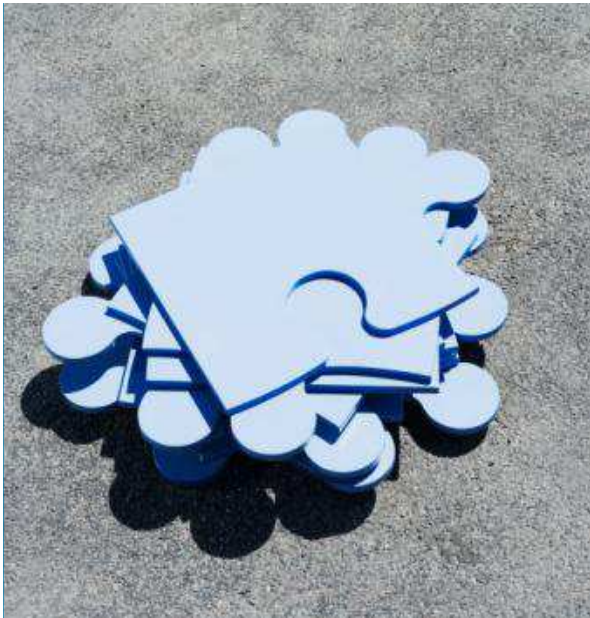


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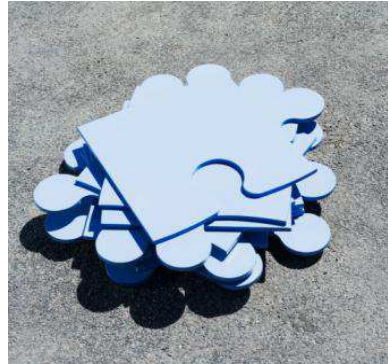
28th March 2008

Securitization of Insurance Risk The Issuer's perspective

Eric Paire

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Introduction



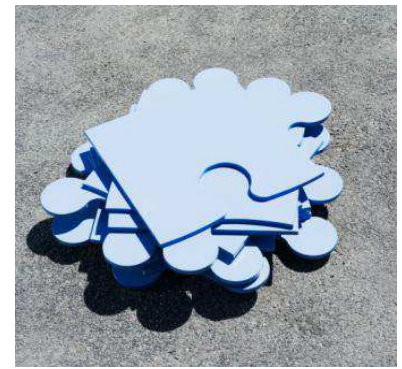
*"the emerging insurance securitization market is not being used as a substitute to traditional reinsurance, but instead is **increasingly being utilized as a complementary form of risk transfer or as a capital planning tool.**" Standard & Poor's*

We, at Guy Carpenter, act as a **Trusted Advisor** for our **Clients**, insurers and reinsurers, to help ensure that the ILS issuance **matches their corporate objectives** and is executed with the **best economics possible** given capital market and reinsurance market conditions



