PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-K
February 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to ___________

Commission File Number 001-31341
Platinum Underwriters Holdings, Ltd.
(Exact name of registrant as specified in its charter)

Bermuda	98-0416483
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
The Belvedere Building 69 Pitts Bay Road Pembroke, Bermuda	HM 08
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (441) 295-7195

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $0.01 per share	New York Stock Exchange
6.00% Series A Mandatory Convertible Preferred Shares par value $0.01 per share, liquidation preference $30.15 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes X No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes No X__

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer , a non-accelerated filer or a smaller reporting company.

Large accelerated filer	X	Accelerated filer	Non-accelerated filer	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes No X___

The aggregate market value of common shares held by non-affiliates of the registrant as of June 29, 2007, the last business day of our most recently completed second fiscal quarter, was $1,855,913,579 based on the closing sale price of $34.75 per common share on the New York Stock Exchange on that date. For purposes of this computation only, all executive officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates.

As of February 15, 2008, there were outstanding 52,618,354 common shares, par value $0.01 per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2008 Annual General Meeting of Shareholders are incorporated by reference into Part III of this report.

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PART I

Platinum Underwriters Holdings, Ltd. ("Platinum Holdings") is a Bermuda holding company organized in 2002. Platinum Holdings and its subsidiaries are collectively referred to as the "Company". The terms "we", "us", and "our" also refer to Platinum Holdings and its consolidated subsidiaries, unless the context otherwise indicates. "Platinum Bermuda" refers to Platinum Underwriters Bermuda, Ltd., a Bermuda reinsurance company and wholly owned subsidiary of Platinum Holdings. "Platinum Regency" refers to Platinum Regency Holdings, an intermediate holding company domiciled in Ireland and a wholly owned subsidiary of Platinum Holdings. "Platinum UK" refers to Platinum Re (UK) Limited, a reinsurance company domiciled in the United Kingdom and a wholly owned subsidiary of Platinum Regency. "Platinum Finance" refers to Platinum Underwriters Finance, Inc., an intermediate holding company in the U.S. and a wholly owned subsidiary of Platinum Regency. "Platinum US" refers to Platinum Underwriters Reinsurance, Inc., a reinsurance company based in the United States and a wholly owned subsidiary of Platinum Finance. Platinum Administrative Services, Inc. is a U.S. company and a wholly owned subsidiary of Platinum Finance that provides administrative services to the Company. Platinum UK Services Company Limited is a wholly owned subsidiary of Platinum Bermuda based in the United Kingdom that provides administrative services to Platinum Bermuda.

Note On Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us.

In particular, statements using words such as "may," "should," "estimate," "expect," "anticipate," "intend," "believe," "predict," "potential," or words of similar import generally involve forward-looking statements. For example, we have included certain forward-looking statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” with regard to trends in results, prices, volumes, operations, investment results, margins, risk management and exchange rates. This Form 10-K also contains forward-looking statements with respect to our business and industry, such as those relating to our strategy and management objectives and trends in market conditions, market standing, product volumes, investment results and pricing conditions.

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this Form 10-K should not be considered as a representation by us or any other person that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in forward-looking statements, including the following:

(1) significant weather-related or other natural or man-made disasters over which we have no control;

(2) the effectiveness of our loss limitation methods and pricing models;

(3) the adequacy of our liability for unpaid losses and loss adjustment expenses;

(4) our ability to maintain our A.M. Best Company, Inc. rating;

(5) the cyclicality of the property and casualty reinsurance business;

(6) conducting operations in a competitive environment;

(7) our ability to maintain our business relationships with reinsurance brokers;

(8) the availability of retrocessional reinsurance on acceptable terms;

(9) market volatility and interest rate and currency exchange rate fluctuation;

(10) tax, regulatory or legal restrictions or limitations applicable to us or the property and casualty reinsurance business generally;

(11) general political and economic conditions, including the effects of civil unrest, acts of terrorism, war or a prolonged U.S. or global economic downturn or recession; and

(12) changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at our discretion.

As a consequence, current plans, anticipated actions and future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of us. The foregoing factors, which are discussed in more detail in Item 1A – "Risk Factors", should not be construed as exhaustive. Additionally, forward-looking statements speak only as of the date they are made, and we undertake no obligation to release publicly the results of any future revisions or updates we may make to forward-looking statements to reflect new information or circumstances after the date hereof or to reflect the occurrence of future events.

Item 1. Business

Industry Overview

Reinsurance is an arrangement in which an insurance company, referred to as the reinsurer, agrees to assume from another insurance company, referred to as the ceding company, all or a portion of the insurance risks that the ceding company has underwritten under one or more insurance policies. In return, the reinsurer receives a premium for the risks that it assumes from the ceding company. Reinsurance, however, does not discharge the ceding company from its liabilities to policyholders. Reinsurance can provide ceding companies with four principal benefits: a reduction in net liability on individual risks, catastrophe protection from multiple losses, assistance in maintaining acceptable financial ratios, and additional underwriting capacity permitting the ceding company to accept larger risks or write more business than would be possible without an accompanying increase in capital.

