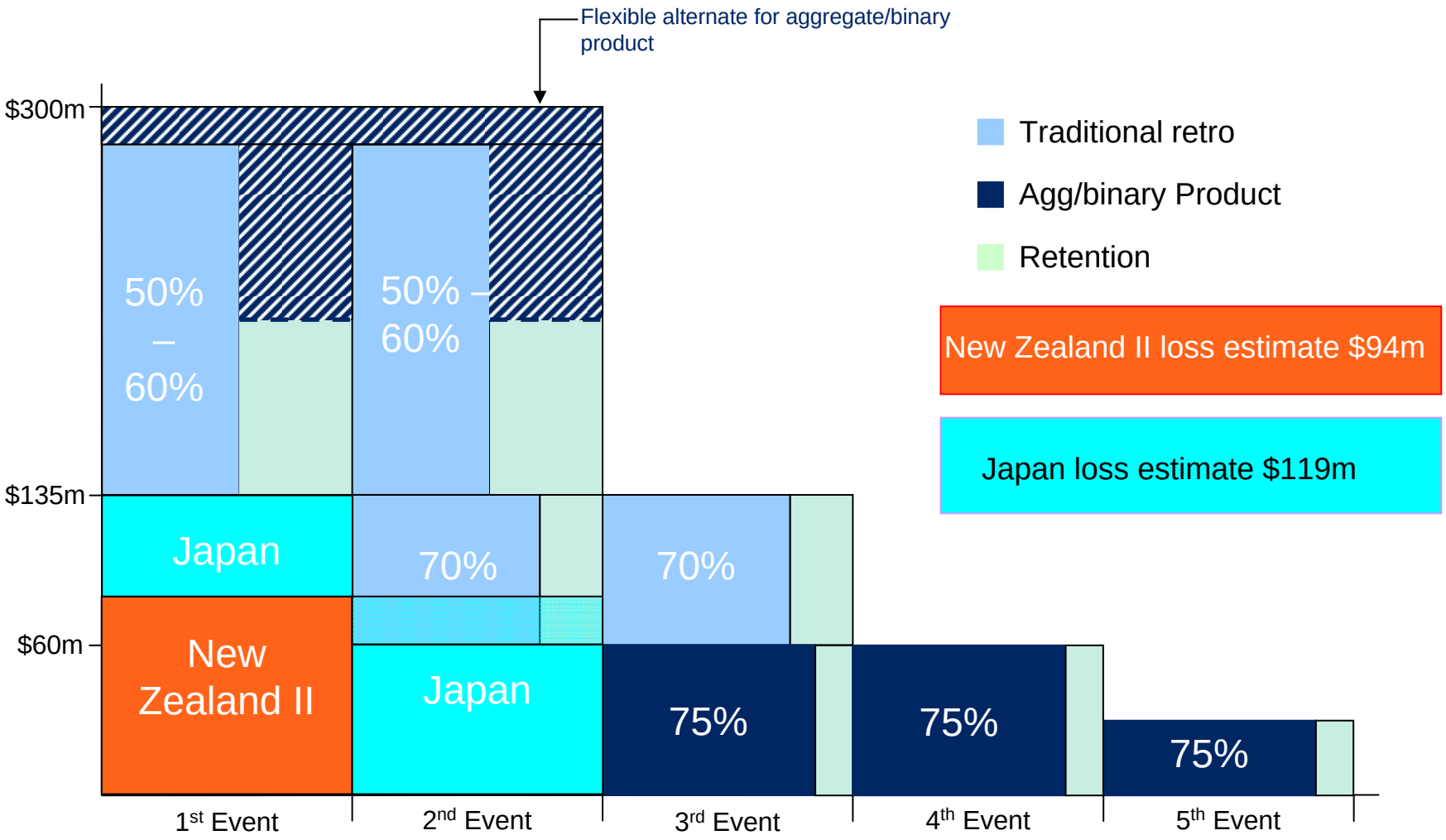
- Non peak zone losses only give rise to localised rate increase
  - Supply theoretically equal to peak zone but demand much lower
  - Reinsurer local offices empowered with cat capacity

- Localised “payback” is usually disappointing so upside for this business is minimal

