

News Release

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Guy Carpenter Report Finds Cat Bond Market Poised for Strong Fourth Quarter

Two Upsized Transactions Closed in Third Quarter of 2009;
Fundamentals of ILS Market Point Toward Increased Activity Through End of Year

New York, October 13, 2009

The catastrophe bond market is poised for an active fourth quarter in 2009, according to a new report issued today by Guy Carpenter & Company, LLC, and GC Securities, a division of MMC Securities Corp.* The report, *Cat Bond Update: Third Quarter 2009*, available at www.GCCapitalIdeas.com, concludes that a number of trends are converging that could result in a total of between USD3 billion and USD4 billion of issuance in 2009. These include an increase in risk capital and the recent upsizing of catastrophe bonds in the third quarter of 2009.

According to the briefing, new risk capital issued in the third quarter of 2009 rose 28.8 percent compared with the third quarter of 2008. Two transactions, both closed in July 2009, resulted in USD412 million of new risk capital issued, up from USD320 million during the second quarter of 2008. For the first three quarters of 2009, a total of 11 catastrophe bonds have been issued, accounting for USD1.79 billion in risk capital. Year-to-date issuance activity has been down 33.5 percent versus the same period in 2008.

THIRD QUARTER ACTIVITY

- Parkton Re Ltd., on which GC Securities acted as co-lead manager and joint bookrunner, was upsized and ultimately priced below its initial price guidance. The initial target placement of USD125 million resulted in a USD200 million transaction. The North Carolina Joint Underwriting Association and North Carolina Insurance Underwriting Association (NC JUA/IUA), a new entrant to the catastrophe bond market, sponsored Parkton Re. The bond covers North Carolina hurricane losses based on an indemnity trigger.
- The Eurus II Ltd. transaction, which closed a day later, was also upsized to EUR150 million (from EUR75 million). The bond, which covers European windstorm risk in Germany, the United Kingdom, Netherlands, France, Belgium, Denmark and Ireland, replaced Eurus Ltd, a USD150 million bond that matured on April 8, 2009.

CATASTROPHE BOND REDEMPTIONS

- In addition to new bonds issued, USD300 million of catastrophe bond risk capital matured in the third quarter of 2009, bringing the year-to-date total to USD2.54 billion.
- A total of USD660 million is scheduled to mature during the fourth quarter of this year.

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RISK CAPITAL OUTSTANDING

- Following consecutive quarters of declines, total risk capital outstanding increased from the second quarter of 2009 to the third quarter, reaching USD11.3 billion – up from USD11.19 billion – a net increase of USD112 million (1 percent).
- The current level of risk capital outstanding is consistent with that of mid-year 2007.

ISSUANCE COMPOSITION

- USD200 of the USD412 million issued in the third quarter of 2009 had U.S. hurricane exposure, while the remainder had exposure to European windstorm.

FOURTH QUARTER 2009 OUTLOOK

- Improvement in global financial market conditions improving and advances in the insurance-linked securities (ILS) collateral solutions – coupled with a stronger demand for issuance and the increasing capacity of investors – have resulted in a shift in the ILS market relative to the beginning of 2009.
- Investors are increasingly focusing on capital deployment and stimulating additional primary issuance, which is contributing to spread tightening.
- The consensus estimate for 2009 total issuance remains from USD3 billion to USD4 billion, implying a fourth quarter issuance rate of USD1.2 billion to USD2.2 billion.

QUOTES

David Priebe, Chairman of Global Client Development, Guy Carpenter

“Given the increase in risk capital and the performance of the two bonds issued in the third quarter – both in terms of pricing and size – a fourth quarter that would account for more than 40 percent of the year’s total issuance is not unattainable. Redemptions resulting from cat bonds maturing and a fairly light Atlantic hurricane season should also increase demand for new issuance.”

Chi Hum, Global Head of Distribution, GC Securities

“The recent tightening of spreads has brought the ILS market back, after the unusually wide spread we saw in the first half of 2009 had a dampening effect on issuance activity, particularly from reinsurers. Sponsors that had been hesitant to enter the market during the first half of 2009 because of pricing concerns may now renew their interest in catastrophe bonds, since the benefits of cat bond protection are available at more favorable price points.”

TAGS/KEYWORDS

Guy Carpenter, reinsurance, catastrophe bonds, cat bonds, property catastrophe, capital, capacity, pricing

LINKS/URLs

Cat Bond Update: Third Quarter 2009: [\[link\]](#)

<http://www.gccapitalideas.com/2009/10/13/cat-bond-update-third-quarter-2009/>

Charts Available for Download: <http://www.gccapitalideas.com/category/chart-room>

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About Guy Carpenter

Guy Carpenter & Company, LLC is the world's leading risk and reinsurance specialist and a part of the Marsh & McLennan Companies. With over 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm's full breadth of services includes line of business expertise in Agriculture; Aviation; Casualty Clash; Construction and Engineering; Excess and Umbrella; Life, Accident and Health; Marine; Medical Professional Liability; Political Risk and Trade Credit; Professional Liability; Property; Retrocessional Reinsurance; Surety; Terrorism and Workers Compensation. GCFac® is Guy Carpenter's dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized management of facultative reinsurance solutions. In addition, Guy Carpenter's InStrat® unit utilizes industry-leading quantitative skills and modeling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. Guy Carpenter's website address is www.guycarp.com.

Guy Carpenter's intellectual capital website, www.GCCapitalIdeas.com, leverages blog technology, including Real Simple Syndication (RSS) feeds and searchable category tags, to deliver Guy Carpenter's latest research as soon as it is posted. In addition, articles can be delivered directly to BlackBerrys and other handheld devices.

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