Types of Reinsurance

Reinsurance is typically classified into two categories based on the underlying insurance coverage: property and casualty reinsurance, and life and annuity reinsurance.

Property and Casualty Reinsurance

We write property and casualty reinsurance. Property reinsurance protects a ceding company against financial loss arising out of damage to property or loss of its use caused by an insured peril. Examples of property reinsurance are property catastrophe and property per-risk coverages. Property catastrophe reinsurance protects a ceding company against losses arising out of multiple claims for a single event while property per-risk reinsurance protects a ceding company against loss arising out of a single claim for a single event.

Casualty reinsurance protects a ceding company against financial loss arising out of the obligation to others for loss or damage to persons or property. Examples of casualty reinsurance are general and automobile liability, professional liability, workers' compensation, accident and health, surety and trade credit coverages.

Although property reinsurance involves a high degree of volatility, property reinsurance claims are generally reported soon after the event giving rise to the claim and tend to be assessed and paid relatively expeditiously. In comparison, there tends to be a greater time lag between the occurrence, reporting and payment of casualty reinsurance claims.

Excess-of-Loss and Proportional Reinsurance

Reinsurance can be written on either an excess-of-loss basis or a proportional basis (which is also referred to as pro-rata or quota share). In the case of excess-of-loss reinsurance, the reinsurer assumes all or a specified portion of the ceding company's risks in excess of a specified claim amount, referred to as the ceding company's retention or the reinsurer's attachment point, subject to a negotiated reinsurance contract limit. For example, property catastrophe excess-of-loss reinsurance provides coverage to a ceding company when its aggregate claims arising from a single occurrence during a covered period, such as a hurricane or an earthquake, exceed the attachment point specified in the reinsurance contract. Other forms of excess-of-loss reinsurance respond when one or more individual claims exceed the ceding company's retention. Premiums for excess-of-loss reinsurance may be a specified dollar amount or a percentage of the premium charged by the ceding company.

Reinsurers manage their underwriting risk from excess-of-loss contracts by charging reinsurance premiums at specific retention levels, independent of the premiums charged by ceding companies, and based upon their own underwriting assumptions. Because ceding companies typically retain a larger loss exposure under excess-of-loss contracts, we believe that they typically have a strong incentive to underwrite risks and adjust losses in a prudent manner.

In the case of proportional reinsurance, the reinsurer assumes a predetermined portion of the ceding company's risks under the covered primary insurance contract or contracts. The frequency of claims under a proportional contract is usually greater than under an excess-of-loss contract, since the reinsurer shares proportionally in all losses. Premiums for proportional reinsurance are typically a predetermined portion of the premiums the ceding company receives from its insureds.

Treaty and Facultative Reinsurance

Reinsurance can be written either through treaty or facultative reinsurance arrangements. In treaty reinsurance, the ceding company cedes, and the reinsurer assumes, a specified portion of a type or category of insurance policies issued by the ceding company. In facultative reinsurance, the ceding company cedes, and the reinsurer assumes, all or part of a specific insurance policy or policies. Substantially all of the reinsurance that we underwrite is on a treaty basis. We underwrite facultative reinsurance in limited and opportunistic circumstances.

Generally, treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and are largely dependent on the original risk underwriting decisions made by the ceding company's underwriters. Accordingly, reinsurers will carefully evaluate the ceding company's risk management and underwriting practices, as well as claims settlement practices and procedures, in deciding whether to provide treaty reinsurance and in appropriately pricing the treaty.

Generally, reinsurers who provide facultative reinsurance do so separately from their treaty operations. Facultative reinsurance is normally purchased by ceding companies for risks not covered by their reinsurance treaties, for amounts in excess of the claims limits of their reinsurance treaties or for unusual and complex risks. In addition, facultative reinsurance often provides coverages for relatively large exposures, which may result in greater potential claims volatility. Facultative reinsurance typically has higher underwriting and other expenses than treaty reinsurance because each risk is individually underwritten and administered.

Finite Reinsurance

Finite reinsurance, often referred to as non-traditional reinsurance, includes principally structured reinsurance contracts with ceding companies whose needs may not be met efficiently through traditional reinsurance products. In exchange for contractual features that limit our downside risk, reinsurance contracts we include in our Finite Risk segment provide the potential for significant profit commission to the ceding company. The classes of risks underwritten in our Finite Risk segment are generally consistent with the classes covered by our traditional products.

Broker and Direct Reinsurance

Reinsurance can be written through reinsurance brokers or directly with ceding companies. We believe that a ceding company's decision to select either the broker market or the direct market is influenced by various factors including, among others, market capacity, market competition, flexibility in the terms and conditions, the ability to efficiently compare the analysis and quotes of several reinsurers and the historical relationship with the reinsurer.

