

News Release

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Guy Carpenter Examines Annuities in Europe, Periodical Payment Orders, Intellectual Property Trends in Asia

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A new briefing released today by Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a part of the Marsh & McLennan Companies (NYSE: MMC), examines emerging issues in the global casualty reinsurance marketplace. Key issues highlighted in the report include the changing role of annuities used in third-party bodily injury claims settlements in Europe, the growing trend of UK courts to award rest-of-life structured settlements and the emerging market for intellectual property (re)insurance in Asia.

The *Casualty Advisory Update* briefing is available at www.gccapitalideas.com.

ANNUITIES

- Annuities long have been used in the settlement of severe bodily injury claims by providing injured parties with a guaranteed source of regular income. In the current low interest rate environment, however, it has become prohibitively expensive for insurers and reinsurers to buy out their long-term regular payment obligations through the purchase of fixed annuities, especially indexed annuities.
- Fixed annuities hold little attraction for insurers and reinsurers, especially where a residual risk of variation remains.
- Variable annuities may be a more viable option. They can guarantee long-term payments but can be purchased at a higher discount rate due to a higher expected rate of return. If hedging can reduce the inherent riskiness, it could be attractive to both claimants and (re)insurers.

REST-OF-LIFE STRUCTURED SETTLEMENTS (PERIODICAL PAYMENT ORDERS)

- In the UK, the use of periodical payment orders (PPOs) to provide for the long-term care and loss of earnings of severely injured third parties has accelerated in the past year, partly driven by low interest rates. This trend presents real challenges to both insurers and reinsurers of casualty classes, particularly for motor.
- PPOs impose longevity, investment and future inflation risks on insurers, in addition to other problems such as how to reserve for what is essentially an unknown ultimate cost.
- Possible reinsurance approaches to PPOs include the capitalization of the reinsurers' share of the PPO, introduction of a capitalization clause with arbitration into reinsurance contracts, amendment to the indexation clause to produce fairer treatment of PPOs and collateralization of reinsurers' liability under the PPO.

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- If the PPO trend continues its current course, more options are expected to become available to cedents, as markets become more willing to take on liabilities and reinsurance contracts evolve to redress the balance of power towards buyers of excess of loss reinsurance.

INTELLECTUAL PROPERTY RISK MANAGEMENT

- Several intellectual property trends converging in Asia are likely to stimulate demand for adequate (re)insurance protection. These trends include a surge in patent applications in China and other Asian countries in recent years, the strengthening of the intellectual property rights enforcement apparatus in many Asian countries and a growing number of companies actively using these enforcement mechanisms to grow and maintain market share.
- Companies in Japan, Korea and Taiwan have expressed strong interest in intellectual property insurance. Given the global market position of these countries in the area of high technology, this is not surprising. Chinese companies are expected to follow suit in due time.
- While “litigation only” is an established intellectual property protection product in various Asian countries, the concepts of “revenue protection” and “liability protection” are relatively new.

QUOTES

David Lewin, Managing Director, Guy Carpenter’s International Casualty Specialty

“The current economic environment has created challenges and opportunities for insurers and reinsurers in diverse areas of business. For example, low interest rates have significantly increased the cost for (re)insurers of capitalizing long-term structured settlements for third-party bodily injury claims in Europe.”

Thomas Herde, Senior Vice President, Guy Carpenter’s International Casualty Specialty

“In Asia, the growing strategic importance of intellectual asset management, especially in global markets, is helping create the need for intellectual property insurance coverage. With little local expertise and capacity to serve emerging market demand and low penetration levels of currently available products, Asia’s intellectual property protection market offers much growth potential for the (re)insurance community.”

TAGS/KEYWORDS

Guy Carpenter, casualty reinsurance, annuities, periodical payment orders, structured settlements, intellectual property rights, intellectual property insurance, Lewin

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 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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