

News Release

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Guy Carpenter Briefing Shows Rates Rising on U. S. Property Catastrophe Reinsurance at April 1, 2009 Renewals Capacity Continues to Tighten

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A briefing issued today by Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist, finds reinsurance rates continuing to increase for the U.S. property-catastrophe reinsurance market at the April 1, 2009 renewal. The briefing, titled *Rates Up on Tightening Capacity at U.S. 4/1 Prop-Cat Renewal*, is available for download at www.GCCapitalIdeas.com.

RATES/PRICING

- According to the briefing, national programs rose between 10 percent and 14 percent on a risk-adjusted basis, with the Northeast seeing 6 percent to 8 percent increases. Risk-adjusted pricing was up 12 percent to 14 percent on average for residual markets, though results varied widely, depending on risk pool characteristics.
- By comparison, reinsurance rates increased 11 percent on average at the January 1, 2009 renewal.
- Quoting behavior varied widely, ranging from -15 percent to 15 percent for certain programs. Capacity needs, regions, and specific perils were among the factors influencing the final rates that insurers were able to secure.
- For the U.S. market, firm order terms (FOTs) ended up at 94.8 percent of average quotes – 80.5 percent of the top quote and 110 percent of minimum quotes. Increases were less pronounced in the Northeast, where higher layer FOTs discounted 8 percent to 10 percent relative to quotes, with lower layers at 10 percent to 12 percent discounts.
- Relative to 2008 FOTs, prices rose 14 percent to 16 percent year-over-year for higher layers and 10 percent to 14 percent for lower layers. For programs focused on the Northeast, lower layer FOTs were up only 4 percent to 6 percent from April 1, 2008, and higher layers saw increases of 8 percent to 10 percent.
- Pricing trends were substantially impacted by the availability of capacity – especially for perils in historically capacity constrained zones – as well as program-specific loss histories.

CAPITAL

- According to the Guy Carpenter Global Reinsurance Composite, shareholder funds dropped 18 percent last year – reflecting a decline in capital of \$19.7 billion.

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Unrealized losses on investment assets accounted for 53 percent of the decline. Share repurchases and dividend payments resulted in the depletion of capital as well, though most programs were suspended by the end of last year.

- Capital is likely to continue to be constrained in 2009, with uncertainty in the financial markets likely to impair investment assets. The ability to secure additional capital will depend on specific companies and lines of business.

FLORIDA RENEWALS

- As a result of concern about continued price increases, a number of Florida renewals are already underway. The outcome of the current Florida legislative session and the decisions by the Florida Hurricane Catastrophe Fund Trustees could have a profound impact on the market.

QUOTES

Lara Mowery, Head of Guy Carpenter's Global Property Specialty Practice

"The rise in reinsurance rates at the April 1 renewal extends the upward trend that we saw at the beginning of the year. Capital has undoubtedly been constrained, and this is translating into decreasing capacity in a number of areas, which then has an impact on reinsurance pricing."

"Taking early action continues to be critical in helping insurers manage their cost of coverage. As we move into the Florida renewal season, the many unknowns make this strategy more difficult for these companies."

TAGS/KEYWORDS

Guy Carpenter, catastrophe, reinsurance, renewal, capacity, pricing, rates, capital, Florida

LINKS/URLs

Rates Up on Tightening Capacity at U.S. 4/1 Prop-Cat Renewal:

www.gccapitalideas.com/2009/04/07/rates-up-on-tightening-capacity-at-us-41-prop-cat-renewal

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