

Joseph H. Umansky

May 22, 2002

TO: M. R. Greenberg
H. I. Smith

RE: Special Re

Attached is the most recent schedule.

A handwritten signature in black ink, appearing to be 'JHU', is located below the text 'Attached is the most recent schedule.'

JHU:ge
Attachment

Special Re

May 22, 2002

The attached schedule shows a \$104 million present value shortfall. The shortfall can change significantly as a result of a relatively minor shift in the payout pattern. The \$90 million shortfall in the Personal Lines treaty will be repaid over the next three years.

The strains on the structures, and capacity constraints are becoming more severe and although I believe that they are manageable for the remainder of this year, 2003 will be a challenge. Specific points and notes follow:

- The adverse development on a number of our contracts should be obvious to the reinsurers, and should be a major concern to them, their auditors and their actuaries. This has implications for each of the reinsurer's retro covers and the related recoverables. To date I have heard of no serious questions. The action I took last year could have satisfied some of the concerns. The last audits are due to be completed within a few weeks.
- Mike Murphy would like to replace Astral on the Union Excess/Astral agreement. There are a number of obstacles. The issue will be revisited next month.
- A few of our reinsurers now have large concentrations of our reinsurance risk. We will be cutting back on the largest, the Hannover Re group with >\$2 billion as shown on our Schedule F (that number includes traditional reinsurance). Others have indicated that they will need to reduce their shares next year. The total reinsurance recoverable from the group of reinsurers approximates \$5.9 billion.
- Three of the Union Excess shareholders interested in selling their stakes are OPL (in runoff), AXA Re (in trouble), and CGNU. London Life has indicated an interest in buying the OPL shares but has raised a number of issues that I believe can be resolved. I have not heard from AXA Re or CGU recently on this matter.
- The Capco structure needs to be revamped in order to put us farther from criticism in today's environment. These changes will be implemented before year-end.
- The 1989 Aggregate (#2) was placed with two reinsurers, Abeille Re (now AXA Re) and Abeille (now CGNU). Part of the balance is unsecured. We are completing the novation of the CGNU share into Capco that will fully secure their 50% share. Discussions with AXA Re have been delayed due to Nessi's departure.
- The \$100 million American General/Superior National contract is included on the attached list. We are assuming that there will be no claim.
- We will be ceding \$510 million of premium as part of the 2002 program, the vast majority of it on a funds withheld basis. Two additional contracts are being considered: a discounting treaty for Environmental and a spread loss for RMG.
- Not included in funds available are approximately \$65 million of unrealized capital gains. These gains are somewhat phantom because the ultimate losses are discounted using the higher yields. I factor in the unrealized gain when I evaluate the implications of taking back a contract.

JHU:ge
Attachment

SPECIAL REINSURANCE

(in millions)

	Ulti- mate Loss	NPV of Ulti- mate	Funds Avail- able	Over (Short)	Credit Taken
AGGREGATE EXCESS / STOP LOSS					
1. Aggregate Excess - 1984-1985	206	155	158	3	206
2. Abeille - 1988 - Retrospective	352	312	312	0	352
3. Abeille - 1991 - 10 Yr.	159	135	134	(1)	157
4. AIGRM Stop Loss - 1993	50	46	46	0	23
5. AIGRM Stop Loss - 1994	50	42	42	0	23
6. Division 50 - Blown Max - 1997	34	27	25	(2)	25
7. Aggregate Loss Ratio / Excess - 1996	660	349	299	(50)	519
8. Aggregate Loss Ratio / Excess - 1997	735	421	360	(61)	581
9. Aggregate Loss Ratio / Excess - 1998	800	442	369	(73)	669
10. Aggregate Loss Ratio / Excess - 1999	650	339	299	(40)	490
11. Aggregate Loss Ratio / Excess - 2000 (B)	652	319	283	(36)	587
12. Aggregate Loss Ratio / Excess - 2001 (B)	835	379	341	(38)	752
13. DBG - Fac Obligatory - Aggregate Excess - 1999	370	207	207	0	370
14. AIU - Aggregate Excess - 1999	30	18	18	0	30
15. AIU - Aggregate Excess - 2000	30	17	17	0	30
16. DBG - Aggregate Excess - 1999	60	39	39	0	60
17. DBG - Aggregate Excess - 2000	60	32	32	0	60
18. Foreign General Aggregate - 2000	51	29	29	0	51
19. Foreign General Aggregate - 2001	64	35	35	0	64
20. Warranty - 2000	137	125	125	0	137
21. Personal Lines Auto Aggregate - 2000	150	131	41	(90)	150
22. DBG Divisional Stop Loss - 7/2000 (B)	200	119	119	0	150
23. DBG Divisional Stop Loss - 1/2001 (B)	210	115	115	0	210
24. DBG Divisional Stop Loss - 7/2001 (B)	190	114	114	0	190
25. Starr Excess - Excess of Loss - 2001	48	15	15	0	0
Total Aggregate Excess / Stop Loss	6,783	3,962	3,574	(388)	5,886
MISCELLANEOUS					
26. Other - Active Contracts	54	54	131	77	23
27. Other - Commuted & Cancelled Contracts (A)	0	0	207	207	0
Total Miscellaneous	54	54	338	284	23
TOTAL SPECIAL REINSURANCE	6,837	4,018	3,912	(104)	5,909

(A) Commuted & Cancelled Accounts Funds:

Global Catastrophe Cover	131
Lexington Warehouse	117
DBG Replacement Treaties	(80)
Professional Liability (NU Agg X/S)-Div 65	(13)
All Others Including Interest on Balance	52
Total Commuted & Cancelled Contracts	207

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(B) Fund is recorded as funds withheld by DBG and accrues interest