



News Release

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Guy Carpenter Briefing Finds Rising Interest Rates Could Affect Reinsurers' Claims-Paying Ability over Long Term, Industry Stable despite Lingering Effects of Financial Crisis Briefing Examines Impact of Inflationary Pressures and Credit Crunch On Casualty Reinsurance Market

New York, September 8, 2009

A briefing published today by Guy Carpenter & Company, LLC looks ahead to the possible effects of inflation on long-tail reinsurance, as well as the impact of the credit crunch on reinsurers in the wake of the subprime mortgage crisis. The briefing, *Casualty Specialty Update*, available at www.gccapitalideas.com, examines the twin pressures that inflation and the global credit crunch are exerting on the global casualty reinsurance industry.

INFLATION AND LONG-TAIL REINSURANCE

- Monetary inflation may not be an immediate concern for reinsurers, with the worldwide recession and depressed growth levels containing the risk of inflation. However, “quantitative easing” by governments into the financial system could set the stage for inflation within a few years, especially in France, Germany and the United Kingdom.
- Inflation may pose a particular problem for long-tail insurers and quota share reinsurers, unless they have a sufficient time horizon before claims must be paid. Carriers can, however, invest the premium they receive and thus counteract the effects of inflation.
- Though rising inflation could impair the ability of insurers and reinsurers to pay claims, other “hidden” inflationary factors such as social inflation, legal inflation and medical costs inflation may not continue to grow at the same pace.

THE CREDIT CRUNCH AND CASUALTY REINSURANCE

- There have been double digit rate increases in a number of areas, including financial institution, professional indemnity, directors & officers (D&O), surety/trade credit, and political risk, though rates have remained relatively stable across most lines of business. Rate increases were largely due to poor loss experiences in specific lines, but a reinsurance capacity crunch may also have been a contributing factor.
- In Europe, the withdrawal of several reinsurers on financial lines liability treaties has had an impact in the amount of capacity available. At the same time, new carriers have emerged, looking to take advantage of the anticipated sellers' market.
- A number of economic indicators point toward an increase in claims frequency, especially those related to corporate insolvencies. D&O claims, in particular, are likely to experience an increase in 2009 and 2010.

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- Although a relative lack of claims activity has led reinsurers to delay pushing for significant rate increases and tighter terms through the first half of 2009, the market could shift if the “claims lag” begins to catch up leading up to January 1, 2010.

QUOTE

George Carrington, Global Leader of Professional Liability Specialty Practice, Guy Carpenter

“While the effects of the credit crunch and subsequent global financial crisis have been mitigated, we still expect to see an uptick in corporate insolvency claims. This could impact the market as we move toward January 1 renewal. Inflationary trends – particularly in Western Europe – also warrant close attention, especially for long-tail insurance programs.”

LINKS/URLs

Casualty Specialty Update: <http://www.gccapitalideas.com/2009/09/08/rising-interest-rates-could-affect-reinsurers-claims-paying-ability-over-long-term/>

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

GCCapitalIdeas.com Registration: <http://feeds2.feedburner.com/gccapitalideas>

TAGS/KEYWORDS

Guy Carpenter, reinsurance, casualty, inflation, financial crisis, credit crunch, subprime, claims, rates, professional liability

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.

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