

# Catlin Investor Day Presentation

Wednesday 18 November 2009

# Agenda

- Introduction Stephen Catlin
- Non-UK Strategy Paul Jardine
- US Operations Richard S. Banas
- Enterprise Risk Management Paul Martin
- Conclusion Stephen Catlin
- Questions

# Catlin Investor Day Presentation

Overview and Strategy

Stephen Catlin, Group Chief Executive

# Shape of Catlin

- Global footprint
  - ◆ 6 originating hubs
  - ◆ 45 offices worldwide
- 2009 gross premiums written: US\$3.6bn (estimate)
- Total net assets of \$3.0bn
  - ◆ Net tangible assets - \$2.4bn
  - ◆ Total technical reserves - \$4.2bn
  - ◆ Funds under investment - \$7.5bn
- 1,340 current employees

# Shape of Catlin

- We write a diversified portfolio of property/casualty business
  - ◆ 73% Direct / 27% Reinsurance
  - ◆ More than 30 classes of business
    - 69% Short Tail
    - 31% Long Tail
  - ◆ 44% of risks are US-based
  - ◆ Originating hubs can write on a variety of insurance company and Lloyd's paper
- Further growth expected
  - ◆ UK continues to be important but will become a smaller proportion of our overall operation

# Complementary Growth & Diversification

- Our aim is to retain existing broker relationships whilst developing and growing new local broker relationships
- We will continue to have a strong presence in London to retain and develop:
  - ◆ Advantages of the London subscription marketplace
  - ◆ Strong wholesale broker relationships
- Over time, London-originating business will continue to grow, but will be a smaller proportion of the Group as other hubs develop further
  - ◆ London accounted for 83% of GPW in 2005; will likely account for only 64% in 2009

# How Is Catlin Managed?

- Catlin is managed through the six originating ‘hubs’
  - ◆ Each hub has a management team incorporating a CEO, CUO and CFO
  - ◆ Each hub is responsible for implementing own business plan
  - ◆ The hub management team is responsible for daily management of the business
  - ◆ Some services are provided directly by Group
- Group is responsible for:
  - ◆ Setting strategy and overall business plan
    - The level of risk appetite
  - ◆ Capital management
  - ◆ Standards, controls and risk framework which should be applied in the hubs

# More Efficient Capital Management

- Capital is managed at the Group level
- Strong capital modelling capability
  - ◆ Portfolio analysis
- Capital can be allocated to locations and lines of business which maximise returns
- Focus on maintaining an efficient level of economic capital for the business
- Focus is on downside risk to capital in 1-in-100 and 1-in-200 events
- The Group's tolerance to risk is a function of expected profit and available capital
- No legacy issues where capital or liquidity is tied up in legal entities

# Enterprise Risk Management Initiative

## Vision and Practice

- To enhance and further embed Group-wide risk and capital management framework that enables risk-based strategic and operational decision making to optimise the risk/reward relationship
- Holistic approach to risk, capital planning and capital management encompassing all risk categories, reflecting the way we run the business and manage the originating hubs
- We are well-progressed
- Improved communication of the relationship between risk and business strategy with a clearly defined risk appetite
- Informed decision making based on risk and implications for P&L and balance sheet
- Consistent approach between originating hubs

# Catlin's Differentiation

- We are more than a 'Lloyd's company'
  - ◆ The implementation of this strategy is at an advanced stage
  - ◆ By 2012 we are expecting approximately 40% of our underwriting contribution to come from outside the London hub
    - 34% at 31 December 2009 (estimated)
- We have the ability to leverage our existing global footprint
  - ◆ Underwriters in place
  - ◆ Diversified product offerings
  - ◆ Infrastructure largely developed
  - ◆ Capital flexibility
- This will enable us to grow profitably

# Catlin Management

## Group Executive Committee

**Stephen Catlin**  
Chief Executive

**Paul Jardine**  
Chief Operating Officer

**Paul Brand**  
Chief Underwriting Officer

**Richard S. Banas**  
Chief Executive Officer-Catlin US

**Benjamin Meuli**  
Chief Financial Officer

**Andrew McMellin**  
Deputy Chief Underwriting Officer

## Heads of Risk and Assurance Functions

**Janet Nelson**  
Chief Risk Officer

**Paul Martin**  
Head of Enterprise  
Risk Management  
Initiative

**Lorraine Mullins**  
Group Compliance  
Officer

**Jeremy Eagles**  
Group Head of  
Internal Audit

# Originating Hubs - Senior Management

Hub	CEO	CFO	CUO
<b>London/UK</b>	David Ibeson	Neil Freshwater	Nicolas Burkinshaw - Catlin Syndicate Richard Clapham - Catlin UK
<b>US</b>	Richard Banas	Peter Presperin	Nick Greggains - Insurance Joe Horan - Reinsurance
<b>Bermuda</b>	Graham Pewter	Colleen Brennan	Matt Sage
<b>Europe</b>	Ralf Tillenburg	Klaus Graetzer	Heinz Walter Haas
<b>Asia</b>	Mark Newman	Hui Yin Boo	Bobby Heerasing
<b>Canada</b>	Mike Hansen	Cassian Rodrigues	David Huebel

# Catlin Investor Day Presentation

Non-UK Strategy

Paul Jardine, Group Chief Operating Officer

# Increasing Value by International Expansion

- Product diversification
  - ◆ Build a portfolio that maximises return for our selected risk appetite
    - Access to profitable uncorrelated risk which we would not see in the London market
- Expansion and diversification of our distribution network
  - ◆ Development of a network of distribution to sell core products in regional markets
  - ◆ Maximise return from existing products
- Reduce risk through diversification by combining Lloyd's, company operating models

