

News Release

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Reinsurance Rates Continue to Decline at July 1, 2010 Renewal, According to Guy Carpenter Report

Chilean Earthquake Exerts Only Moderate Pressure on Property Rates;
Long-Term Impact on Energy Sector of Gulf of Mexico Disaster Remains to Be Seen

New York, July 1, 2010

Reinsurance rates continued to erode at the July 1, 2010 reinsurance renewal, according to a report published today by Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a part of the Marsh & McLennan Companies (NYSE: MMC). Despite significant catastrophe losses during the first half of 2010, including the Chilean earthquake, property rates declined by as much as 15 percent. Across the energy and casualty sectors, conditions were flat or down, though the Deepwater Horizon rig disaster has the potential to put upward pressure on rates.

The report, *Reinsurance Renewal July 1, 2010: Capital Cushion Continues to Impact Pricing*, available at www.gccapitalideas.com, examines reinsurance market conditions across the U.S. property, marine & energy, workers compensation, international casualty, Latin American & Caribbean, property retrocession, and life, accident & health markets at the July 1, 2010 renewal.

US PROPERTY

- As expected, U.S. property rates decreased by 10 percent to 15 percent, with pricing for the year down 12 percent.
- 2010 quoting behavior was less volatile than in 2009, with average quotes ranging between declines of 10 percent and increases of 10 percent.
- Predictions of an active hurricane season have had only a slight impact on June and July renewals, with quoting behavior firmer than expected.
- Although reinsurer capital remains abundant, consideration is being given to potentially large hurricane losses, resulting in firmer pricing.

MARINE & ENERGY

- Territories and marine classes unaffected by losses have experienced stable rates and plentiful capacity.
- The Deepwater Horizon Gulf of Mexico loss did not affect reinsurers' quotes on international placements, as accounts were underwritten separately based on specific account losses and exposures.

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- Marine excess of loss pricing is expected to increase substantially for reinsurance buyers with energy exposures. Increases of greater than 10 percent were seen for deepwater drilling risks similar to those of the Deepwater Horizon.
- Though the Deepwater Horizon loss is potentially a market-changing event, it is geared principally towards energy and liability exposures. Reinsurers will be hard-pressed to justify rate increases for clients writing traditional cargo/hull accounts.

WORKERS COMPENSATION

- Workers compensation is little changed, with capacity and competition abundant for catastrophe layers and adequate for single claimant layers. Rates for both layers remained at January 1 and April 1 renewals levels.
- With unemployment at historically high levels, no signs of an economic recovery have appeared in the subject premium projections for workers compensation clients.
- Many 2010 subject bases are expected to be flat or down by 5 percent to 10 percent, with a few declines in subject bases of between 20 percent and 30 percent.

INTERNATIONAL CASUALTY

- International casualty rates and capacity levels remained relatively stable during the first half of 2010, leading into the July 1 renewal.
- Non-accumulative general liability and motor lines continued to be the most sought classes.
- Reinsurance capacity for most classes of long-tail business remained plentiful.

LATIN AMERICA AND CARIBBEAN

- Excluding Chile, terms and conditions in the property excess of loss and prorata lines in the Latin American region were unchanged at the July 1 renewal.
- Readily available capacity and new market entrants put downward pressure on rates, though the Chilean earthquake losses had a somewhat mitigating effect.
- In Chile treaty excess of loss and facultative risks saw rate increases in the range of 50 percent to 70 percent.

RETROCESSION

- Most markets were approaching full for U.S. wind capacity, but some capacity was still available.
- Terms and conditions remained fairly stable from those seen in the early part of 2010.

LIFE, ACCIDENT & HEALTH

- With the passage of health reform in the United States, medical insurers are trying to understand how to manage unlimited lifetime claim maximums.
- In the short term, annual caps on payments are still allowed, which will ease the transition. This change, however, also creates increased risk for insurers as volatility is increased and rate-making is based on assumptions rather than experience.
- For personal accident catastrophe, although market dynamics would suggest rising rates, pricing continues to be driven downward, as the market remains flush with capacity.

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QUOTES

Chris Klein, Director of Reinsurance Market Management, Guy Carpenter & Company

“Despite the heavy catastrophe losses in Chile and the Deepwater Horizon rig disaster, the trend of declining rates has continued. The longer-term effect of Deepwater Horizon remains to be seen, however, and we may see additional upward pressure on rates as additional information comes to light.”

“For the remainder of the year, the direction of the market is hard to forecast. Abundant capacity has depressed pricing, but the depletion of reinsurers’ catastrophe loss budgets may help to stabilize the market. Meanwhile, pressures on earnings from low investment returns, diminishing reserve releases, inflation concerns and Solvency II continues to build. One might expect to see consolidation, but depressed price-to-book values are an impediment. With the hurricane season expected to be an active one, the marketplace could look very different at the January 1, 2011 renewal.”

TAGS/KEYWORDS

Guy Carpenter, Klein, reinsurance, renewal, July 1, property, marine, energy, workers compensation, casualty, Latin America, Caribbean, property, life, accident, health

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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