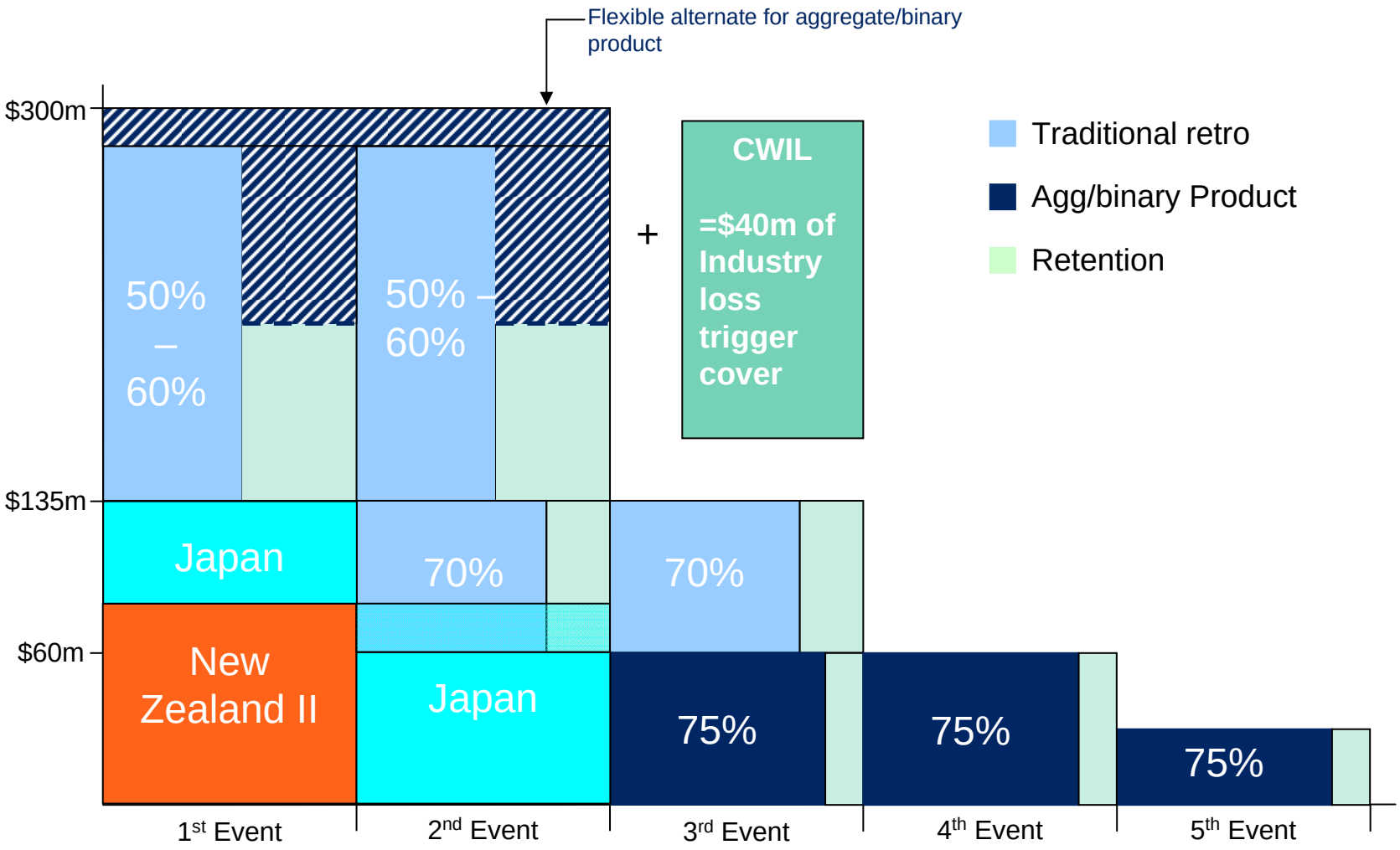
- Earthquake aftershocks can happen long enough after the original event to be construed as a separate event + they can be worse

- Importance of frequency/ aggregate retro cover as well as vertical cover in a well spread portfolio

Amlin London Retrocession programme: Q1 2011



Positioning for remainder of 2011



Impact on key Realistic Disaster Scenarios (Amlin London)

− $78bn Northeast Hurricane Net Loss at	1st January	£142m
	1st April	£89m (-37%)
− $78bn LA Earthquake Net Loss at	1st January	£154m
	1st April	£107m (-31%)

2012 Outlook

- Rates improving currently due to International losses and, to a limited extent, RMS model change
- International should continue to improve but will it be enough?
- Will major reinsurers raise the bar on minimum ROLs?
- US Wind season or other large events will determine whether mid-year rate trends continue.

