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News Release

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Reinsurance Rates Decline, Despite Costly Disasters in First Half of 2010, According to Guy Carpenter's 2010 World Catastrophe Report

Reinsurers' Surplus Capital Is Driving Soft Market Conditions

New York, September 13, 2010
2010 has proven to be a difficult year for the reinsurance industry, which suffered one of the costliest first halves on record. Despite spiraling losses, global reinsurance rates generally declined through the 2010 reinsurance renewals, according to Guy Carpenter & Company's annual study of the global property catastrophe reinsurance market.

The *World Catastrophe Reinsurance Market 2010* report finds that surplus capital in the reinsurance market has been depressing prices, causing them to fall by 6 percent on average through the 2010 renewal season. Guy Carpenter estimates that the reinsurance market was overcapitalized by as much as USD20 billion, or 12 percent, at the beginning of 2010. While this amount came down to approximately 8 percent by the end of June, reinsurers' excess capital continued to be the main driver of rate reductions at the 2010 renewals. If no market-changing event were to occur in the second half of the year, surplus capital is likely to remain the driving force behind continued rate softening at next year's January 1 renewal, according to the study.

Available at www.gccapitalideas.com, the annual report provides details about catastrophic events in 2010, including the Chile earthquake and Deepwater Horizon oil spill, as well as trends in (and the outlook for) the global reinsurance marketplace. The report also discusses updates in the catastrophe bond market, the impact of changing regulations (including Solvency II) and developments in catastrophe modeling.

2010 REINSURANCE MARKET HIGHLIGHTS

- This has been a difficult year to date for the reinsurance industry, with insured losses reaching USD23 billion in the first six months of 2010 and the market still softening.
- Global catastrophe reinsurance rates fell by 6 percent on average throughout the 2010 renewal season, according to the Guy Carpenter World Rate on Line (ROL) Index.
- Markets suffering catastrophe losses in early 2010, such as Chile, experienced price increases, while all others saw rate reductions that mostly were driven by surplus capital and capacity in the reinsurance market.
- Part of this excess capital has been used to absorb the losses so far in 2010 and stifle any upward pressure on rates.

- Looking ahead to the January 1 renewals for 2011, the reinsurance market continues to face a challenging operating environment, undermined by weak pricing and anticipated regulatory changes that include Solvency II and U.S. tax legislation.

CATASTROPHE BONDS

- The cat bond market experienced a resurgence of activity in 2010, posting the second most-active second quarter on record.
- A total of 10 catastrophe bonds were issued in the first half of 2010, generating risk capital of USD2.35 billion.
- Despite the strong second-quarter recovery of the cat bond market, total risk capital outstanding declined USD105 million to USD11.82 billion, as USD2.05 billion of new issuance was outstripped by USD 2.16 billion of maturities.
- Guy Carpenter estimates a total year issuance in 2010 of USD4 billion to USD6 billion, barring any market-moving events before the year's end.

CATASTROPHE MODELS

- Innovations in cat models and data management platforms continue to help (re)insurers with the risk management process by improving their understanding of natural perils and ability to accurately estimate the impact on their portfolios.
- A new probabilistic flood model for France was launched by Guy Carpenter in June 2010, providing the first countrywide probabilistic flood model for France tailored for reinsurance and risk management purposes.
- The three main commercial modeling companies, AIR Worldwide, EQECAT and Risk Management Solutions (RMS), all announced plans to update their existing models or launch new products, with the majority of planned changes related to wind and earthquake risks.

QUOTES

Chris Klein, Director of Reinsurance Market Management, Guy Carpenter & Company
"On the back of heavy losses in the first half of 2010, reinsurers were hoping to see an end to the soft market and for prices to rise. Our data shows that the high payouts generally were insufficient to turn prices. However, were a sufficiently large loss to occur later this year, there of course would be some impact on pricing and capacity."

"A loss in the range of USD20 billion to USD30 billion likely would not result in significant rate hardening, but would decrease capacity and help stabilize the market. Multiple losses in this range likely would bring about significant change as retention levels would be hit. A loss greater than USD50 billion could prompt an immediate rate correction."

David Flandro, Global Head of Business Intelligence, Guy Carpenter & Company
"Surplus capital continues to be a drag on pricing. Market conditions through the rest of 2010 will clearly be shaped by the extent to which reinsurer capital is eroded by loss activity. The outlook for the cat bond market will also be influenced by catastrophe activity in the second half of the year."

TAGS/KEYWORDS
Guy Carpenter, reinsurance, catastrophe market, cat market, catastrophe bond, cat bond, catastrophe model, cat model, surplus capital, catastrophe losses, rates, renewals, Klein, Flandro

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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 analytics 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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