We underwrite substantially all of our reinsurance through brokers, as we believe that the use of reinsurance brokers enables us to operate on a more cost-effective basis and to maintain the flexibility to enter and exit reinsurance lines in a quick and efficient manner. We also believe that brokers are particularly useful in assisting with placements of excess-of-loss reinsurance programs.

Retrocession

Reinsurers typically purchase reinsurance to reduce their own risk exposure. Reinsurance of a reinsurer's risks is called retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons that include reducing liability on individual risks, protecting against catastrophic losses, stabilizing financial ratios and obtaining additional underwriting capacity. We purchase and issue retrocessional contracts on an opportunistic basis.

Derivative Securities

Insurers and reinsurers may use derivative instruments to reduce their exposure to catastrophe losses as an alternative to traditional retrocession. The financial security of the derivative counterparty may be enhanced through the posting of letters of credit or through the issuance of securities commonly referred to as “catastrophe bonds” where the principal of the catastrophe bond is at risk of loss to the investor in favor of the issuer in the event of certain defined catastrophic events. We may enter into transactions involving derivative securities when the economics are favorable to traditional retrocession and we are satisfied with the security of the counterparty.

Life and Annuity Reinsurance

We do not currently write any life or annuity reinsurance although we may do so in the future. Life reinsurance provides coverage with respect to individual and group life risks to primary life insurers. Annuity reinsurance provides coverage to insurers that issue annuity contracts to consumers seeking to accumulate personal wealth or as protection against outliving their financial resources.

Our Business

Platinum Holdings is a Bermuda holding company organized in 2002. We provide property and marine, casualty and finite risk reinsurance coverages, through reinsurance intermediaries, to a diverse clientele of insurers and select reinsurers on a worldwide basis. We operate through two licensed reinsurance subsidiaries, Platinum Bermuda and Platinum US. From 2003 through December 31, 2006 we also underwrote business in Platinum UK; in 2007 we ceased underwriting reinsurance business in Platinum UK. Platinum US had been an inactive licensed insurance company with no underwriting activity prior to January 1, 2002 and Platinum Bermuda and Platinum UK were formed in 2002. Consequently none of our reinsurance subsidiaries have any underwriting operations or loss reserves subject to development prior to January 1, 2002.

Platinum Regency is an intermediate holding company. Platinum Finance's activities have generally been limited to activities relating to holding company functions as well as activities relating to debt obligations. The activities of Platinum Administrative Services, Inc. and Platinum UK Services Company Limited are limited to providing inter-company administrative services. The following chart depicts our corporate structure:

Our Strategy

Our goal is to achieve attractive long-term returns for our shareholders, while establishing Platinum as a disciplined risk manager and market leader in selected classes of property and casualty reinsurance, through the following strategies:

Operate as a multi-class reinsurer. We seek to offer a broad range of reinsurance coverages to our ceding companies. We believe that this approach enables us to more effectively serve our clients, diversify our risk and leverage our capital.

Focus on profitability, not market share. Our management team pursues a strategy that emphasizes profitability rather than market share. Key elements of this strategy are prudent risk selection, appropriate pricing and adjustment of our business mix to respond to changing market conditions.

Exercise disciplined underwriting and risk management. We exercise underwriting and risk management discipline by: (i) maintaining a diverse spread of risk in our book of business across product lines and geographic zones, (ii) emphasizing excess-of-loss contracts over proportional contracts, (iii) managing our aggregate catastrophe exposure through the application of sophisticated property catastrophe modeling tools and (iv) monitoring our accumulating exposures on non-property catastrophe exposed coverages.

Operate from a position of financial strength. As of December 31, 2007, we had a total capitalization of $2,248,377,000. Our capital position is unencumbered by any potential adverse development of unpaid losses for business written prior to January 1, 2002. Our investment strategy focuses on security and stability in our investment portfolio by maintaining a portfolio that consists of diversified, high quality, predominantly publicly traded fixed maturities.

We believe these factors, combined with our strict underwriting discipline, allow us to maintain our strong financial position and to be opportunistic when market conditions are most attractive.

Operating Segments

We have organized our worldwide reinsurance business into the following three operating segments: Property and Marine, Casualty and Finite Risk. In each of our operating segments, we offer our reinsurance products to providers of commercial and personal lines of insurance and reinsurance. The following table sets forth our net premiums written for the years ended December 31, 2007, 2006 and 2005 by operating segment and by type of reinsurance ($ in thousands):

	Years Ended December 31,							
	2007			2006			2005	
Property and Marine								
Excess-of-loss	$	427,230	38%	318,260	27%	$	412,781	24%
Proportional		77,780	7%	106,669	9%		162,274	9%
Subtotal Property and Marine		505,010	45%	424,929	36%		575,055	33%
Casualty								
Excess-of-loss		522,812	47%	663,338	56%		676,276	39%
Proportional		61,793	6%	94,337	8%		132,755	8%
Subtotal Casualty		584,605	53%	757,675	64%		809,031	47%