Summary

Amlin is extremely well positioned in catastrophe reinsurance:

- Stable client base and excellent brand, ratings and service reputation
- Diverse portfolio which has demonstrated resilience over time and against recent loss activity
- Experienced underwriting teams in the major catastrophe distribution centres and expertise in the ILS sector.

Group Catastrophe Risk Management - Agenda

- Appetite and tolerance

- Control framework

- Assessment and measurement

Appetite and Tolerance

- Appetite is our willingness to take risk at portfolio and transactional level

  - Risk and reward
  - Optimisation of classes and risk budget through underwriting portfolio planning and selection
  - Individual risks selection

-Tolerances are limits that we place on entities and at a Group level

  - RDS deterministic limits
  - Whole portfolio stochastic limits

Appetite

- Underwriters are responsible for portfolio management

- Risk profile varies for each class and optimisation is complex

- Diversification is a key aim

- Pricing impact on returns

- Geographical clash across lines

- Reinsurance availability

Tolerances

- At Group and allocated to divisional level

- Margins retained at Group

- Deterministic RDS process and consolidation of:

  - 35 specific scenarios
  - Net claims amounts limited to pre-agreed levels
  - Underwriting teams also retain margin

Realistic Disaster Scenarios (RDS)

- 35 scenarios modelled across the Group
- Events considered gross and net
- Reinsurer failure considered
- Modelled losses compared with Net Tangible Assets
- Exercise run quarterly