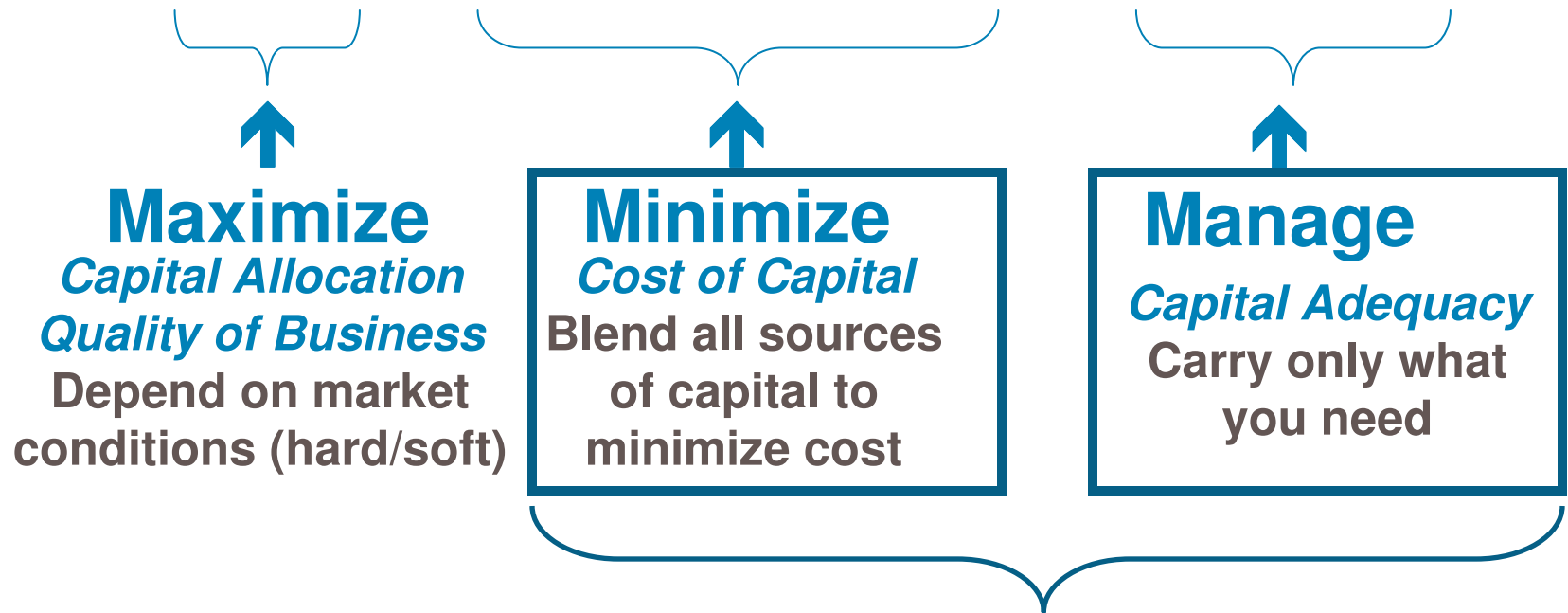
Our clients thought process

ILS within the broader Capital issue



This is how more and more of our clients think:

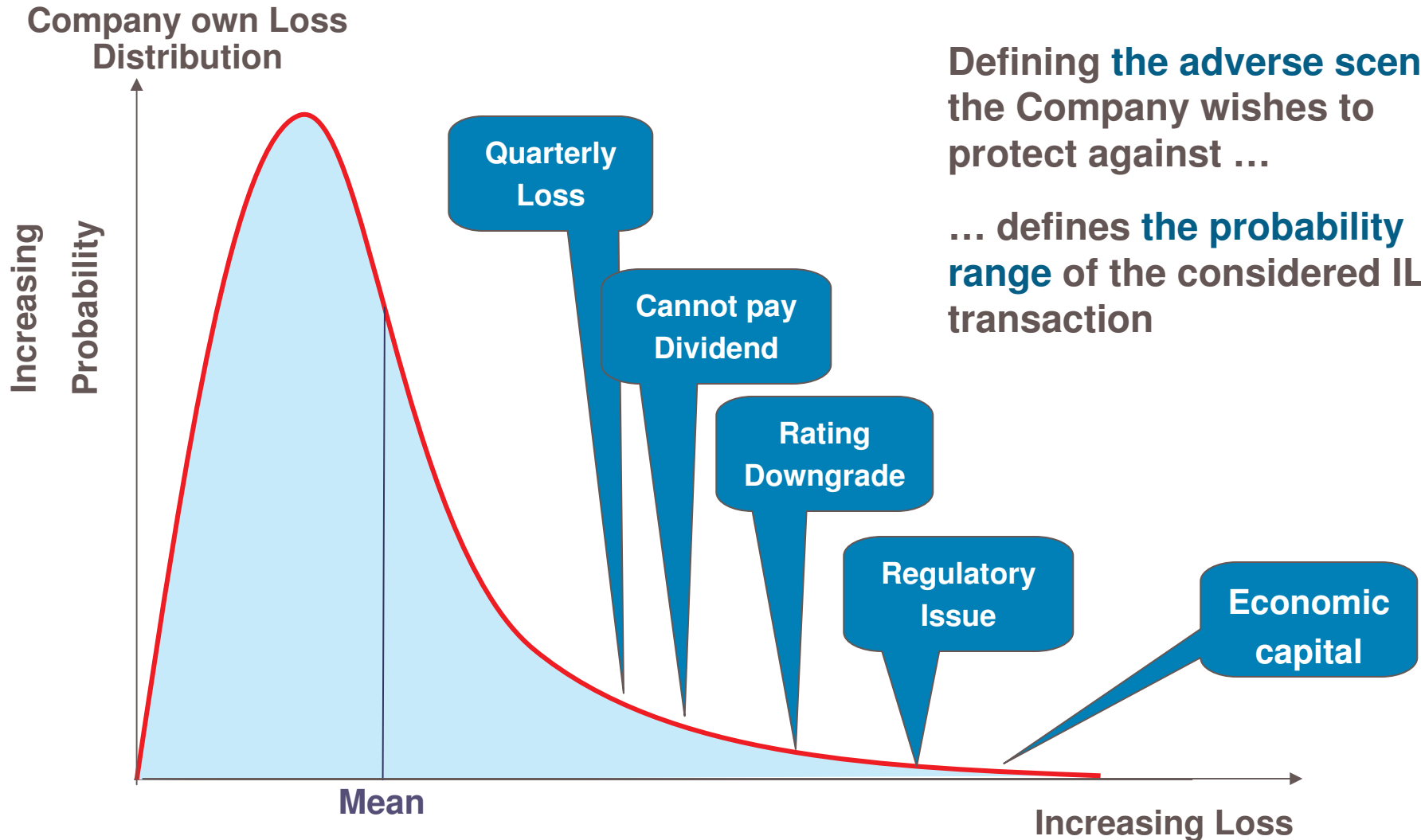
$$\text{EVA} = [\text{ROC} - \text{Cost of Capital}] \times \text{Capital}$$