Finite Risk								
Excess-of-loss		26,140	2%	50,220	4%		63,628	4%
Proportional		4,052	0%	(56,211)	(4%)		270,008	16%
Subtotal Finite Risk		30,192	2%	(5,991)	0%		333,636	20%
Combined Segments								
Excess-of-loss		976,182	87%	1,031,818	87%		1,152,685	67%
Proportional		143,625	13%	144,795	13%		565,037	33%
Total	$	1,119,807	100%	1,176,613	100%	$	1,717,722	100%

The following table sets forth our net premiums written for the years ended December 31, 2007, 2006 and 2005 by operating segment and by geographic location of the ceding company ($ in thousands):

	Years Ended December 31,					
	2007		2006		2005	
Property and Marine						
United States	$ 294,975	26%	275,870	23%	$ 401,270	23%
International	210,035	19%	149,059	13%	173,785	10%
Subtotal Property and Marine	505,010	45%	424,929	36%	575,055	33%
Casualty						
United States	510,552	45%	686,278	58%	718,103	42%
International	74,053	7%	71,397	6%	90,928	5%
Subtotal Casualty	584,605	52%	757,675	64%	809,031	47%
Finite Risk						
United States	29,932	3%	(12,626)	(1%)	329,843	19%
International	260	0%	6,635	1%	3,793	1%
Subtotal Finite Risk	30,192	3%	(5,991)	0%	333,636	20%
Combined Segments						
United States	835,459	74%	949,522	80%	1,449,216	84%
International	284,348	26%	227,091	20%	268,506	16%
Total	$ 1,119,807	100%	1,176,613	100%	$ 1,717,722	100%

Financial information about our operating segments is set forth in “Notes to Consolidated Financial Statements – Note 11 Operating Segment Information”.

Property and Marine

The Property and Marine operating segment includes principally property (including crop) and marine coverages that are written in the United States and select international markets. This business includes property catastrophe excess-of-loss reinsurance contracts, property per-risk excess-of-loss reinsurance contracts and property proportional reinsurance contracts. We write a limited amount of other types of reinsurance on an opportunistic basis. We employ underwriters and actuaries with expertise in each of the following areas:

Property. We provide reinsurance coverage for damage to property and crops. Our catastrophe excess-of-loss reinsurance contracts provide a defined limit of liability, permitting us to quantify our aggregate maximum loss exposure for various catastrophic events. Quantification of loss exposure is fundamental to our ability to manage our loss exposure through geographical zone limits and program limits. In addition, when our pricing standards are met, we write other property coverages, including per-risk excess-of-loss or proportional treaties. We have also entered into an agreement with an underwriting manager to underwrite property facultative and program reinsurance risks.

Marine. We provide reinsurance coverage for marine and offshore energy insurance programs. Coverages reinsured include hull damage, protection and indemnity, cargo damage, satellite damage and general marine liability. Within Marine, we also write commercial and general aviation reinsurance. Marine reinsurance treaties include excess-of-loss as well as proportional treaties.

Casualty

The Casualty operating segment principally includes reinsurance contracts that cover umbrella liability, general and product liability, professional liability, workers' compensation, casualty clash, automobile liability, surety, trade credit, political risk and accident and health. We generally write casualty reinsurance on an excess-of-loss basis. Most frequently, we respond to claims on an individual risk basis, providing coverage when a claim for a single, original insured event or occurrence reaches our attachment point. We write some excess-of-loss reinsurance contracts on an occurrence basis. On an opportunistic basis, we may write proportional reinsurance contracts.

We seek to write reinsurance contracts covering established books of insurance products where we believe that past experience permits a reasonable estimation of the reinsurance premium adequacy. We underwrite new exposures selectively and only after a comprehensive evaluation of the risk being reinsured and the capabilities of the ceding company. We employ underwriters and pricing actuaries with expertise in one or more of the following areas:

Umbrella Liability. An umbrella policy is an excess insurance policy that provides coverage, typically for general liability or automobile liability, when claims, individually or in the aggregate, exceed the limit of the original policy underlying the excess policy. A claim must exceed the limit of some underlying policy for the claim to be considered under an umbrella policy. We primarily reinsure commercial umbrella liability policies.

General and Product Liability. We provide reinsurance of various third party liability coverages to both small and large insureds in both commercial and personal lines predominantly on an excess-of-loss basis. This business includes commercial, farmowners and homeowners policies as well as third party liability coverages such as product liability.

Professional Liability. We write reinsurance contracts for professional liability programs, including directors and officers, employment practices, and errors and omissions for professionals such as accountants, lawyers, medical professionals, architects and engineers. In most circumstances, the underlying insurance products for these lines of business are written on a claims made basis, which requires notification of claims related to the liabilities insured under the policy to be submitted to the insurer during a specified coverage period.