# Where Are We Now: 6 Originating Hubs



## Canada

- HQ: Toronto
- Opened: 2005
- 2 offices
- 2009 GPW: \$63m



## UK

- HQ: London
- Opened: 1984
- 8 offices
- 2009 GPW: \$2.3bn



## US

- HQ: Atlanta
- Opened: 1999
- 16 offices
- 2009 GPW: \$550m



## Bermuda

- HQ: Hamilton
- Opened 2002
- 1 office
- 2009 GPW: \$410m



## Europe

- HQ: Cologne
- Opened: 2003
- 11 offices\*
- 2009 GPW: \$130m



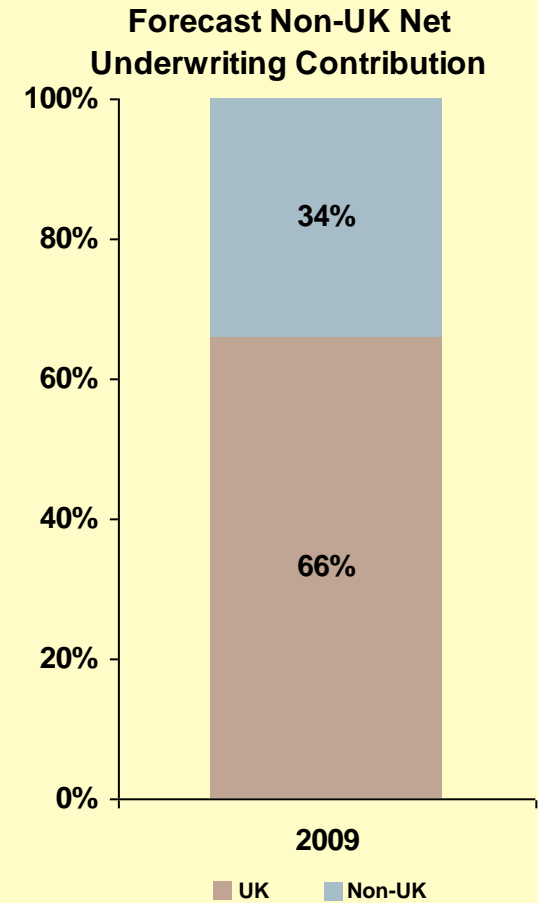
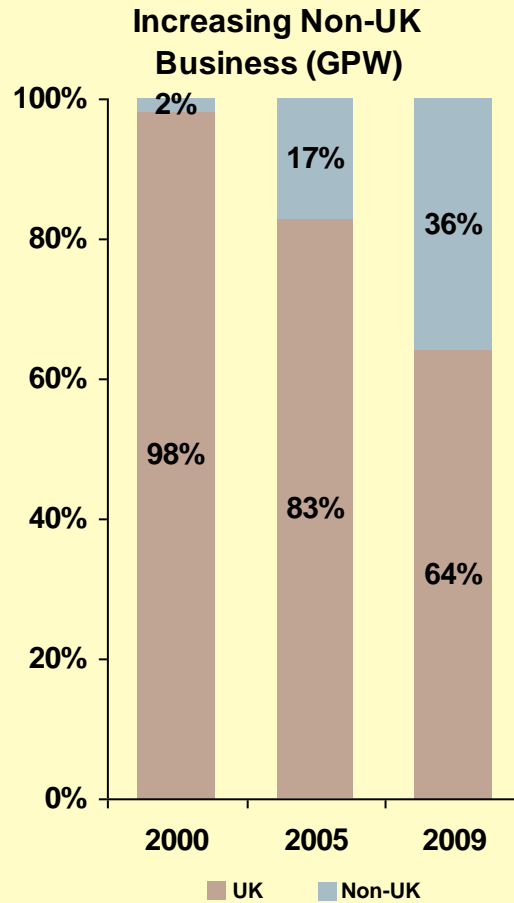
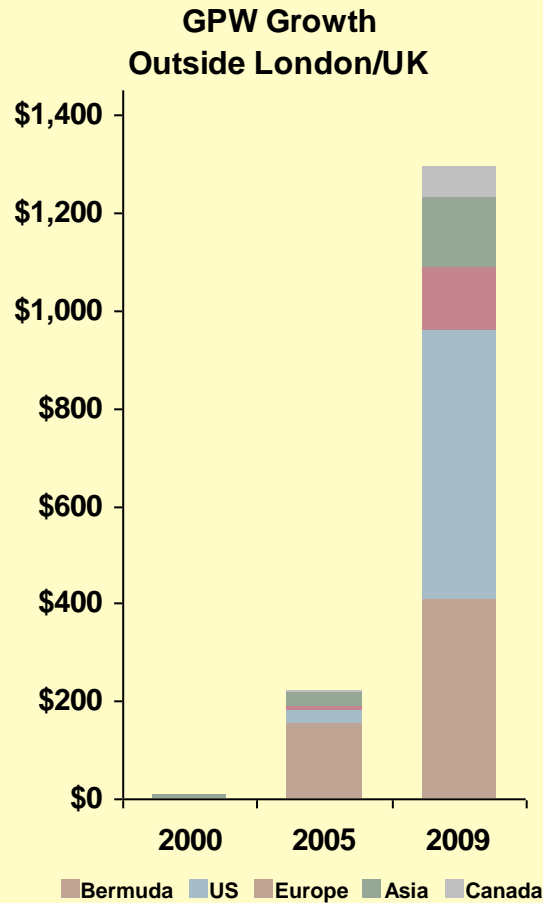
## Asia Pacific

- HQ: Singapore
- Opened: 1999
- 7 Offices
- 2009 GPW: \$142m

\* GPW is based on 2009 estimate  
Sao Paulo office is part of Europe hub

# Successful Execution

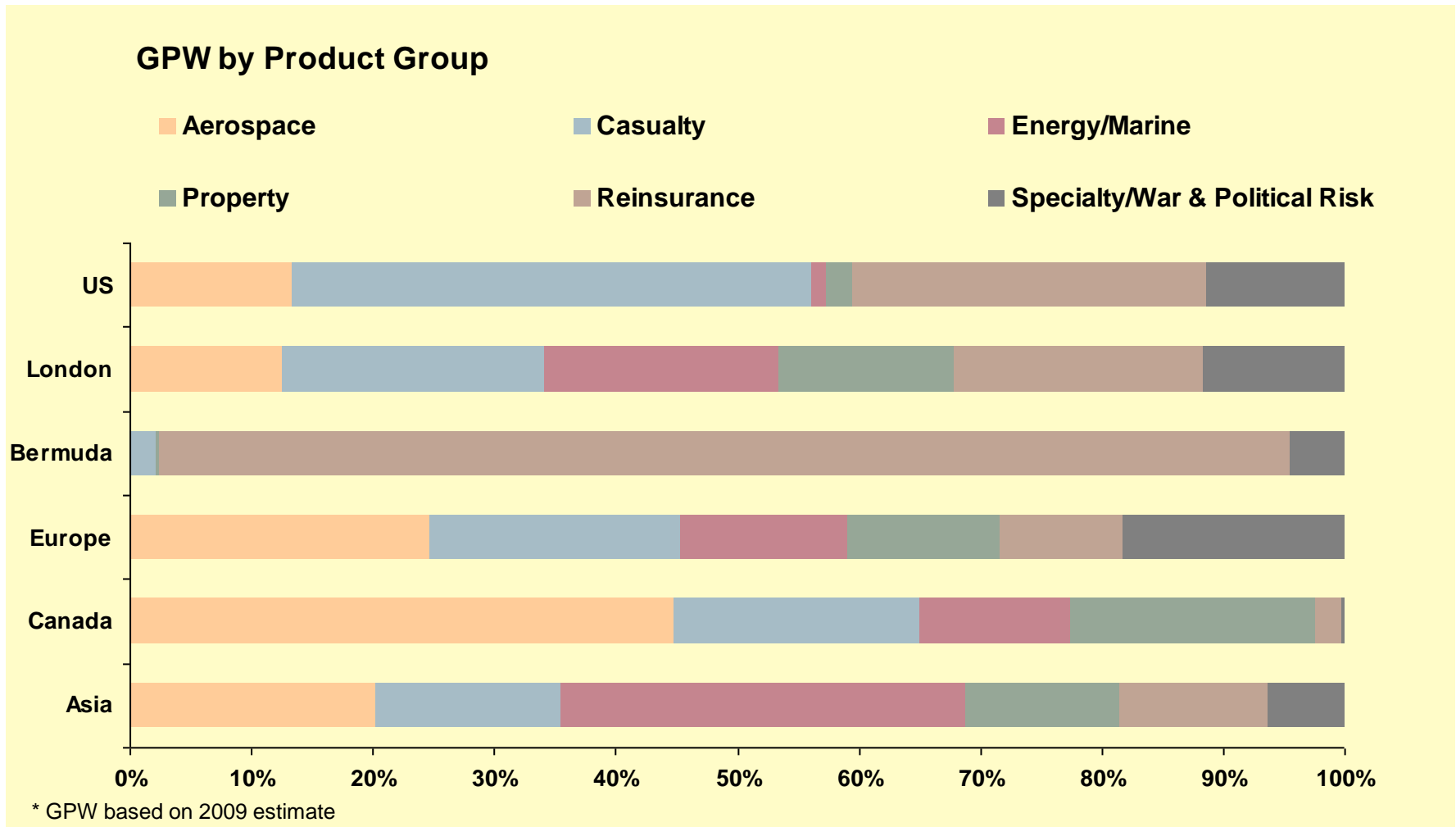
## Growth and Profitability Outside of London/UK



\* GPW based on 2009 forecast

# Successful Execution

Diversification Through Development of Core Products



# Successful Execution

## Expansion and Diversification of Distribution Network

- Nurture relationships with local brokers within each originating hub
  - ◆ Significant regional diversification
    - 5 or more of the top 10 brokers by premium volume in the US, Europe, Asia and Canada hubs are specific to their regions
    - Bermuda is the most similar to London, but 3 of the top brokers are specific to hub
  - ◆ The three large global brokers are represented in all originating hubs
- Retain and further develop existing London brokerage relationships

# Successful Execution

## Infrastructure to Support a Number of Operating Models

- 192 class underwriters and underwriting executives outside of the UK
  - ◆ 137 in London
- IT infrastructure
  - ◆ Global wide area network
  - ◆ Business applications (e.g. credit control functionality)
  - ◆ Global data warehouse
- Finance regulatory and compliance
  - ◆ Local tax reporting
  - ◆ Local regulatory requirements – regional compliance/risk officers
- Local claims capability

# Controlled Profitable Growth

- Acquisition of high-quality teams with a proven track record
- Start small with a single product or product line
- Build additional product lines around a successfully implemented core management team
- Build diversification through related product lines
- Consistent values
- Focus on bottom line, not top line