Define a potential ILS structure respecting these two constraints

Manage Capital Adequacy

Where do ILS fits in?



Manage Cost of capital

Does the targeted EL range make Economic Sense?



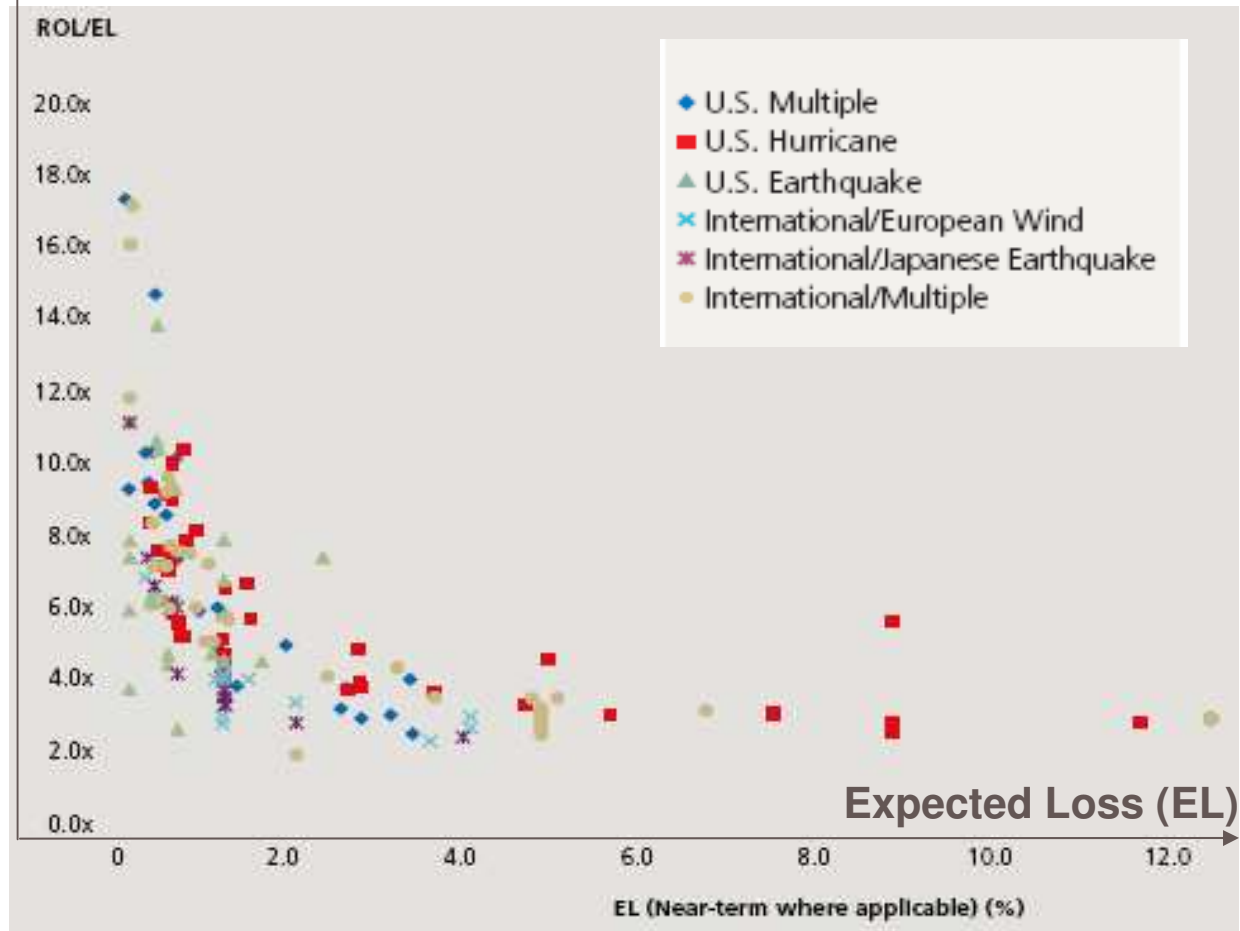
- **Determine Expected Loss (EL) range of proposed ILS through Modelling and check EL range economics** (protection vs. price)