Workers' Compensation. We reinsure workers' compensation on a catastrophic basis as well as on a per-claimant basis. We may provide full statutory coverage or coverage that is subject to specific carve-outs. Our predominant exposure to workers' compensation would generally arise from a single occurrence, such as a factory explosion or earthquake, involving claims from more than one employer.

Casualty Clash. Casualty clash reinsurance responds to claims arising from a single set of circumstances covered by more than one insurance policy or multiple claimants on one policy. This type of reinsurance is analogous to property catastrophe reinsurance, but written for casualty lines of business. Our casualty clash contracts are generally excess-of-loss reinsurance contracts with both occurrence limits and aggregate limits.

Automobile Liability. Automobile insurance policies provide first party coverage for damage to the insured's vehicle and third party coverage for the insured's liability to other parties for injuries and for damage to their property due to the use of the insured vehicle. These insurance policies may also provide coverage for uninsured motorists and medical payments. We generally reinsure automobile liability on an excess-of-loss basis. Our predominant exposure arises from third party liability claims and the related legal defense costs.

Surety. Our surety business relates to the reinsurance of risks associated with commercial and contract surety bonds issued to third parties to guarantee the performance of an obligation by the principal under the bond. Commercial bonds guarantee the performance of compliance obligations arising out of regulatory or statutory requirements. Contract bonds guarantee the performance of contractual obligations between two parties and include payment and performance bonds. The majority of our surety reinsurance contracts are written on an excess-of-loss basis with an aggregate limit.

Trade Credit. Trade credit insurance is purchased by companies to ensure that invoices for goods and services provided to their customers are paid on time. Our trade credit coverages provide reinsurance for financial losses sustained through the failure of an insured's customers to pay for goods or services supplied to them. We reinsure trade credit both on a proportional and an excess-of-loss basis.

Political Risk. Political risk reinsurance covers the impairment of assets located primarily in emerging markets as the result of an act by the state. Our clients provide coverage against expropriation, political violence, inconvertibility of currency, and non-honoring of sovereign obligation. The locations of risks that we reinsure include Asia, Central and Eastern Europe, Latin America, Africa and the Middle East. This business is written on a risk attaching basis either through quota share or excess of loss contracts.

Accident and Health. We provide accident and health reinsurance, most often covering employer self-insured or fully insured health plans, on a quota share and excess-of-loss basis. We also write reinsurance of student health insurance, sports disability, Medicare and Medicare supplement and other forms of accident and health insurance.

Finite Risk

The Finite Risk operating segment includes principally structured reinsurance contracts with ceding companies whose needs may not be met efficiently through traditional reinsurance products. In exchange for contractual features that limit our downside risk, reinsurance contracts we include in our Finite Risk segment typically provide the potential for a significant profit commission to the ceding company. The classes of risks underwritten in our Finite Risk segment are generally consistent with the classes covered by our traditional products. The finite risk reinsurance contracts that we underwrite generally provide prospective protection, meaning coverage is provided for losses that are incurred after inception of the contract, as contrasted with retrospective coverage, which covers losses that are incurred prior to inception of the contract. The three main categories of our finite risk reinsurance contracts are quota share, multi-year excess-of-loss and whole account aggregate stop loss:

Finite quota share. Under finite quota share reinsurance contracts, the reinsurer agrees to indemnify a ceding company for a percentage of its losses up to an aggregate maximum or cap in return for a percentage of the ceding company's premium, less a ceding commission. The expected benefit to the ceding company provided by finite quota share reinsurance is increased underwriting capacity of the ceding company and a sharing of premiums and losses with the reinsurer. These reinsurance contracts often provide broad protection and may cover multiple classes of a ceding company's business. Unlike traditional quota share reinsurance agreements, these contracts often provide for profit commissions which take into account investment income for purposes of calculating the reinsurer's profit on business ceded. Additionally, finite quota share reinsurance contracts are often written on a funds withheld basis, meaning the parties agree that funds that would normally be remitted to a reinsurer are withheld by the ceding company. The funds withheld are generally credited with interest at a negotiated rate and the net balances are settled generally after expiration at a date established in the contract.

Multi-year excess-of-loss. These reinsurance contracts often complement ceding companies' traditional excess-of-loss reinsurance programs. This type of contract often carries an up-front premium plus additional premiums which are dependent on the magnitude of losses claimed by the ceding company under the contract. The expected benefit to the ceding company on multi-year excess-of-loss reinsurance is that the ceding company has the ability to negotiate specific terms and conditions that remain applicable over multiple years of coverage. These reinsurance contracts may cover multiple classes of a ceding company's business and typically provide the benefit of reducing the impact of large or catastrophic losses on a ceding company's underwriting results. In general, these reinsurance contracts are designed so that the ceding company funds the expected level of loss activity over the multi-year period. The reinsurer incorporates a profit margin to cover its costs and a charge for the risk that actual losses assumed may be worse than expected. The payment of premiums based on the magnitude of losses claimed is intended to benefit the ceding company by linking its own loss experience to the actual cost of reinsurance over time. The multiple year term and premium structure of multi-year excess-of-loss reinsurance contracts are not typically found in traditional reinsurance contracts.