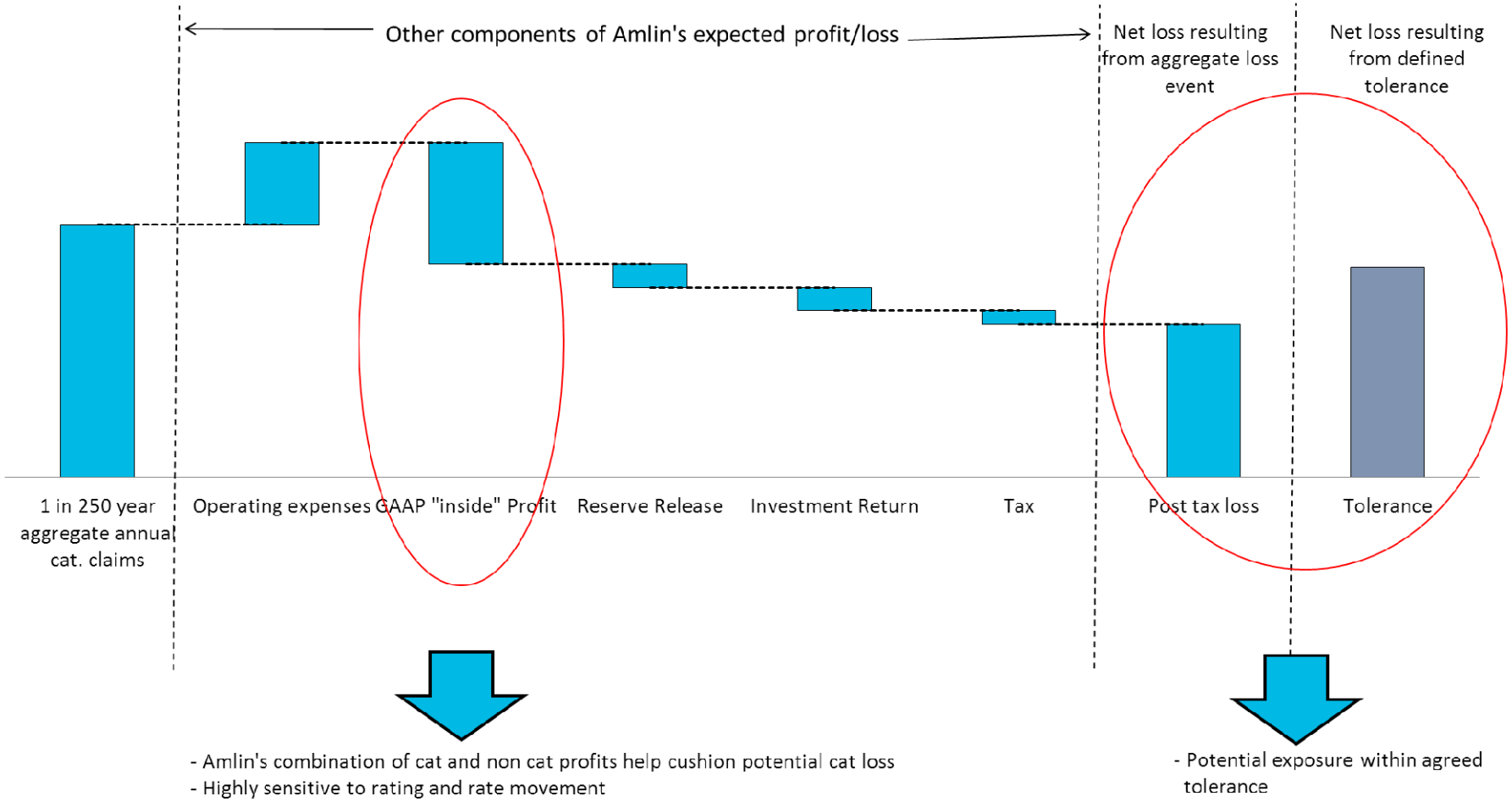
Tolerances continued

- Stochastic tolerances

  - DFA model generated
  - Consider whole profitability and assets of the Group
  - Limits expressed as % of NTA after offsetting profit
  - Both single loss and aggregate annual basis