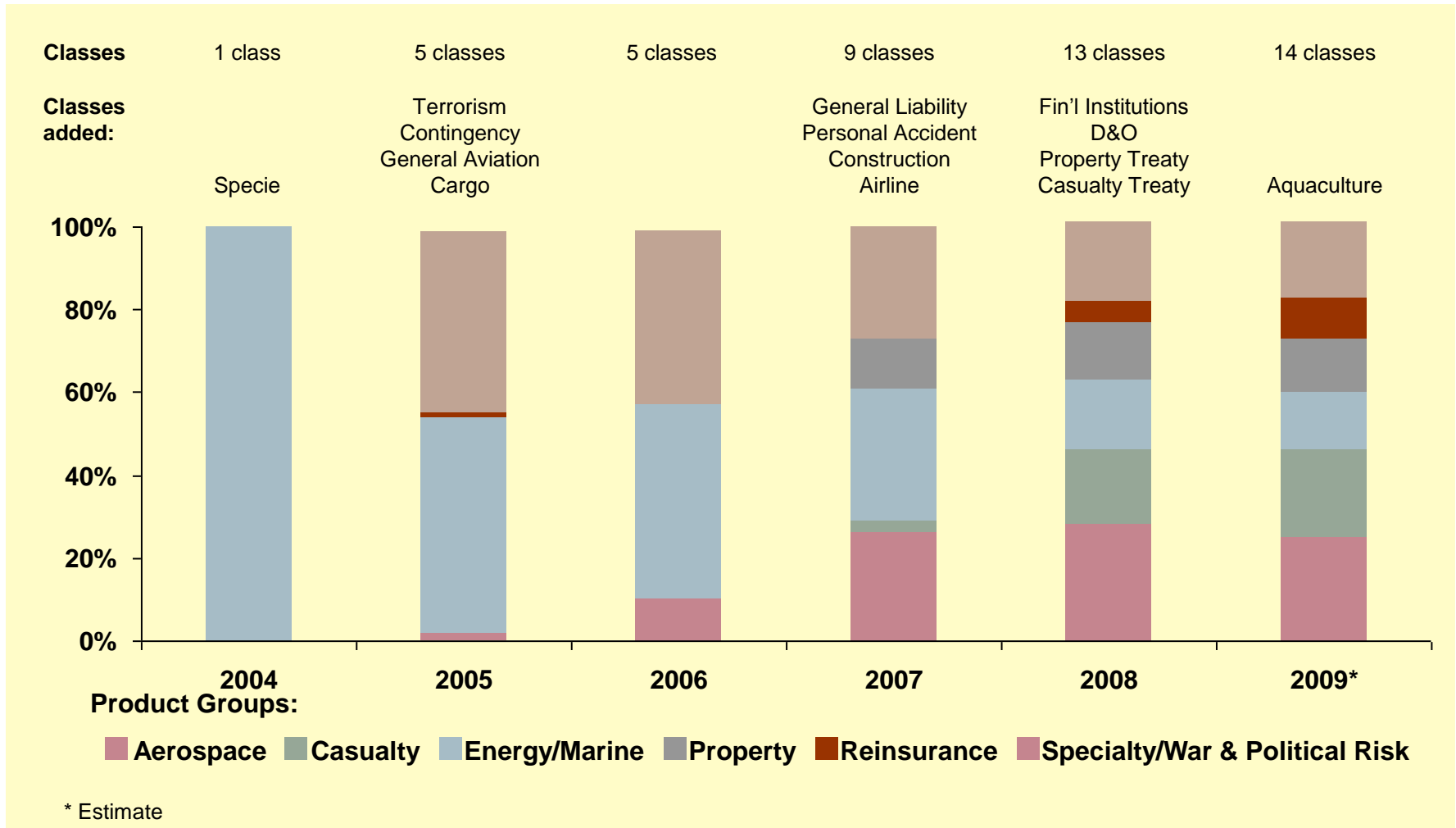
# Acquisition of High-Quality Teams

## Bergen Aquaculture

- New office opened in Bergen in 2009 around core team
  - ◆ Five underwriters; core team worked together for 17 years, with strong track record
- Estimated GPW in first year of underwriting US\$7 million (€6 million)
- Strong client and broker base
- Known market leaders
  - ◆ Historically the team lead a portfolio which accounted for approximately 30% of European premium and 20% of worldwide premium
- Fit with existing Aquaculture and wider specialty portfolio
- Opportunities for expansion to other Catlin locations
  - ◆ Estimated 90% of global aquaculture is currently uninsured
- Expansion of Bergen office to write other business classes

# Start Small

European Hub Has Expanded From 1 Business Class to 14



# Build Around a Core Leadership Team

- The CEOs and CUOs of the US, European, Asian and Canadian Hubs have more than 20 years of industry experience
  - ◆ Rich Banas, CEO-US Hub, has 32 years' experience
  - ◆ Ralf Tillenburg, CEO-European Hub, also has 32 years' experience
- Hub management teams are augmented over time with growth
- Strong management attracts quality underwriting teams to hubs

# Diversification Through Product Lines

## Loss of Licence Insurance

- Recruitment of established team in 2007
- Protects pilots against losing their licence on medical grounds
- A natural extension to existing Personal Accident and Aviation portfolios
  - ◆ Can provide a Personal Accident, Loss of Licence and Life package
  - ◆ Non-correlating risk
- Expanding opportunities for the Group
  - ◆ Target existing Aviation clients
  - ◆ Growing Aviation markets in international hubs
  - ◆ Increased writing throughout the Group
    - UK, Calgary, Antwerp, Paris, Cologne, Singapore & Hong Kong
  - ◆ Traditionally high business retention
- Relatively high barriers to entry (specialist niche)

# Group/Hub Responsibilities

- Group is responsible for:
  - ◆ Setting strategy, overall business plan and level of risk appetite
  - ◆ Capital and portfolio management
  - ◆ Provision of central services (e.g. data input)
  - ◆ Ensuring adherence of Group-wide standards, controls and risk framework
    - Underwriting adequacy
- Each hub is responsible for:
  - ◆ Implementing its own business plan once agreed by Group
  - ◆ Daily management of the business in the region
  - ◆ Management of individual offices or 'spokes'
    - Provide operational and management services to the spokes
    - Ensure that Group risk framework standards and controls are implemented
- Spokes are primary interface with local markets and drive local underwriting plans

# Consistent Controls: Underwriting

- Underwriting matrix management
  - ◆ Underwriting directors - 20+ years of industry experience each
- Monitoring Loss Ratios (MLRs)
  - ◆ Actuarial and underwriter consultation and risk assessment
  - ◆ Consistent rating models and underwriting guidelines
  - ◆ Hub chief actuary
- Quarterly underwriting meetings in each hub
  - ◆ One for each product group
  - ◆ Attended by the relevant Group Underwriting Board (GUB) sponsor
- Underwriting authorities
- Consistent peer review globally

# Consistent Values, Consistent Controls

- Catlin values are promoted globally
  - ◆ Transparency
  - ◆ Accountability
  - ◆ Teamwork
  - ◆ Integrity
  - ◆ Dignity
- Whatever the location, these core values are embodied in the:
  - ◆ People we employ
  - ◆ Consistent look and feel of office layouts

# Conclusion

## Increasing Importance of Non-London/UK Hubs

- Largely organic growth outside of UK
  - ◆ GPW has grown to nearly \$1.3 billion from virtually nil in 2000
  - ◆ Now accounts for approximately 35% of Group's underwriting contribution
  - ◆ Controlled process
- Infrastructure developed and underwriters in place to enable further profitable growth
  - ◆ Investment already made
  - ◆ Expense ratio to reduce over time
- International operations an important part of Group's portfolio diversification

# Catlin Investor Day Presentation

Case Study - Catlin US Operations

Richard S. Banas, President & CEO - Catlin US

# Catlin US Strategy

## Consistent with and integral to Group Strategy

- Access to broader US markets
- Build a diversified book of specialty insurance and reinsurance businesses
- Long-term view
- Targeted niche products
- Effective capital management
- Disciplined underwriting
- Uncorrelated risk
- Access to all of Catlin's paper
- Experienced teams built and positioned to exploit market conditions