Whole account aggregate stop loss. Aggregate stop loss reinsurance contracts provide broad protection against a wide range of contingencies that are difficult to address with traditional reinsurance, including inadequate pricing by a ceding company or higher frequency of claims than the ceding company expected. The reinsurer on a whole account aggregate stop loss contract agrees to indemnify a ceding company for aggregate losses in excess of a deductible specified in the contract. These contracts can be offered on a single or multi-year basis, and may provide catastrophic and attritional loss protection. The benefit of whole account aggregate stop loss contracts to ceding companies is that such contracts provide the broadest possible protection of a ceding company's underwriting results which is not generally available in the traditional reinsurance market. Unlike traditional reinsurance contracts, these contracts often contain sub-limits of coverage for losses on certain classes of business or exposures. These reinsurance contracts are often written on a funds withheld basis. In addition, these reinsurance contracts often include provisions for profit commissions which take into account investment income for purposes of calculating the reinsurer's profit on business ceded.

Marketing

We market our reinsurance products worldwide primarily through non-exclusive relationships with the leading reinsurance brokers. Based on in-force premiums written by us as of December 31, 2007, the five brokers from which we derived the largest portions of our business (with the approximate percentage of business derived from each of such brokers and its affiliates) are: Marsh & McLennan Companies (30.8%), Aon Corporation (26.4%), Willis Group Holdings (14.4%), Benfield Group Limited (10.2%), and Carvill (3.5%). The loss of business relationships with any of these top five brokers could have a material adverse effect on our business.

In addition to their role as intermediaries in placing risk, brokers perform data collection, contract preparation and other administrative tasks. We believe that by doing business largely through reinsurance brokers we are able to avoid the expense and regulatory complications of a worldwide network of offices and thereby minimize fixed costs associated with marketing activities.

Underwriting and Risk Management

Our approach to underwriting and risk management emphasizes discipline and profitability rather than premium volume or market share. We seek to limit our overall exposure to risk by limiting the amount of reinsurance we write by geographic zone, by peril and by type of program or contract. Our risk management practices include the use of contract terms, diversification criteria, probability analysis and analysis of comparable historical loss experience. We estimate the impact of catastrophic events using catastrophe modeling software and reinsurance contract information to evaluate our exposure to losses from individual contracts and in the aggregate.

In connection with the review of any program proposal, we consider the quality of the ceding company, including the experience and reputation of its management, its capital and its risk management strategy. In addition, we seek to obtain information on the nature of the perils to be covered and, in the case of natural peril catastrophe exposures, aggregate information as to the location or locations of the risks covered under the reinsurance contract. We request information on the ceding company’s loss history for the perils proposed to be covered, together with relevant underwriting considerations, which would impact our exposures. If the program meets all these initial underwriting criteria, we then evaluate the proposal’s risk/reward profile to assess the adequacy of the proposed pricing and its potential impact on our overall return on capital.

Many of our reinsurance contracts do not contain an aggregate loss limit or a loss ratio limit, which means that there is no contractual limit to the number of claims that we may be required to pay pursuant to such reinsurance contracts. However, substantially all of our property reinsurance contracts with natural catastrophe exposure have occurrence limits that limit our exposure. In addition, substantially all of our high layer property, casualty and marine excess-of-loss reinsurance contracts contain aggregate loss limits. Our actuaries and underwriters work together to establish appropriate pricing models for these purposes.

For catastrophe coverages exposed to natural perils, we measure our exposure to aggregate catastrophic claims using catastrophe models that analyze the effect of wind speed and earthquakes on the exposed property values within our portfolio. We seek to limit the amount of capital that we expect to lose from a severe catastrophic event; however, there can be no assurance that we will successfully limit actual losses from such a catastrophic event. We also monitor our exposures to man-made peril catastrophe exposed accumulating risks, including surety, umbrella liability, directors and officers liability, trade credit and terrorism reinsurance.

We use sophisticated modeling techniques to measure and estimate loss exposure under both simulated and actual loss scenarios. We also use these models to compare exposure portfolios to both single and multiple events. We take an active role in the evaluation of commercial catastrophe exposure models, which form the basis for our own proprietary pricing models. These computer-based loss modeling systems primarily utilize direct exposure information obtained from our clients and data compiled by A.M. Best Company, Inc. ("A.M. Best"), to assess each client’s potential for catastrophe losses. We believe that modeling is an important part of the underwriting process for catastrophe exposure pricing. Commercial catastrophe models were modified following the 2005 catastrophes by recalibrating loss assumptions with higher frequency and severity. Ceding companies may also use one or more of the various modeling consulting firms in their exposure management analysis.

