

News Release

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June 1, 2009 Florida Property-Catastrophe Rates Up 15 Percent, According to Briefing by Guy Carpenter Rates Increases More Modest Than Expected, In Line With Global Rates

New York, June 1, 2009

A briefing published today by Guy Carpenter & Company, LLC, finds that Florida property-catastrophe reinsurance rates increased by 15 percent at the June 1, 2009, renewal, compared to a decline of 15 percent a year ago. This represents a more modest increase than the 20 percent rise anticipated by many, and is largely consistent with the overall rate trend for this year, which saw 10 to 14 percent increases for U.S. national reinsurers at the April 1, 2009, renewal.

According to the briefing, available at www.GCCapitalIdeas.com, reinsurance capacity was more limited at the June 1 renewal than in 2007 and 2008. Though capital was constrained as a result of the global financial crisis, the shortage did not result in severe rate spikes as it did in 2006, as increased demand was modest enough not to exceed supply.

RATES

- A decline of USD2 billion in the Florida Hurricane Catastrophe Fund's (FHCF's) Temporary Increase in Coverage Limits (TICL) layer and liquidity needs within the rest of the TICL layer led to an increase in demand for private reinsurance of 5 to 10 percent. Though there was sufficient capacity to meet cedents' needs, prices were pushed higher as a result.
- Firm order terms (FOTs) rose 10 to 14 percent year-over-year for lower layers and 14 percent to 18 percent for higher layers. Quoting was tight – with an average range of -3 percent to 3 percent around the average quote.
- Pricing shifted back to 2007 levels on a risk-adjusted basis. Lower layer FOTs increased by an average of 11 percent in 2009, compared to declines of 11 and 15 percent in 2008 and 2007, respectively. For middle layers, FOTs gained 14 percent, as compared to -15 percent and -17 percent in the two previous years. Higher layers rose 18 percent, in stark contrast to -19 percent in 2008 and -23 percent in 2007.

MARKET TRENDS

- Traditional capacity declined by 10 percent at the June 1, 2009 renewal. This drop, coupled with a decline in hedge fund-supplied capacity, had many cedents concerned about a lack of sufficient capacity. These anxieties were further exacerbated by the

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decline in the TICL. In the end, however, there was sufficient capacity in the market to meet cedents' needs.

- Many Florida insurers posted net losses last year while seeing net exposure increase because of a reduction in FHCF coverage and an increase in the FHCF retention.
- Adding to the Florida renewal season's stability in the last few weeks were the improving conditions and the increased volume in the tax-exempt municipal bond market leading to an increase in the FHCF's post-event bonding capacity estimate to USD8 billion from USD3 billion in October 2008.

QUOTES

Lara Mowery, Property Specialty Leader, Guy Carpenter

"Despite predictions of more substantial Florida rate increases this year, the June 1 renewal is remarkably consistent with the broader property casualty trends we saw at the April 1 renewal. In fact, given the unique characteristics of the Florida market, a 15 percent rate increase suggests that capacity conditions have not appreciably worsened through 2009 and that the market has, in fact, stabilized to a certain degree."

"The Florida market is always watched closely, and we would expect the current trend – manageable rate increases driven by limited but available capacity – to extend through the July 1, 2009, renewal, barring a mega-catastrophe, a new round of turbulence in the capital markets, or other extraordinary circumstances."

TAGS/KEYWORDS

Guy Carpenter, Florida, reinsurance, renewals, property catastrophe, capacity, rates

LINKS/URLS

Florida Renewal up 15%, Follows the Global Trend:

<http://www.gccapitalideas.com/2009/06/01/florida-renewal-up-15-follows-the-global-trend/>

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and help make the firm's clients more successful. Guy Carpenter's website address is www.guycarp.com.

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