

News Release

Contacts:

Alexis Levenson

Guy Carpenter

1.917.937.3264

alexis.levenson@guycarp.com

Jennifer Ainslie

Guy Carpenter

44.207.357.2058

jennifer.ainslie@guycarp.com

Matt Conroy

DeMartine Group

1.203.221.2790

mconroy@demartinegroup.com

Reinsurance Rates Decline at January 1, 2010 Reinsurance Renewal, According to Annual Guy Carpenter Briefing Recovery and Swift Capitalization in Reinsurance Sector, Coupled with Low Catastrophe Losses, Result in Ample Supply and Increased Competition

New York, January 4, 2010

Reinsurance rates across most lines of property catastrophe business declined at the January 1, 2010 renewal, according to a briefing released today by Guy Carpenter & Company, LLC. The report, *Rates Retreat as Capital Rebounds: Global Reinsurance Renewals at January 1, 2010* shows Guy Carpenter's World Catastrophe Rate on Line (ROL) Index declining by six percent at the January 1, 2010 renewal, as the reinsurance market recovered and swiftly recapitalized in the wake of the global financial crisis and large reduction in catastrophe losses.

The report covers regional developments as well as key influences and trends, such as catastrophe bonds and mergers and acquisitions activity. Both the report and downloadable charts are available at www.gccapitalideas.com.

US PROPERTY CATASTROPHE

- Risk-adjusted catastrophe prices in the US decreased by an average of six percent, though the picture is somewhat complicated by recent adjustments to catastrophe models that have decreased predicted losses for earthquake and wind perils. Factoring in modelling adjustments, rates declined by as much as 11 percent on average.
- The significant exception to the general downward trend in pricing is programs with significant tornado/hail exposure in the middle of the US. Many of these programs sustained losses in 2009, and as margins traditionally have been very competitive, pricing has adjusted upward in response to the loss activity.

EUROPEAN PROPERTY CATASTROPHE

- Catastrophe pricing in Continental Europe was flat to 5 percent lower, despite a number of localized losses in a year of above-average weather-related events.
- Windstorm Klaus, which hit France and Spain in January, was the region's most severe weather event, causing first layer prices of programs in France to rise by ten percent on average. Overall, weather-related catastrophe activity in Europe was above average.
- Austria's severe hailstorms led to a fourth successive year of frequency losses that resulted in restricted capacity and price increases of up to 20 percent to 30 percent.

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UK PROPERTY CATASTROPHE

- UK property catastrophe rates declined between 5 percent and 10 percent, while risk excess prices were flat to down 15 percent, subject to loss experience.
- The UK continues to be an attractive market to reinsurers due to its profitability over time. Though UK property catastrophe supply tends to be finite, a number of new markets entered to supply fresh capacity.

RETROCESSION

- Treaty retrocession saw a modest increase in capacity, as two new underwriters in the Lloyd's and Bermuda markets entered the market, while a number of existing underwriters showed an increased appetite.
- Primarily because of satisfactory capacity and changes to the catastrophe models, industry loss warranty (ILW) prices fell by as much as 30 percent, though there were few major purchases due to the focus on Ultimate Net Loss (UNL) placements by clients.
- Several potential new suppliers are poised to enter the market should a large loss turn pricing significantly.

CASUALTY

- Rates for US casualty lines were flat to down 10 percent over the past two renewal cycles. Some pockets of resistance existed, with rates for financial institutions professional indemnity, particularly in London, showing single digit increases.
- In Europe, motor liability reinsurance rates continued to experience flat to 10 percent increases on working excess layers, depending on experience.
- Underlying concerns about increases in loss cost projections, due principally to medical care inflation, have been offset by the wide availability of excess reinsurance capacity.
- Underlying insurance rates for product liability are largely unchanged, but the effect of the recession has reduced turnover in most sectors except pharmaceuticals and medical devices, which in turn impacted reinsurance revenues on the main commercial/industrial liability placements.

AVIATION AND MARINE

- Rate changes for aviation risks were essentially flat. Increases were largely dependent on size of loss, exposure changes and overall program premium banks.
- Some aviation sectors (such as commercial helicopters) faced increases following a spate of losses, while others (such as good quality corporate aircraft risks) continued to see reductions.
- Marine rates were down by an average of five percent. Capacity is growing and ample, with widespread price-cutting, particularly for non-Gulf of Mexico business. Absent any significant losses, downward pressure on marine rates is expected to continue into 2010.

OTHER KEY TRENDS AND INFLUENCES

- Eighteen new catastrophe bond issues came to market in 2009, easily exceeding the ten issues reported in 2008. The cat bond market will continue to provide an increasingly attractive and worthwhile supplement to sponsors' risk transfer programs in 2010.
- Mergers and acquisition (M&A) activity – both tactical and strategic – regained some momentum in 2009, as insurers turned to the capital markets to address a wide range of strategic and tactical needs.

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- Macroeconomic trends exerted a substantial effect on reinsurance capital and pricing, with asset-side movements and investment returns the greatest drivers of sector profitability and capital adequacy in 2009.
- Since 2005 most carriers' earnings have been enhanced by reserve releases, particularly in accident years. This trend is not expected to continue, however, and a number of indicators point to a declining benefit from reserve releases in the future.
- Inflation could become an issue over the longer term, particularly for longer-tail writers whose premiums written today may be less able to cover inflated claims in the future.

QUOTES

Chris Klein, Global Head of Business Intelligence, Guy Carpenter

"A combination of factors – including the rally in global financial markets, relatively low catastrophe losses in 2009 and lingering recessionary effects on demand – has resulted in an excess of supply and heightened competition at this year's January 1 renewal. As a result, what we saw was an unusually slow renewal, in which a number of contracts did not close until very late in the season, as buyers sought to gain maximum pricing advantage."

"As we move into 2010, it's safe to say that the property casualty reinsurance market has weathered the global financial crisis and emerged in a relatively strong position, with abundant capital and ample capacity for most lines of business. At the same time, the environment in which reinsurers operate will continue to be influenced by global economic conditions as much as underwriting decisions, and these macroeconomic factors will continue to warrant close attention."

TAGS/KEYWORDS

Guy Carpenter, reinsurance, renewal, property, casualty, catastrophe bonds, retrocession, marine, aviation, mergers, acquisitions

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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