# Development of US Operations

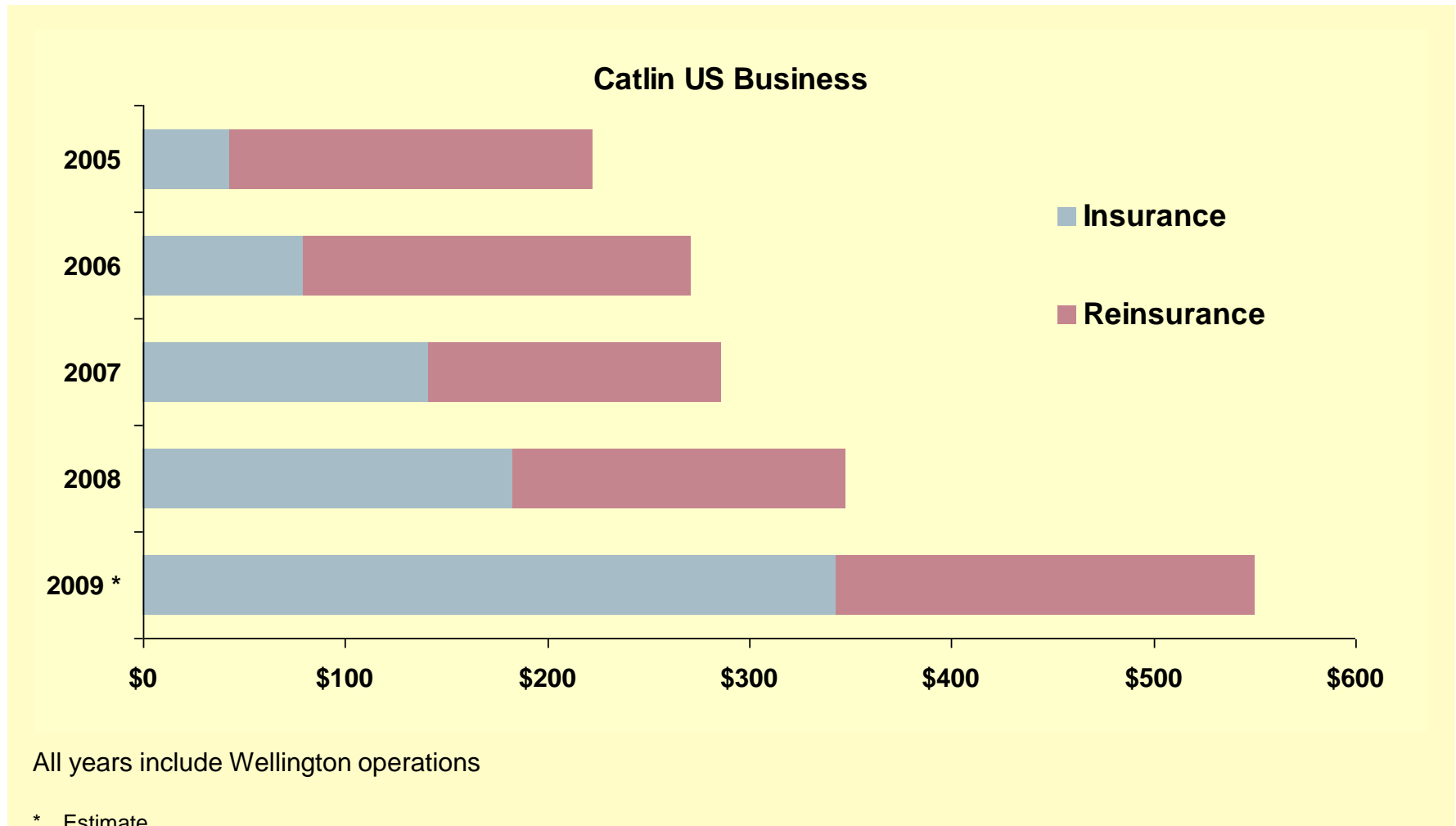
US\$ millions	2006*	2007	2008	2009 Estimate
Gross premiums written	\$31	\$297	\$348	\$550
Offices	4	16	18	16
Lines of business	4	12	14	16
Staff	54	210	243	278

\* Excludes Wellington operations

- Consistent, measured growth
- Focus is targeted specialty lines of insurance and reinsurance
- Strong underwriting culture, focused risk appetite
- Strengthened infrastructure
- Increasing market presence

# Catlin US

Consistent, Measured Growth – GPW (US\$m)



# Diverse Product Offerings

## ■ Insurance

- ◆ Casualty
- ◆ Professional Liability
- ◆ Ocean and Inland Marine
- ◆ Bloodstock
- ◆ Healthcare Professional
- ◆ SME via managing general agents
- ◆ General Aviation \*
- ◆ Environmental

## ■ Reinsurance

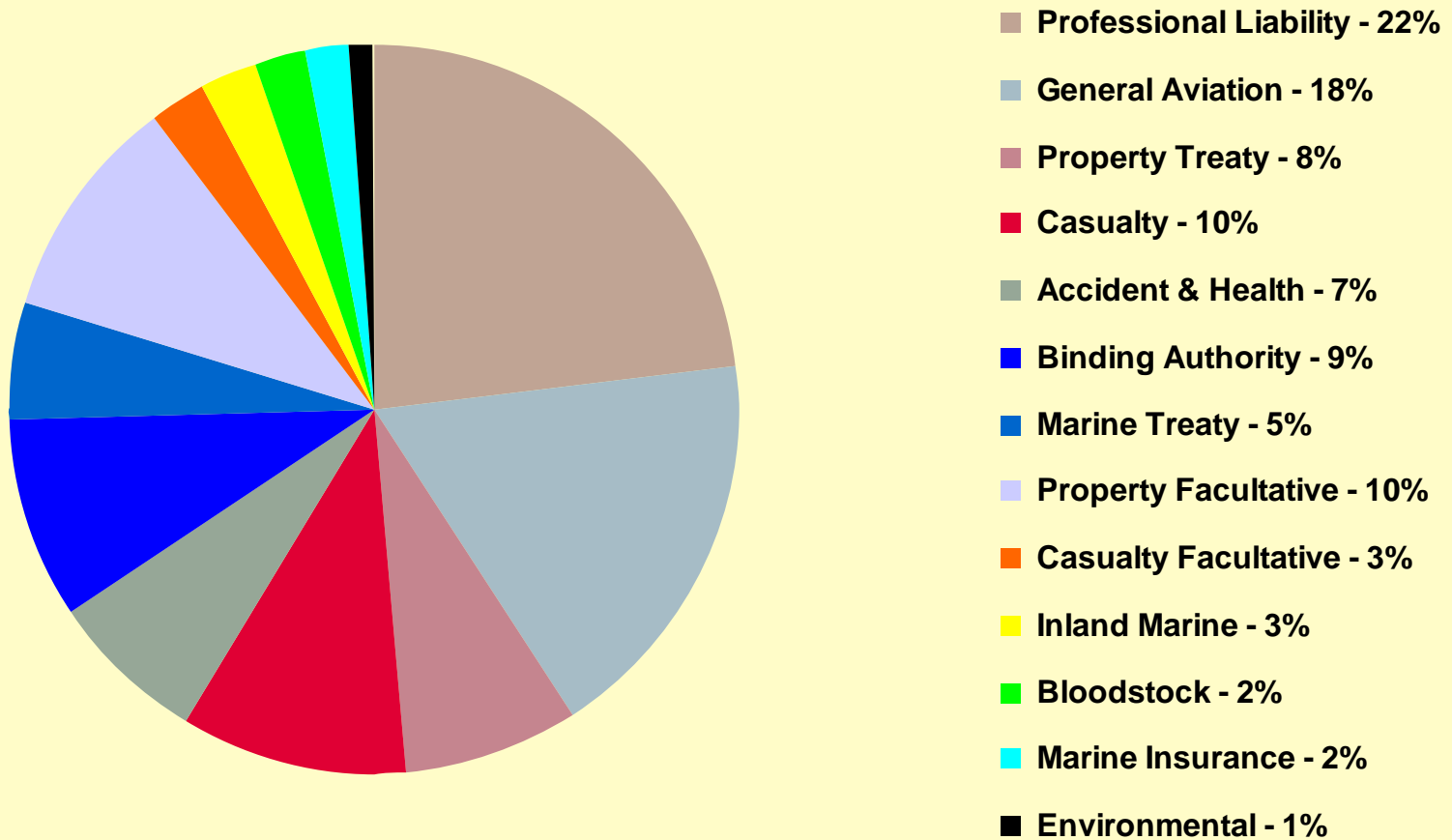
- ◆ Accident & Health
- ◆ Casualty Facultative \*
- ◆ Brokered Property Facultative
- ◆ Direct Property Facultative
- ◆ Property Treaty
- ◆ Marine Treaty

## Embedded Support Functions

- |              |                          |          |
|--------------|--------------------------|----------|
| ■ Actuarial  | ■ Information Technology | ■ Legal  |
| ■ Finance    | ■ Human Resources        | ■ Claims |
| ■ Operations | ■ Compliance             |          |

\* New in 2009

# Distribution of Premium



# Governance and Controls

- Consistent set of robust controls Group-wide
- Traditional control methods in place since outset
  - ◆ Internal Audit embedded in US operations but part of Group
  - ◆ Underwriting and functional support areas have US and Group oversight
- Group Underwriting Board ensures consistency of underwriting
  - ◆ Pricing philosophy and rating models
  - ◆ Risk appetite
  - ◆ Monitoring of risk aggregation
- Matrix management structure enhances controls
  - ◆ US Board includes Stephen Catlin, Paul Brand
  - ◆ US representation on Group Executive Committee
  - ◆ US representation on Group Underwriting Board
  - ◆ Group representation on US underwriting committees

# Summary

- Strong underwriting culture
- Diverse book of business
- Experienced teams built around targeting product niches
- Established support infrastructure
- Scalable when market hardens

