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News Release

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Reinsurance Market and Rate Direction Still in Transition At April 1, 2011 Renewals, according to Guy Carpenter's Annual Review

New York, March 31, 2011
With substantial first quarter insured losses from catastrophes in Australia, Japan and New Zealand and the political unrest in the Middle East and North Africa, the direction of global reinsurance rates at April 1, 2011 renewals varies by region and line of business, according to Guy Carpenter & Company, LLC. The leading global risk and reinsurance specialist today released its annual report on the state of the reinsurance market at the April 1 renewals period, as the most costly first quarter on record for the industry comes to a close.

The report, which provides detailed analysis of regional developments, key issues and emerging trends, is accompanied by charts available for download on www.gccapitalideas.com. Key findings include:

JAPAN

- The widespread damage to property and infrastructure is likely to make this event the most expensive insured loss outside of the United States on record, with current modeled estimates predicting an insured loss ranging between USD12 billion and USD30 billion.
- Companies renewed unchanged capacity for earthquake pro rata treaties, despite the occurrence of the Tohoku earthquake at a time when the renewal process was only partially completed. In most but not every case, ceding commissions on this business were reduced by up to 3 percent in order to achieve placement goals.
- For earthquake excess of loss covers, there was more of a mixed picture. Many of the larger programs, particularly the large mutuals, opted to extend their programs for up to three months, while the remainder opted for the usual 12-month renewal. Rates for renewing treaties varied from increases of 15 percent to 50 percent, depending on individual circumstances.
- Windstorm cat excess of loss rates increased by 3 percent to 10 percent, largely as a result of reinsurers honoring quotes given before March 11, 2011. There is limited data for programs priced after March 11, but rate increases for these buyers were likely greater than for those that went earlier.
- Renewal rates for personal accident excess of loss reinsurance were flat to an increase of 15 percent.
- Credit and bond treaties renewed with plenty of capacity available, while engineering pro rata treaties enjoyed smooth renewal.

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U.S. PROPERTY CATASTROPHE

- The U.S. market is showing signs of being in transition, with preliminary analysis of renewal pricing roughly flat to up slightly, compared with the decrease of 6 percent to 10 percent at January 1, 2011 renewals.
- In addition to heavy global natural catastrophe activity, the release of RMS's RiskLink v11 US Hurricane Model on February 28, 2011, with pre-release indications of some potentially large changes in results, also introduced uncertainty in the April 1 renewal process.
- Timing of these events in the marketplace has created an uncertain renewal environment at the April 1 renewals, with reinsurers generally renewing at terms flat to up slightly and capacity commitments highly sensitive to price.
- In the current environment, decreases in renewal pricing were largely unsupported, and a substantial number of U.S. catastrophe renewals issued revised firm order terms.

AUSTRALIA/NEW ZEALAND

- The heavy catastrophe losses incurred over the past 12 months in the region led to some rate increases, although the introduction of annual aggregate deductibles and higher retentions helped offset this rise.
- Flooding in Australia in December 2010 and again in January 2011 has led to considerable debate with respect to flood as a peril, with coverage definitions varying widely between insurers.
- The upcoming June 1/July 1 renewal season will provide a better indicator of the degree to which the past year's natural catastrophe events have moved the market.

REPUBLIC OF KOREA

- Many of the large property per event programs saw rate increases in excess of 15 percent, mostly driven by prior year rate reductions and overseas exposures.
- In contrast, the majority of per risk treaties continue to secure rate reductions, with renewals in the range of flat to 5 percent down.
- For property proportional treaties, renewal terms have been relatively unchanged from the previous year, with some requests for small improvements in terms, such as increased event limits and commissions.

QUOTES

David Flandro, Global Head of Business Intelligence, Guy Carpenter & Company

"The timing of the earthquake and tsunami in Japan with respect to this year's April 1 renewal negotiations certainly slowed down the quotation process, as reinsurers' expectations were impacted to different degrees. While the actual impact that first quarter losses will have on dedicated reinsurance sector capital for the full year remains to be seen, many reinsurers' 2011 natural catastrophe budgets have been exhausted, and a portion of the sector's excess capital has been absorbed. While any future significant losses in 2011 could put additional strain on reinsurers' capital, the industry is well positioned to deal with this scenario, given our estimates that total dedicated reinsurance sector capital currently ranges between USD160-180 billion."

"The implications for June and July reinsurance renewals are unknown at this time. In the short term, we expect to see increased demand for reinsurance cover and share repurchases likely scaled back or suspended until a clearer picture emerges. In the meantime, we continue to serve as our clients' most trusted strategic adviser in order to secure fair reinsurance terms for them in the marketplace."

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TAGS/KEYWORDS
Guy Carpenter, reinsurance, renewal, catastrophe, Tohoku, Japan, Australia, New Zealand, Korea, Flandro

About Guy Carpenter
Guy Carpenter & Company, LLC is the world's leading risk and reinsurance specialist and a member of 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 and Energy; 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, GC Analytics℠ 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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