- Run at planning stage to allocate tolerances and tracked quarterly

Translating cat.claims to post tax loss



Control Framework

- Business Planning
  - Recognition of class characteristics and potential clash

- Line Guides
  - Differing line usage

- Aggregation limits on binders

- Event limits on risk xs and pro rata

- PML limits at portfolio level

Reinsurance Purchasing

- Direct vs retrocessional

- Retentions and co-reinsurance

- Price and availability

- Counterparty credit risk

- Modelling of P&L and capital impact

- Use of Amlin Bermuda for internalisation

Assessment and Measurement

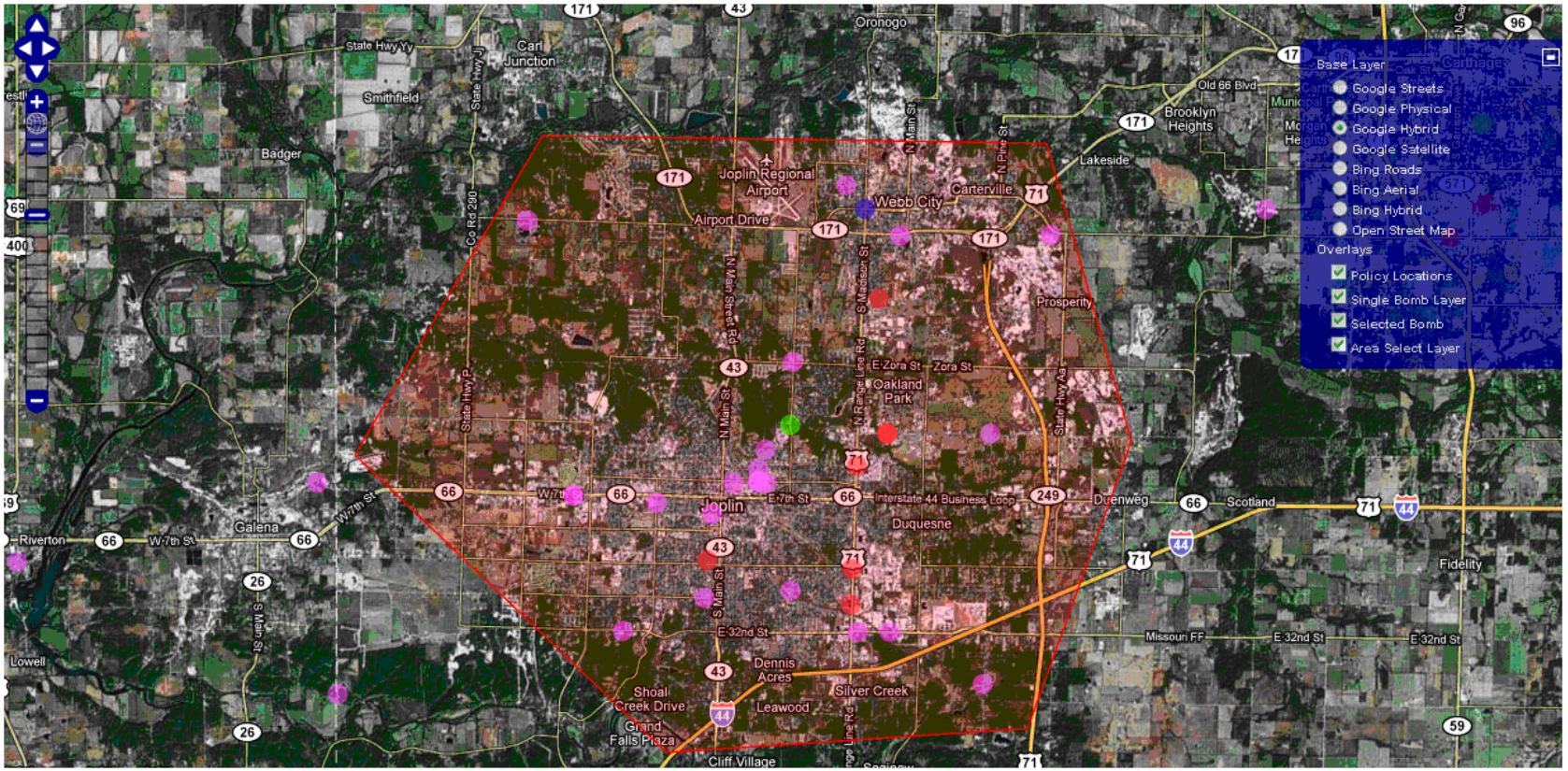
- Exposure reporting
  - Tools – OpenXposure, RiskManager, in-house tools
  - Mapping clash
  - Market share analysis

- Modelling
  - RMS RISKLINK for direct property, static marine and CAT XL
  - AIR CATRADER also for Cat XL
  - EQECAT for Gulf energy

- DFA combines all model output

Mapping Clash

Map | Results | Map Settings | Tools and Features



Gross Exposure	Gross Loss
$5,516,209.66	$5,516,209.66

Portfolio Name	Gross Exposure	Gross Loss	Number of Contracts
DF Energy	$3,719,226.09	$3,719,226.09	1
DF Direct	$1,742,336.53	$1,742,336.53	33
Specie	$46,027.50	$46,027.50	1
Cargo	$8,619.54	$8,619.54	1
DF Facilities - FUS	$0.00	$0.00	1

Cargo
DF Direct
DF Energy
Specie

Market Share Analysis

- Comparison of modelled Amlin loss vs. modelled Industry loss

- Highlights areas of significant Amlin loss and disproportionate market share

Catastrophe Risk - Market Share Analysis

Euro Windstorm	Proportion of RDS: 63%			Average Market Share		Largest Net Market Share Event			Largest Event		
Industry Loss ($bn)	No of Events	Avg Industry Loss USD (bn)	Avg Net Loss GBP (m)	Gross	Net	Share	Net Loss GBP (m)	Areas Impacted	Net Loss GBP (m)	Share	Areas Impacted
2	2,855	2.3	27.8	2.51%	1.97%	6.00%	40.3	SE,DK	86.3	3.78%	DK,SE
5	1,648	4.6	43.2	1.88%	1.42%	3.86%	90.4	DK,SE	110.5	2.80%	DK,NL,FR,SE
7	736	7.1	63.5	2.00%	1.34%	2.74%	112.9	DK,SE,NO	129.1	2.47%	GB,DK
10	606	10.2	89.1	2.08%	1.31%	2.39%	152.7	GB,DK	166.4	2.03%	GB,DK
15	378	14.7	118.6	2.01%	1.22%	1.97%	184.2	GB,DK	206.3	1.88%	GB,DK,FR
20	200	19.7	147.0	1.92%	1.12%	1.75%	229.4	GB,DK,NL	239.8	1.66%	GB,DK,NL
25	144	24.7	159.5	1.71%	0.97%	1.59%	240.4	GB,DK	260.0	1.42%	NL,FR,GB,DK,DE
30	92	29.8	180.6	1.67%	0.91%	1.36%	259.8	GB,FR,DE,NL	279.7	1.33%	GB,NL
35	70	34.9	203.7	1.62%	0.88%	1.48%	329.5	GB,DK,FR	342.9	1.38%	GB,NL,DK
40	44	39.9	228.1	1.60%	0.86%	1.30%	351.0	GB,NL	359.2	1.30%	GB,DK,FR,SE
45	28	44.5	247.6	1.60%	0.83%	1.12%	328.4	GB,DE,NL	329.9	1.11%	GB,NL,FR,DE,BE
50	23	49.6	253.8	1.41%	0.77%	1.09%	348.0	FR,NL,DK,BE,DE	348.0	1.09%	FR,NL,DK,BE,DE
>52.5	113	80.9	316.9	1.08%	0.60%	1.23%	459.4	FR,GB,NL,DE	594.2	0.82%	GB,DE,FR

