Catastrophe Losses, Credit Crisis Push Reinsurance Pricing Upwards, According to Guy Carpenter Review
Property Catastrophe Rates Increase by 8 Percent After Two Consecutive Years of Declines; Market Remains Highly Volatile

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High catastrophe losses and the continuing international credit crisis pushed property catastrophe rates up by 8 percent at the January 1, 2009, reinsurance renewal period, according to a briefing on global reinsurance market conditions published by Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist. Cats and Credit Push Prices Up: Global Reinsurance Review January 2009, available at www.GCCapitalIdeas.com, Guy Carpenter's new intellectual capital website, states that property catastrophe reinsurance rate increases were moderate on average, as the Guy Carpenter World Rate on Line (ROL) Index rose 8 percent.

“Price increases at the January 1, 2009, renewals have been tempered somewhat by large capital positions, which have enabled carriers to absorb the year’s losses, but the marketplace remains highly volatile,” said Chris Klein, Global Head of Business Intelligence, Guy Carpenter. “We have seen wide differences in pricing, dependent on a number of factors, such as loss history, geography, and line of business. At the same time, the expectation of another above-average storm year and the ongoing credit crisis underscore the need for disciplined capital management in the coming year.”

Among the major findings:

- **Property Catastrophe Rates Rise**: Despite the magnitude of catastrophes and financial losses, the 8 percent increase in property pricing was substantially lower than the increases that followed disasters such as Hurricane Andrew in 1992, the terror attacks of September 11, 2001, and Hurricanes Katrina, Rita, and Wilma in 2005. For the United States, rates rose on average by 11 percent, but there were wide variations dependent upon loss experience and zone. Continental Europe remained relatively stable, with rates increasing between 0 percent and 10 percent on a risk-adjusted basis. Rate changes in the UK ranged from -2.5 to 5 percent.

- **Casualty Capacity Down**: Casualty reinsurance pricing grew 5 percent on average at the January 2009 renewal, with a notable lack of capacity. A number of programs could not be placed at any reasonable rate. As a result of the financial catastrophe, new insurers had the opportunity to enter the market, but reinsurers generally were unwilling to support new capacity in order to keep reinsurance rates from dropping.
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The lines of business most directly impacted by the credit crisis – such as errors and omissions (E&O) and directors and officers (D&O) insurance – experienced the greatest difficulties at renewal.

- **Effects of Financial Catastrophe**: According to the Guy Carpenter Global Composite, carriers lost 15 percent of their implied aggregate book value in 2008, compared to 32 percent for the S&P Banks Index. The Guy Carpenter Reinsurance Composite, consisting of 16 leading firms, lost aggregate shareholders’ equity of $17 billion (16 percent) by the end of the third quarter of 2008.

- **Retrocession**: 2008’s later-than-usual treaty retrocession renewal saw reduced capacity and higher prices. The market was constrained by an inability to replenish balance sheets as a result of the financial catastrophe, as well as the withdrawal of major players from the market. As a result, the upward pricing reaction was more pronounced than in other sectors, and capacity for losses related to Hurricane Ike was scarce.

- **Buyers Turn to ILWs**: A number of reinsurance buyers sought 2009 capacity in the form of Industry Loss Warranties (ILW), as early as October 2008. Several major purchases led to higher prices, as carriers increasingly looked to replace catastrophe bond capacity with ILW cover. Higher demand and a limited ILW capacity are likely to continue into 2009.

- **Marine, Energy, and Aviation**: Marine rates rose 10-15 percent on average (risk-adjusted), while offshore energy pricing, particularly in the Gulf of Mexico, was substantially higher. The aviation renewal showed little change, with pricing stabilizing.

“Though the financial catastrophe has affected pricing, it has been less extreme than might have been expected,” said Mr. Klein. “In the end, effective risk and capital management practices have enabled the industry to absorb the shocks of 2008 effectively.”

“Looking forward,” added Mr. Klein, “there are a number of unknowns that could negatively impact rates, such as another above-average catastrophe year or a financial surprise. On the other hand, a resolution of the credit crisis could restore asset values and improve the financial conditions of insurers and reinsurers. The first half of 2009 will therefore be a waiting game, with dramatic events having the potential to either negatively or positively impact the market and pricing.”

Guy Carpenter will release more detailed reports on specific lines of business, regions, and market conditions in the reinsurance sector over the next two weeks. The forthcoming articles will be published on GCCapitalIdeas.com and will provide a more comprehensive review.

Guy Carpenter’s new intellectual capital website, www.GCCapitalIdeas.com, leverages blog technology, including Real Simple Syndication (RSS) feeds, as well as searchable category tags, to deliver Guy Carpenter’s latest research as soon as it is available. In addition, articles can be delivered directly to BlackBerry® devices and other personal digital assistants (PDAs).
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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 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; 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.

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