- The lower the EL, the higher the multiple to be paid as spread
- The higher the EL the lower the multiple
- Increasing investor appetite for higher EL ranges

- **Security Check:**

- ILS within reinsurance program
- ILS economics Vs Reinsurance

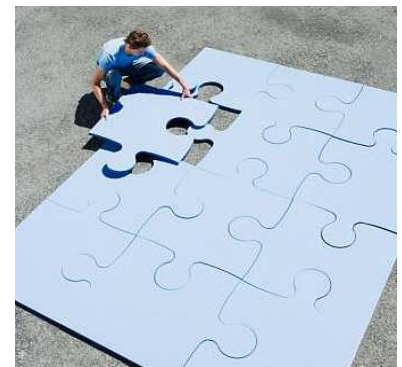
Spread as Multiple of EL



Source: « The Catastrophe Bond Market at Year-End 2006 - Ripples Into Waves” MMC Securities report


Choice of trigger

Coverage & Price efficiency



Indemnity



- **No basis risk**, reflects sponsor's loss
 - Substantial **disclosure** required by sponsor
 - More expensive
 - **More detailed risk analysis** by modelling firm
- 
- **Longer ratings process (?)**
 - Adjustment to provide for sponsor's portfolio growth
 - Long loss recovery period
 - **Less attractive to investors (?)**
 - Possible moral hazard

Parametric Index



- **Simpler process to execute (?)**
- Possible cost advantages due to greater investor interest
- No need for sponsor to disclose confidential information
- Rapid payout



- **Basis risk**
- Possible accounting issues (mark-to-market)