US Windstorm				Average Market Share		Largest Net Market Share Event			Largest Event		
Industry Loss ($bn)	No of Events	Avg Industry Loss USD	Avg Net Loss GBP	Gross	Net	Share	Net Loss	Areas Impacted	Net Loss	Share	Areas Impacted
5	1,298	6.2	33.0	1.14%	0.80%	2.13%	73.8	GA_Cat4	96.9	1.95%	SC_Cat3, NC_Cat3
10	2,348	10.8	52.8	1.09%	0.74%	2.12%	129.1	GA_Cat4	155.1	1.55%	SC_Cat5
20	1,335	19.4	83.1	0.95%	0.65%	1.54%	157.5	GA_Cat3	212.6	1.33%	NC_Cat4, RI_Cat4, ME_Cat4
30	707	29.5	111.4	0.83%	0.57%	1.23%	217.2	NC_Cat4, NY_Cat4	233.5	1.09%	MA_Cat4, ME_Cat3
40	481	39.8	129.9	0.72%	0.49%	1.05%	248.2	NC_Cat3, NY_Cat4, ME_Cat3	273.7	0.98%	NC_Cat4, NY_Cat5
50	308	49.9	151.9	0.67%	0.46%	1.04%	340.0	NC_Cat5, NY_Cat5, ME_Cat4	341.8	1.02%	NC_Cat4, VA_Cat5, NJ_Cat4, NY_Cat3
60	225	59.9	161.9	0.59%	0.41%	0.90%	370.2	NC_Cat5, VA_Cat5, NJ_Cat4, NY_Cat3	370.2	0.90%	NC_Cat5, VA_Cat5, NJ_Cat4, NY_Cat3
70	132	70.1	175.7	0.55%	0.38%	0.74%	326.0	NC_Cat4, NJ_Cat4, NY_Cat4	342.0	0.70%	NC_Cat3, NJ_Cat4, NY_Cat4
80	117	79.8	192.8	0.52%	0.36%	0.66%	361.1	SC_Cat5, MA_Cat3	361.1	0.66%	SC_Cat5, MA_Cat3
90	88	89.4	186.7	0.44%	0.31%	0.76%	438.1	SC_Cat5	438.1	0.76%	SC_Cat5
100	134	102.7	215.8	0.44%	0.32%	0.76%	552.3	NC_Cat4, NJ_Cat5, NY_Cat5, ME_Cat3	552.3	0.76%	NC_Cat4, NJ_Cat5, NY_Cat5, ME_Cat3
125	107	123.6	242.2	0.40%	0.29%	0.70%	568.5	NC_Cat5, NJ_Cat4, NY_Cat4	568.5	0.70%	NC_Cat5, NJ_Cat4, NY_Cat4
150	74	147.3	278.2	0.38%	0.28%	0.60%	663.0	GA_Cat5	686.8	0.59%	NC_Cat4, NY_Cat4