# Catlin Investor Day Presentation

Enterprise Risk Management

Paul Martin, Head of Enterprise Risk Management Initiative

# Enterprise Risk Management

- A strong ERM culture already exists throughout Catlin
  - ◆ Economic capital model
  - ◆ Risk programme
  - ◆ Underwriting portfolio management
  - ◆ Aggregate measurement, monitoring and allocation
  - ◆ Setting and monitoring risk based underwriting performance
  - ◆ Defined risk appetites
- On track for Solvency II

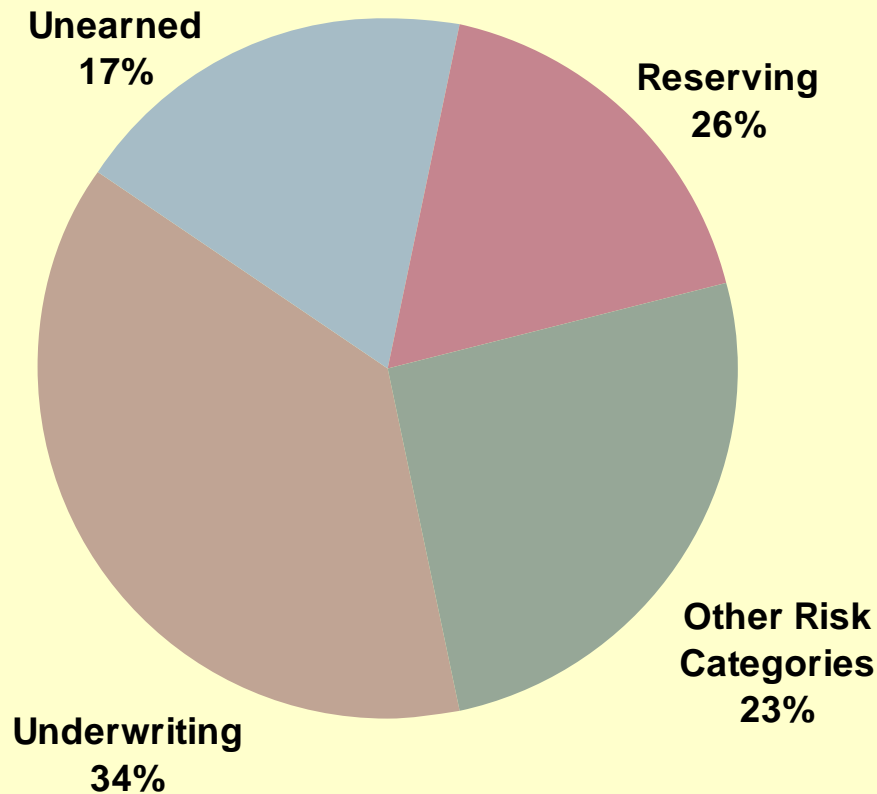
# ERM Vision

- *“To establish a holistic embedded Group-wide risk and capital management framework that enables informed risk-based strategic and operational decision-making to optimise the risk/reward relationship.”*
- This will be based on transparent communication of risk management and risk appetite and utilising an economic capital approach
- Benefits
  - ◆ Improved understanding of all risks and capital requirements
  - ◆ Better decisions and enhanced profit
  - ◆ Enhanced communication, internally and externally
  - ◆ Regulators satisfied

# Economic Capital Model

- In 2003 Catlin developed a bespoke internal dynamic financial analysis capital model to:
  - ◆ Assist in quantifying the capital required for a given risk tolerance
  - ◆ Determine the capital required to support the Group's business plan
- During 2006 EMB, a leading actuarial consultancy, was engaged to independently review Catlin's approach to capital modelling
  - ◆ "...one of the more sophisticated capital quantification approaches seen in the market"
  - ◆ Continual enhancement and embedding into business

# Economic Capital Model Components



- Insurance risk represents nearly 80% of the Group's capital requirements
- Other risk categories are:
  - ◆ Credit risk
  - ◆ Market risk
  - ◆ Liquidity risk
  - ◆ Operational risk

# Insurance Risk

## Underwriting Portfolio Management

- Capital model contains valuable information about distribution of results in a range of scenarios
- Considers portfolio of insurance as a whole
- Model can be used to find mixes of business that:
  - ◆ Maximise profit for any given risk measure; or
  - ◆ Minimise risk for any given expected profit
- No single 'right' answer
  - ◆ 'Risk' can be measured in many ways
  - ◆ Will always be risk/reward trade-off
  - ◆ Current versus long-term profitability
- Regular reporting to senior executives

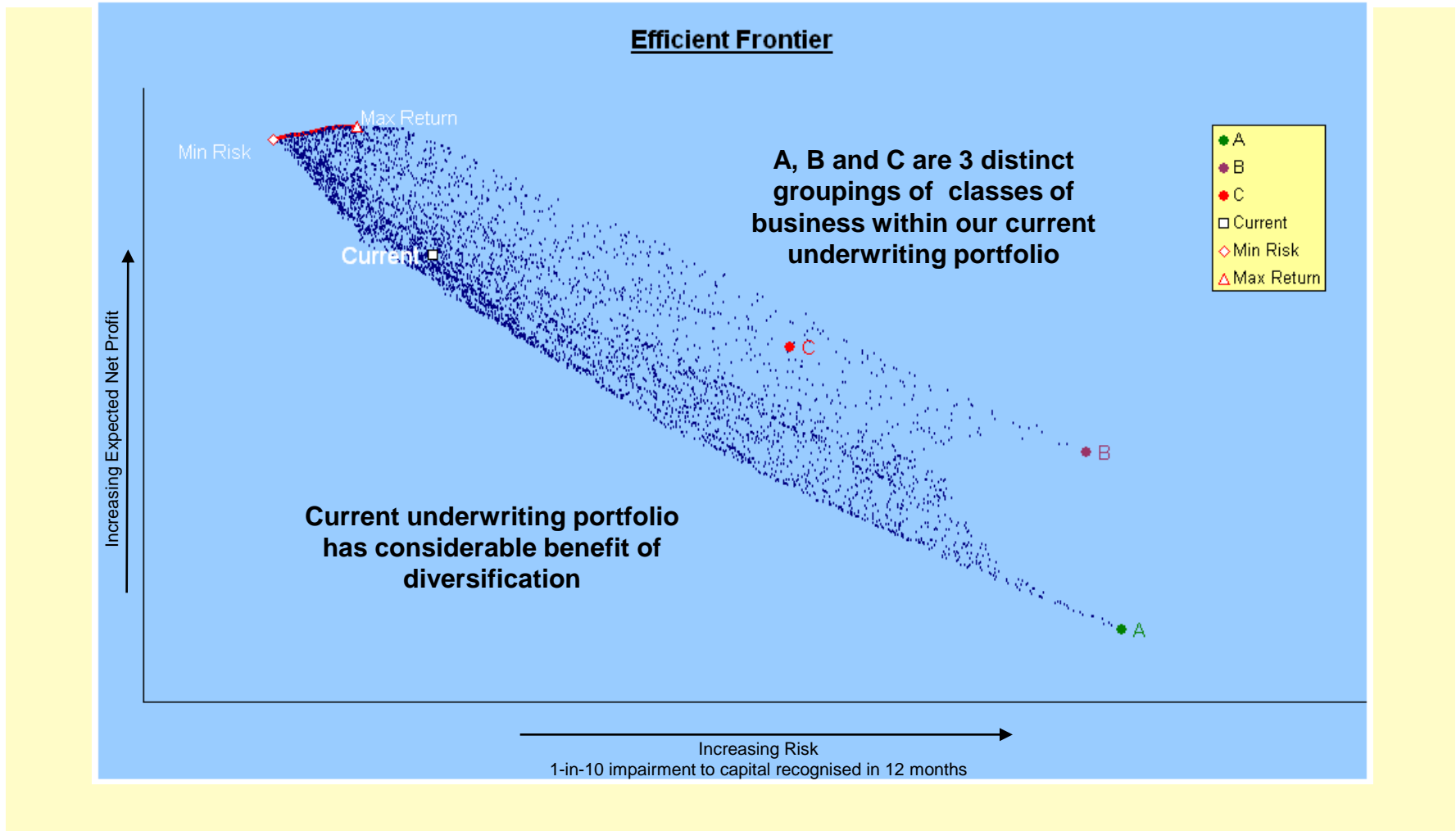
# Insurance Risk

## Comparing Portfolios

- Results of analysis are relative
  - ◆ Results that suggest shrinking a segment do not mean that segment is necessarily poor business
  - ◆ In terms of the current portfolio, the overall dynamic can be improved for the specific risk metric under review by reducing that segment
- Constraint
  - ◆ All portfolios shown have the same capital requirement to enable comparison
- Examples that follow only illustrate current profitability, together with a 12-month time horizon risk metric
  - ◆ In practice, many risk metrics and the medium to long-term profit potential must be considered to build a sustainable portfolio