Our Role

Understanding and modelling
the underlying risk

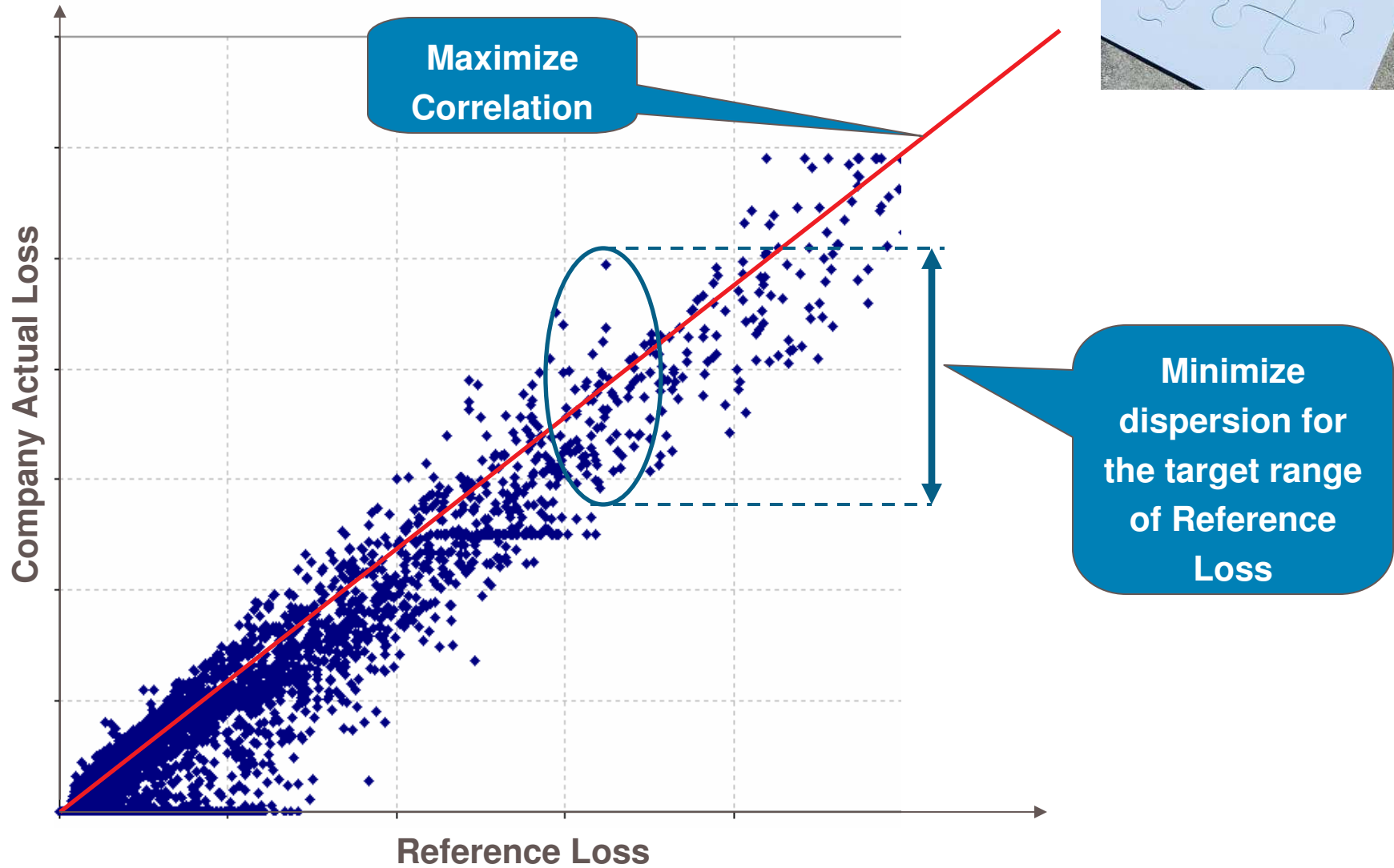
-
Transmitting this understanding
& comfort to Rating Agencies
and Investors

Understanding and modelling
the Basis risk

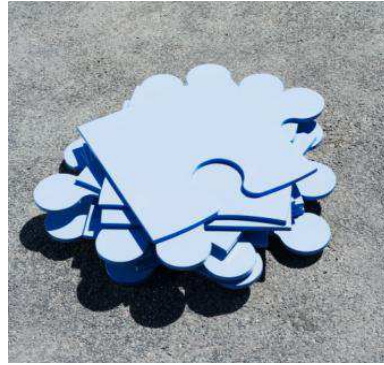
-
Transmitting this understanding
& comfort to our Client and to
Rating Agencies

Focus on Basis Risk

Two main objectives



What our clients really tell us is:



Keep it Simple!

Make it work!



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