Model Output

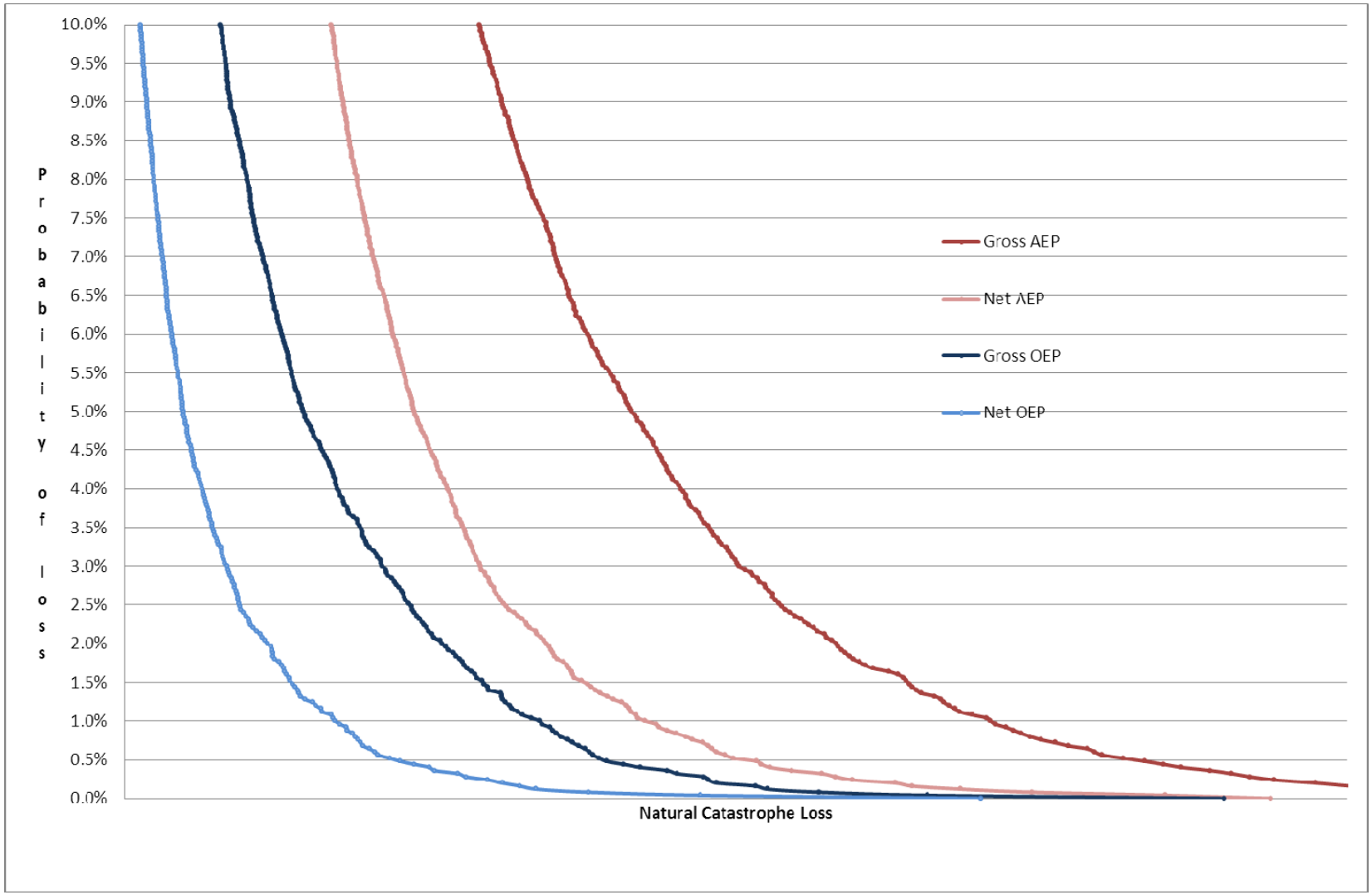
- Data error risk

- Non-modelled perils/classes

- Modelling differences and choices
  - Granularity
  - Damageability

- DFA processing

DFA Loss Exceedance Curve



Summary

- Catastrophe risk is managed against balance sheet and earnings expectations driving appetite, tolerances and controls over accumulations

- Modelling of catastrophe risk is fundamentally prone to inaccuracies and can only form a part of the risk management solution

- Review of catastrophe risk status forms a major part of monitoring and reporting at Amlin

Questions


Amlin