Risk Diversification

In addition to the strategies described above to manage our risks, we seek to diversify our property catastrophe exposure across geographic zones around the world in order to obtain a favorable spread of risk. We attempt to limit our coverage for risks located in a particular zone to a predetermined level. Currently, our greatest property exposures are in states on the west coast, gulf coast and southeastern part of the United States, as well as in the Caribbean, Japan and northern Europe.

We maintain a database of our exposures in each geographic zone and estimate our probable maximum loss for each zone and for each peril (e.g., earthquakes and hurricanes) to which that zone is subject based on catastrophe models and underwriting assessments. We also use catastrophe modeling to review exposures from events that cross country borders such as wind events that may affect the Caribbean and Florida or the United Kingdom and continental Europe. Our largest exposures are in the United States for hurricane and earthquake, in Europe for flood and wind, and in Japan for earthquake and typhoons.

We seek to diversify our casualty exposure by writing casualty business throughout the United States and internationally. In addition, we seek to diversify our casualty exposure by writing casualty reinsurance across a broad range of product lines.

Retrocessional Reinsurance

We obtain retrocessional reinsurance to reduce liability on individual risks, protect against catastrophic losses and obtain additional underwriting capacity. The major types of retrocessional coverage that we purchase or may purchase include specific coverage for certain property and casualty exposures.

We may purchase other retrocessional coverage on a selective basis. Our decisions with respect to purchasing retrocessional coverage take into account both the potential coverage and market conditions such as pricing, terms, conditions and availability of such coverage, with the aim of securing cost-effective protection. We expect that the type and level of retrocessional coverage will vary over time, reflecting our view of the changing dynamics of both the underlying exposure and the reinsurance markets. There can be no assurance that retrocessional coverage will be available on terms we find acceptable.

We consider the financial strength of retrocessionaires when determining whether to purchase retrocessional coverage from them. Retrocessional coverage is generally obtained from companies rated "A-" or better by A.M. Best unless the retrocessionaire's obligations are fully collateralized. For exposures where losses become known and are paid in a relatively short period of time, we may obtain retrocessional coverage from companies that may not be rated but that provide adequate collateral. The financial performance and rating status of all material retrocessionaires is routinely monitored. Retrocessional agreements do not relieve us from our obligations to the insurers and reinsurers from whom we assume business. Consequently, the failure of retrocessionaires to honor their obligations would result in losses to us.

Claims Administration

Our claims personnel administer claims arising from our reinsurance contracts, including validating and monitoring claims, posting case reserves and approving payment of claims. Authority for establishing reserves and payment of claims is based upon the level and experience of claims personnel.

Our claims personnel conduct periodic audits of specific claims and the overall claims procedures of our ceding companies at their offices. We rely on our ability to effectively monitor the claims handling and claims reserving practices of ceding companies in order to help establish the proper reinsurance premium for reinsurance agreements and to establish proper loss reserves. Moreover, prior to accepting certain risks, our underwriters will often request that our claims personnel conduct pre-underwriting claims audits of prospective ceding companies. Through these audits, we attempt to evaluate the ceding company’s claims-handling practices, fact-finding and investigation techniques, loss notification process, the historical adequacy of reserves, negotiation and settlement practices and adherence to claims-handling guidelines. Following these audits, our claims personnel provide feedback to the ceding company, including our assessment of the claims operation and recommendations, if any, regarding procedures, processing and personnel.

In November 2002, we entered into several agreements with subsidiaries of The Travelers Companies, Inc., formerly The St. Paul Companies, Inc., ("St. Paul") in order to transfer to us the liabilities, related assets and rights and risks under substantially all of the reinsurance contracts entered into by subsidiaries of St. Paul on or after January 1, 2002. Among these agreements were quota share retrocession agreements under which we assumed unpaid losses and loss adjustment expenses ("LAE"), unearned premiums and certain other liabilities on reinsurance contracts becoming effective in 2002, subject to certain exclusions (the "Quota Share Retrocession Agreements"). The reinsurance business of St. Paul was managed by a subsidiary ("St. Paul Re") and represented the former reinsurance segment of St. Paul. Claims related to business assumed under the Quota Share Retrocession Agreements are managed by the claims department of St. Paul Re, subject to our supervision and oversight. We reimburse St. Paul for its costs of managing these claims. We may, at our discretion and expense, take over administration of any specific claims.

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and LAE represent our best estimates, at a given point in time, of our liabilities for payment of losses and LAE that we are liable to pay for reinsured claims for events that have occurred on or before the balance sheet date. Such estimates are not precise as they are based on predictions of future developments and estimates of future trends in claim severity and frequency and other trends. Consequently, it is possible that the ultimate liability for the final settlement and claim administration costs may materially differ from such estimates. Subsequent adjustments of unpaid losses and LAE are accounted for as changes in estimates and are reflected in our results of operations in the period in which they are made.

We do not establish liabilities until the occurrence of an event that may give rise to a loss. These practices conform with and are required under applicable insurance laws and regulations and accounting principles generally accepted in the United States of America ("U.S. GAAP"). See the Unpaid Losses and LAE section of Critical Accounting Estimates in Item 7 “Management's Discussion and Analysis of Financial Condition and Results of Operations” on page 35 for further discussion of unpaid losses and LAE.