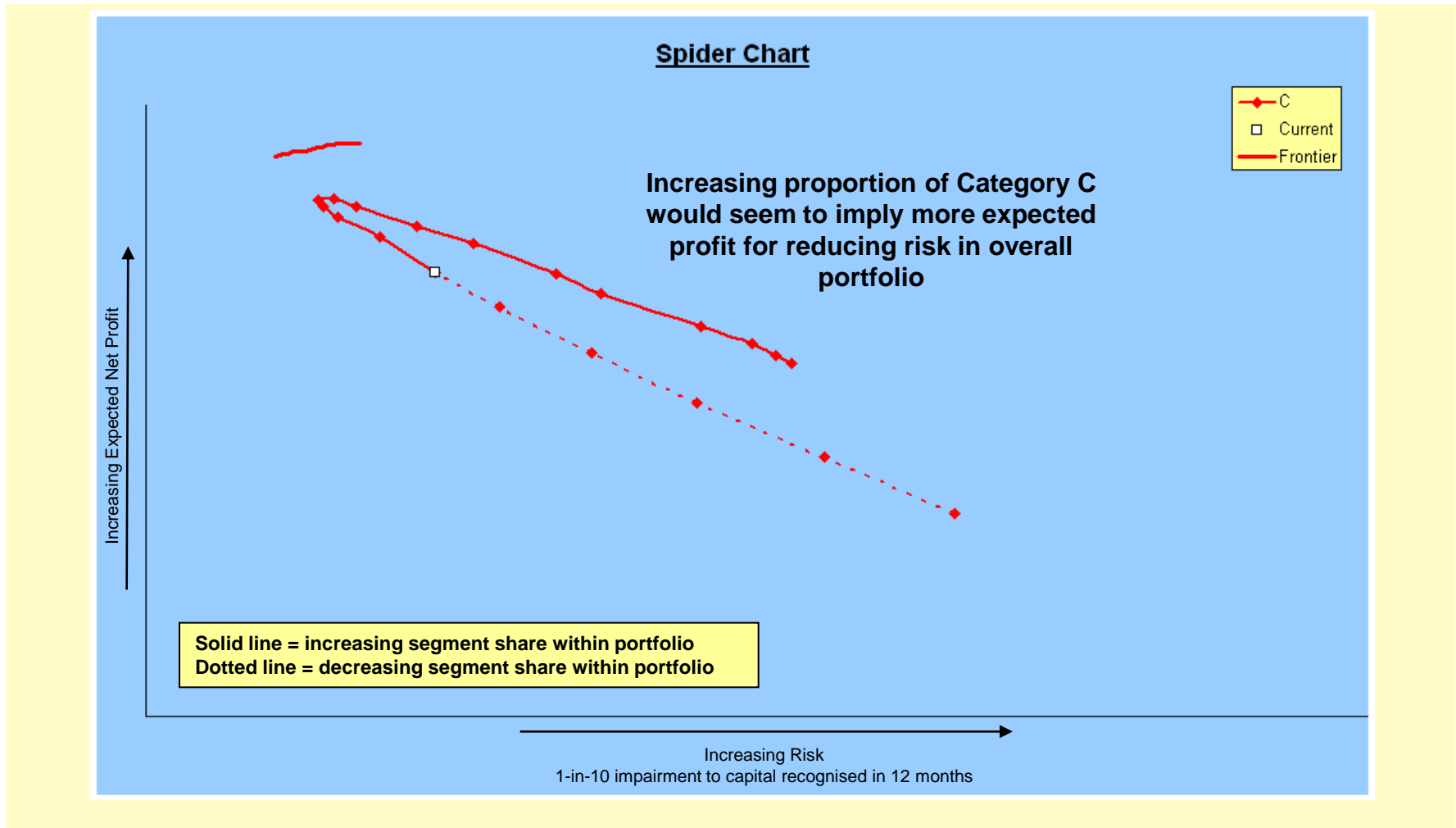
# Insurance Risk

## Example Output – Efficient Frontier



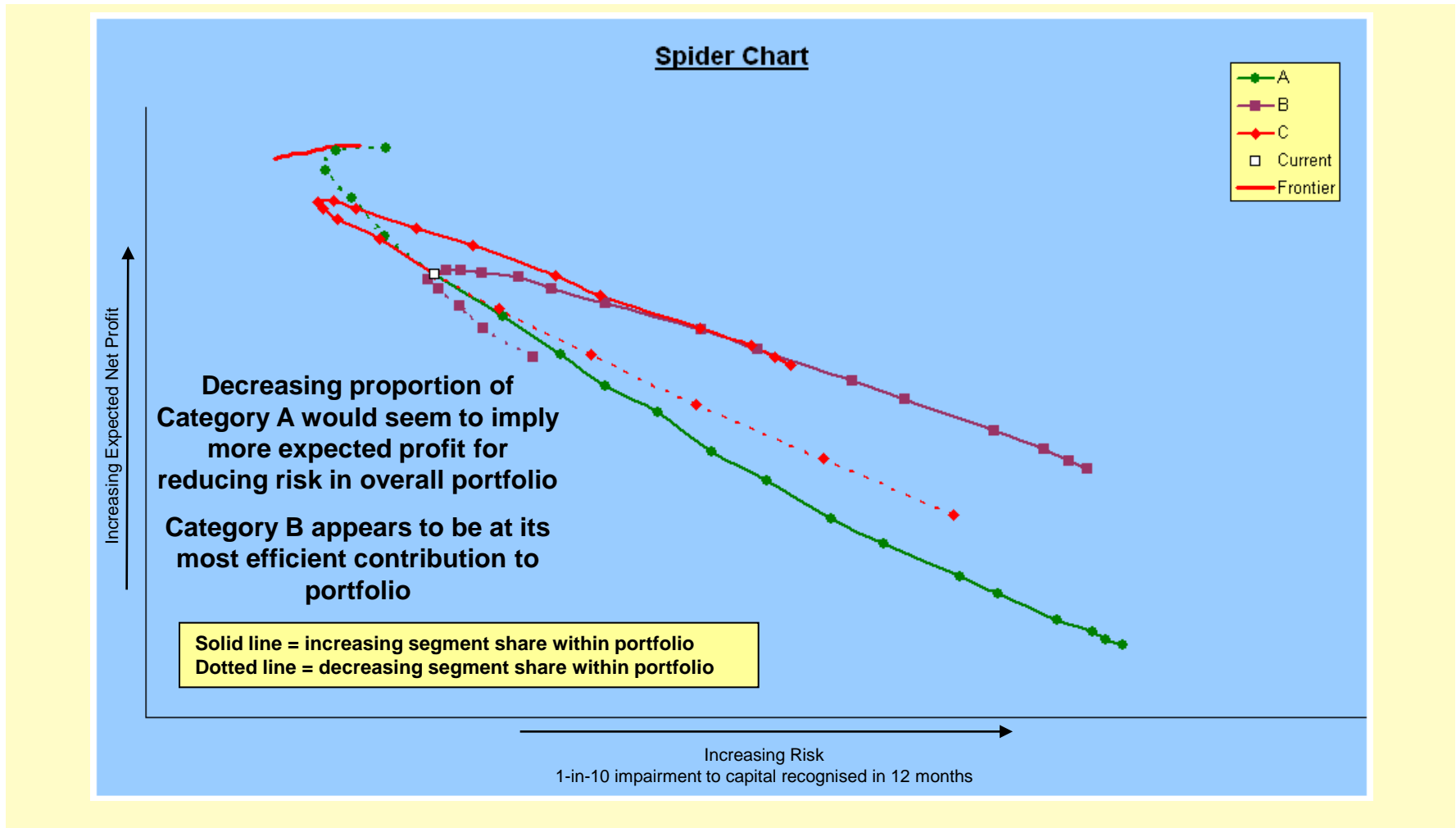
# Insurance Risk

## Example Output – Spider Chart



# Insurance Risk

## Example Output – Spider Chart



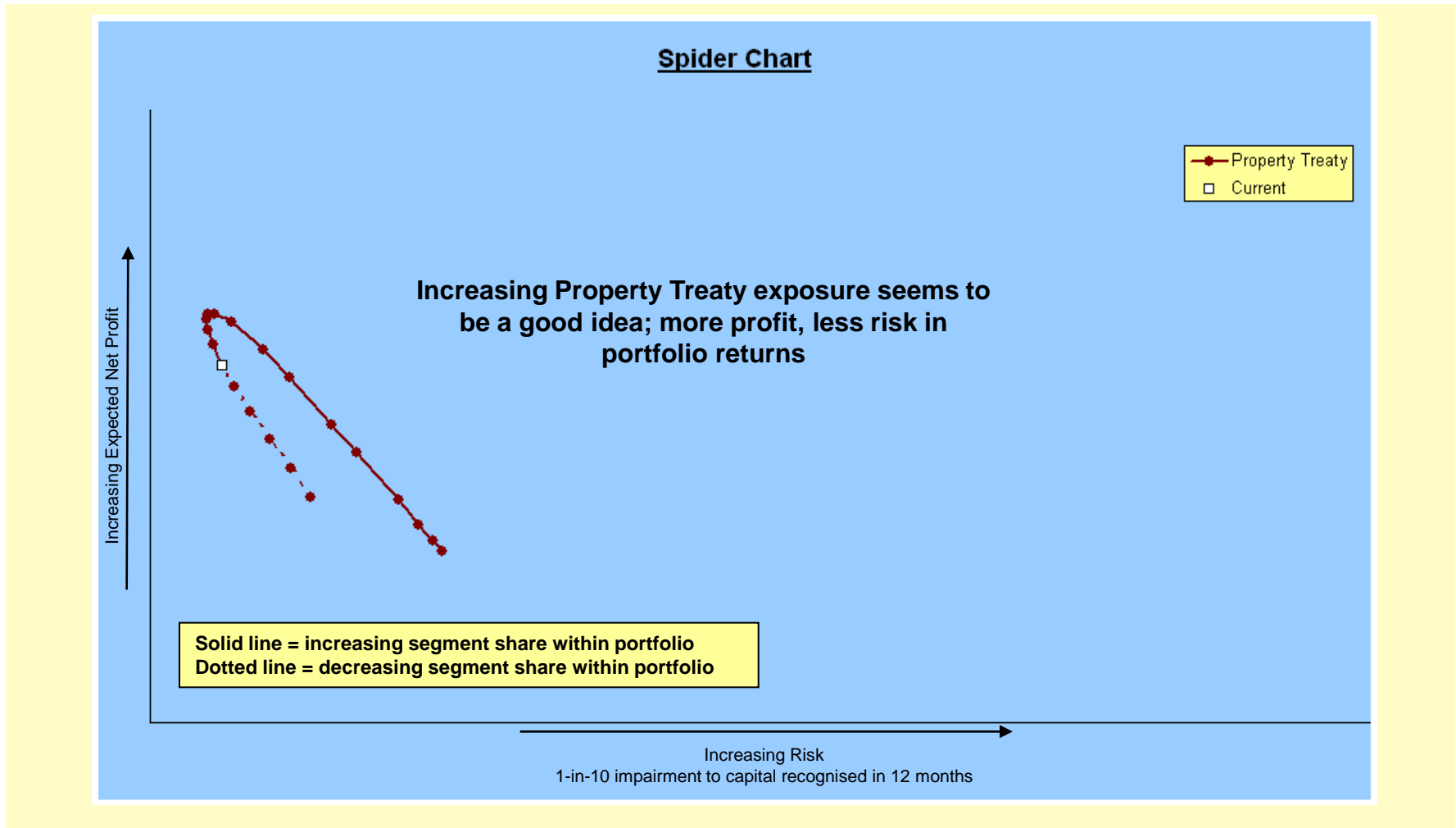
# Insurance Risk

## Portfolio Management

- If we consider only one risk metric, then conclusion would be:
  - ◆ Increase Category C
  - ◆ Maintain Category B at current proportion
  - ◆ Decrease Category A
- But, keep in mind:
  - ◆ Analysis only considers current profitability
    - Expected market changes?
  - ◆ Only considers our 1-in-10 downside risk over 12 months