In the following section, we provide the estimates for net unpaid losses and LAE for the last three years and discuss changes in those estimates. We report changes in estimates for prior years’ net unpaid losses and LAE in our consolidated statement of operations in the same calendar year that we make the change. The table below shows the changes in our loss and LAE reserves for 2007, 2006 and 2005 ($ in thousands):

	2007	2006	2005
Net unpaid losses and LAE as of the beginning of the year	$ 2,326,227	2,268,655	$ 1,379,227
Net incurred losses and LAE related to:			
Current year	745,865	811,250	1,577,944
Prior years	(90,378)	(50,648)	(72,519)
Net incurred losses and LAE	655,487	760,602	1,505,425
Net paid losses and LAE:			

Current year	73,402	96,112	210,306
Prior years	578,611	624,477	390,598
Net paid losses and LAE	652,013	720,589	600,904
Net effects of foreign currency exchange rate changes	12,484	17,559	(15,093)
Net unpaid losses and LAE as of the end of the year	2,342,185	2,326,227	2,268,655
Reinsurance recoverable	18,853	42,255	55,335
Gross unpaid losses and LAE at end of the year	$ 2,361,038	2,368,482	$ 2,323,990

The net favorable loss development in 2007, 2006 and 2005 related to prior years included $81,166,000, $60,746,000 and $97,314,000, respectively, of net favorable loss development primarily from property and certain other lines of business with relatively short patterns of reported losses. The net favorable loss development in 2007, 2006 and 2005 related to prior years also included changes in net incurred losses and LAE associated with changes in estimates of premiums and the patterns of their earnings. The net increase (decrease) of losses and LAE related to prior accident years arising from changes in premium estimates were ($9,212,000), $10,098,000 and $24,795,000 in 2007, 2006 and 2005, respectively. The effect on net income of changes in premium estimates, after considering corresponding changes in related losses, LAE and acquisition expenses, was not significant.

The net favorable loss development related to prior years emerged from all segments and was related to both catastrophe and non-catastrophe losses. The most significant portion of net favorable development in 2007 was in the Property and Marine segment and in certain classes in the Casualty segment. Net favorable development in the Property and Marine segment in 2007 included $17,164,000 related to prior years' major catastrophes. Net favorable loss development in 2007 included $15,474,000 from certain long-tailed casualty classes. The remaining net favorable loss development in 2007, 2006 and 2005 were in the Property and Marine and Finite Risk segments as well as certain casualty classes with short loss development periods. During 2007, 2006 and 2005, actual reported losses were significantly less than expected for the property and casualty lines resulting in reductions in estimated ultimate losses.

The following table shows the development of liability for net unpaid losses and LAE from December 31, 2002 through December 31, 2007. The re-estimated liabilities reflect additional information regarding claims incurred prior to the end of each year. A redundancy or deficiency will result from changes in estimates of liabilities recorded at the end of the prior year. The cumulative redundancy reflects the cumulative differences between the original estimate and the currently re-estimated liability. Changes in the estimates are reflected in the consolidated statement of operations of the year that the liabilities are revalued. Unpaid losses and LAE denominated in foreign currencies are restated at the foreign exchange rates in effect as of December 31, 2007 and the resulting cumulative foreign exchange effect is shown as an adjustment to the cumulative redundancy. Each amount in the tables includes the effects of all changes in amounts for the prior year. The table does not present accident year or underwriting year development data nor does it include any corresponding adjustments that may accompany loss redundancies or deficiencies such as premium or commission adjustments. Conditions and trends that have affected the development of liabilities in the past may not necessarily exist in the future. Therefore, it would not be appropriate to extrapolate future deficiencies or redundancies based on the following table ($ in thousands):

	2002	2003	2004	2005	2006	2007
Net unpaid losses and LAE at end of year	$ 281,659	731,918	1,379,227	2,268,655	2,326,227	$ 2,342,185
Net unpaid losses and LAE re-estimated as of:						
One year later	224,693	649,902	1,306,708	2,215,635	2,235,849	
Two years later	194,422	604,891	1,277,627	2,149,153		
Three years later	176,884	603,293	1,254,213			
Four years later	175,683	601,719				
Five years later	173,546					
Net cumulative redundancy	108,113	130,199	125,014	119,502	90,378	
Adjustment for foreign currency exchange	15,318	6,047	(8,929)	5,975	1,992	
Cumulative redundancy excluding foreign currency exchange	123,431	136,246	116,085	125,477	92,370	
Net cumulative paid losses and LAE as of:						
One year later	41,709	205,889	388,700	624,006	551,176	
Two years later	62,604	265,376	536,351	1,043,973		
Three years later	73,908	320,399	688,953			
Four years later	90,982	371,633				
Five years later	107,135					
Gross liability-end of year	281,659					