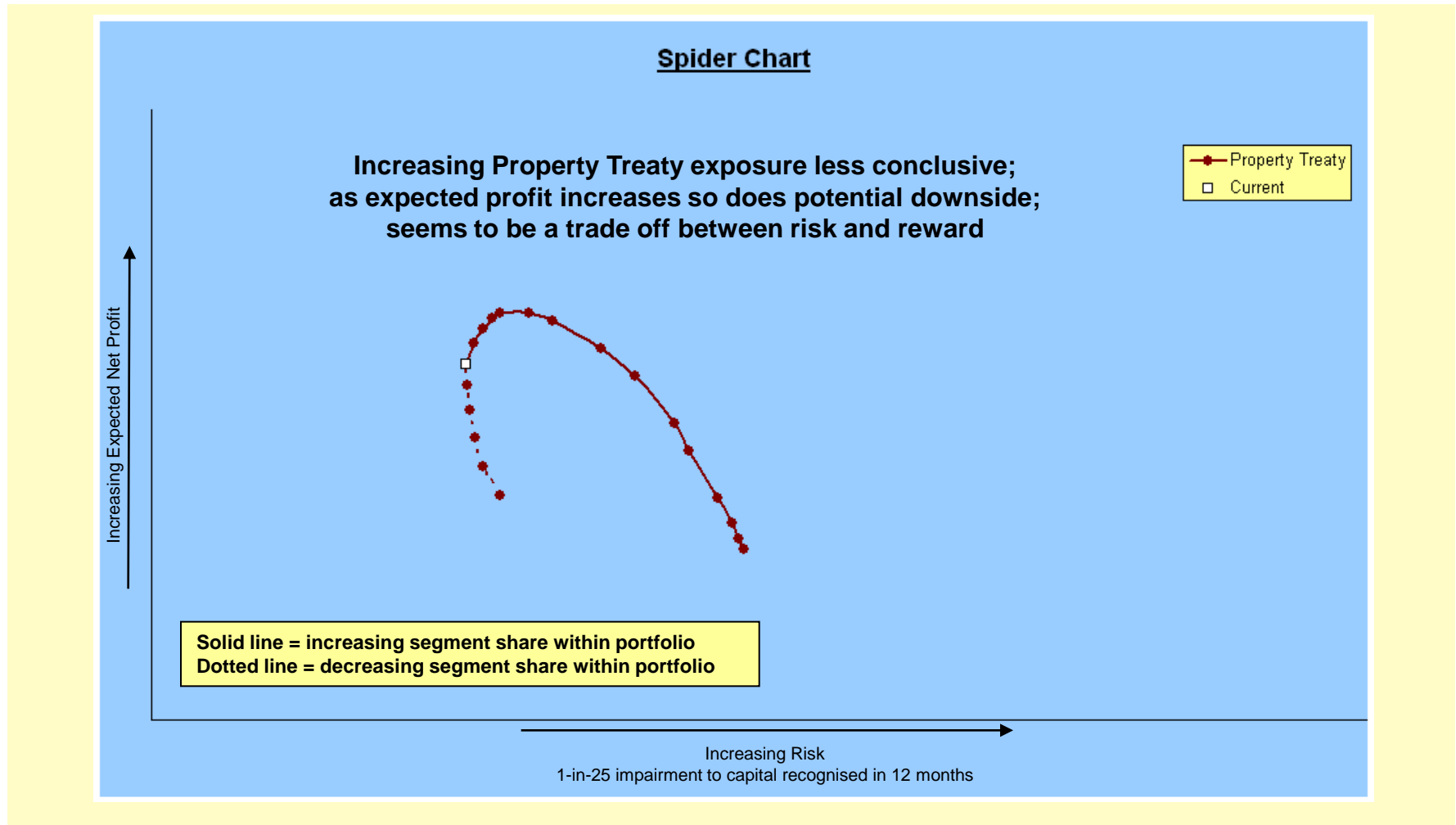
# Insurance Risk

## Property Treaty – 1-in-10 Downside Risk



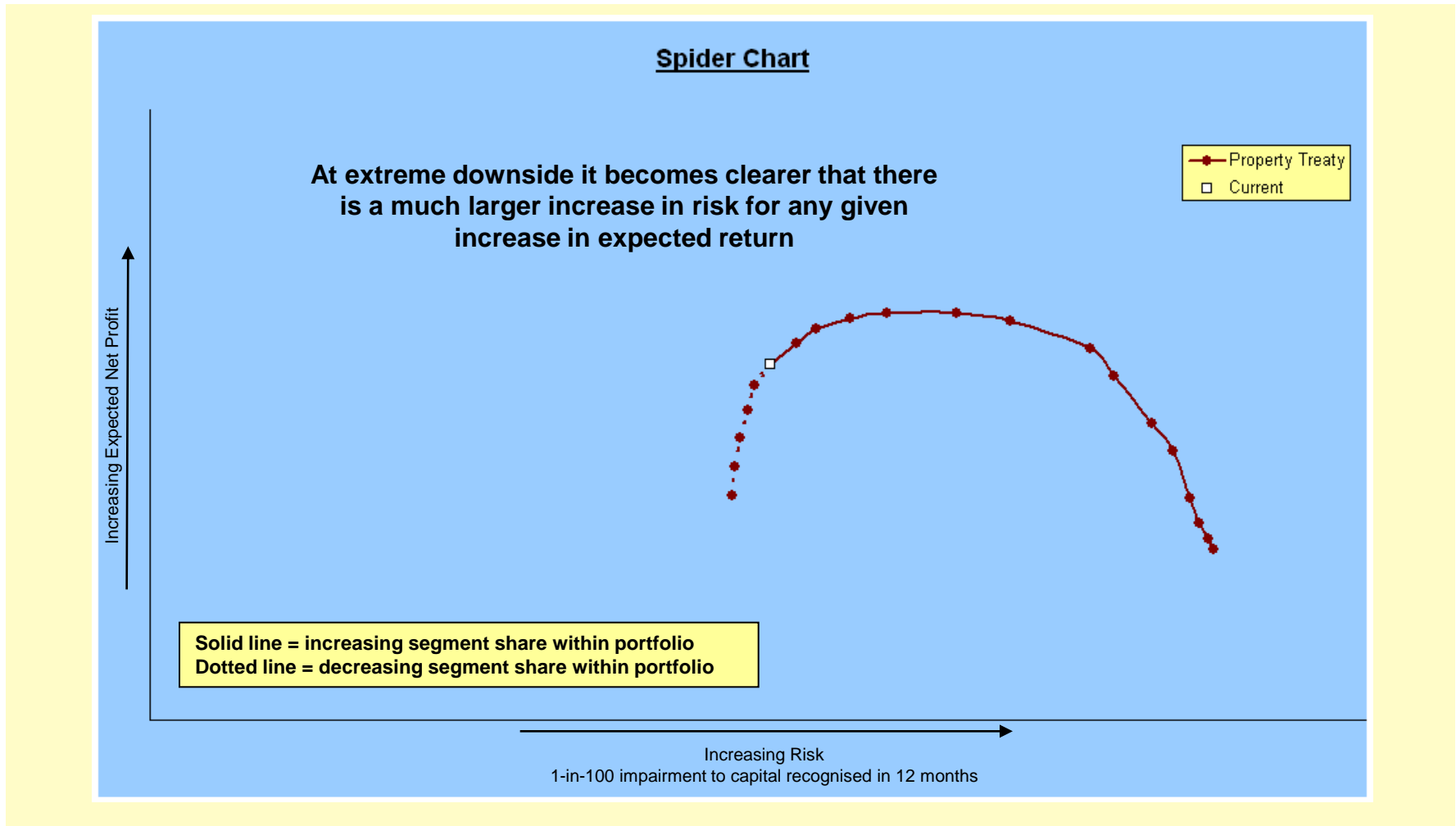
# Insurance Risk

## Property Treaty – 1-in-25 Downside Risk



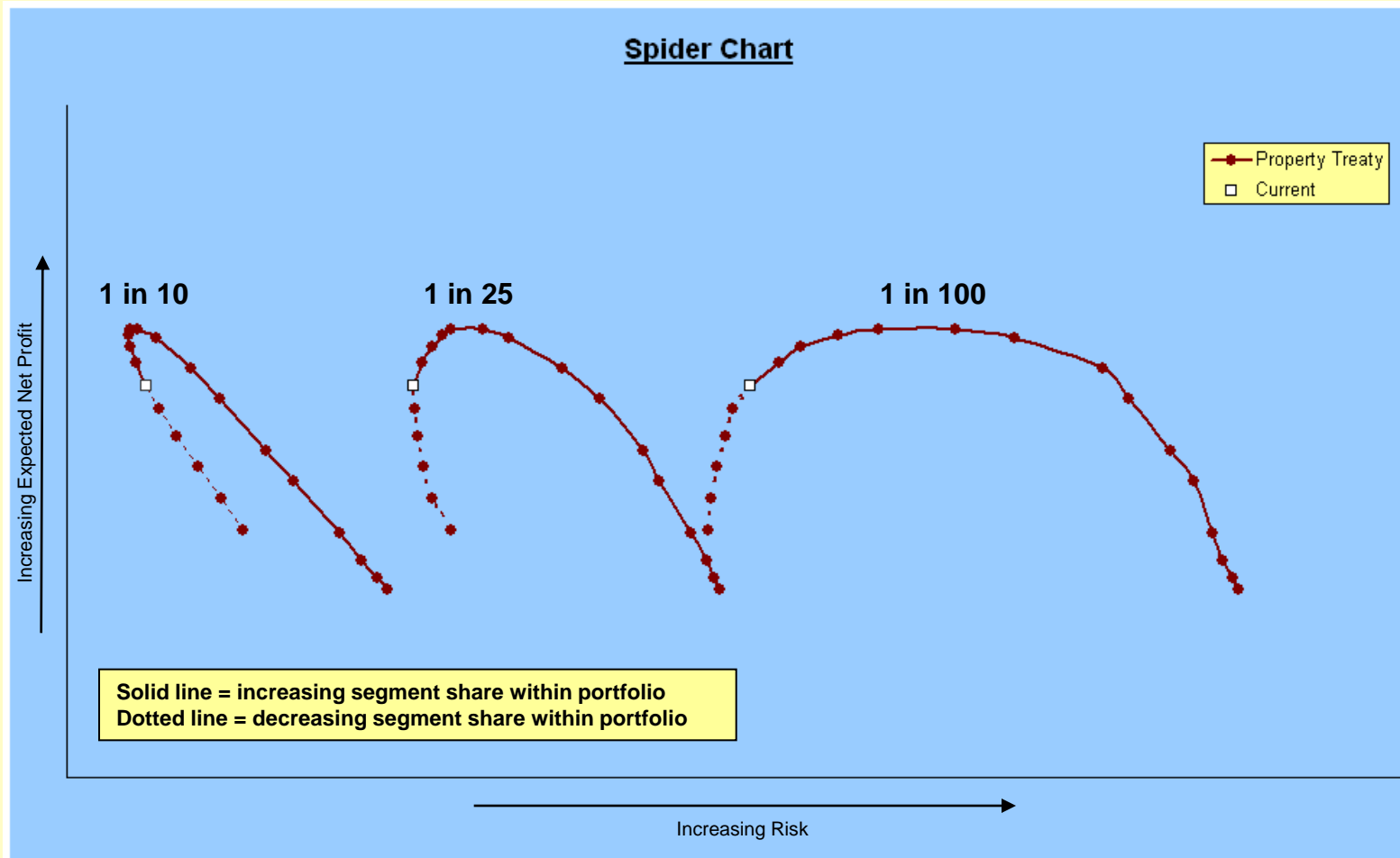
# Insurance Risk

## Property Treaty – 1-in-100 Downside Risk



# Insurance Risk

## Property Treaty - Comparison



# Insurance Risk

## Property Treaty - Comparison

- Don't bet the bank
- Don't trade extreme tail risk for short-term expected profit and potentially improved short-term volatility
- Capital efficiency is improved by:
  - ◆ International/geographic growth
  - ◆ Growth in uncorrelated new or existing products
- International network built to improve flexibility and diversification benefits

# Summary

- A strong and growing ERM culture exists within Catlin
- International expansion provides diversification and enhanced capital efficiency
- Underwriting expansion through consideration of:
  - ◆ Enhancing long-term profit
  - ◆ Improving the risk/reward trade-off
  - ◆ Not betting the bank
- We are committed to continual improvement

# Catlin Investor Day Presentation

Conclusion

Stephen Catlin, Group Chief Executive

# Summary

## What Differentiates Catlin?

- International expansion gives diversification and enhanced capital efficiency
  - ◆ By 2012 we are expecting approximately 40% of our underwriting contribution to come from outside the London hub
  - ◆ Underwriting expansion is based on:
    - Enhancing long term profit
    - Improving the risk/reward trade-off – not betting the bank
- We have the ability to leverage our existing global footprint
  - ◆ Underwriters in place
  - ◆ Diversified product offerings
  - ◆ Infrastructure largely developed
  - ◆ Capital flexibility
- Strong ERM culture

# Consistent Catlin Strategy

- Building a business for the future
- Disciplined underwriting
- Multiple underwriting platforms
- Benefit from investment in geographic expansion
- Building uncorrelated risk
- Not 'betting the bank'
- Excellent position to take advantage of market opportunities
- Catlin looks ahead with confidence

CATLIN