

News Release

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Plentiful Capacity Sets the Stage at June 1 Reinsurance Renewals

New York, June 6, 2012 – More moderate pricing trends were evident at the June 1, 2012 reinsurance renewals as the relatively light catastrophe loss activity during the first five months of the year contributed to positive reinsurer results and plentiful capacity, according to a briefing released today by Guy Carpenter & Company, LLC.

Guy Carpenter indicated that benign catastrophe activity in 2012 has strengthened reinsurers' balance sheets and estimates the global reinsurance sector's capital position to be about USD15 billion in excess of historical trends, given risks assumed. Insured losses during the first five months of 2012 were estimated to be around USD6 billion, well below the USD75 billion recorded during the same period of 2011.

Plentiful Capacity Sets the Stage at June 1, available at www.gccapitalideas.com, provides an analysis of the improving capital position of the reinsurance sector, expected hurricane activity in 2012 and the latest reinsurance renewals season in Florida, as well as updates on the property retrocession, property facultative and industry loss warranty (ILW) markets.

Highlights of the briefing include:

FLORIDA REINSURANCE RENEWALS

- While the January and April renewals continued the trend of generally increasing pricing, renewals have become flatter at June 1, with very light catastrophe losses to date contributing to plentiful capacity.
- Variation from the average quote for Florida renewals has moderated from down 15 percent to up 16 percent in 2011 to down 7 percent to up 6 percent in 2012.
- The more significant price increases indicated by some in the industry earlier in 2012 did not materialize, although pricing was up slightly on average.
- Capacity available from nontraditional sources such as CWIL®, Guy Carpenter's county weighted industry loss product, was more prevalent this year. This also mitigated pricing pressure, as less traditional capacity was needed where nontraditional limit was utilized.
- More reinsurers were willing to deploy capacity at lower layers than in the past.

HURRICANE ACTIVITY IN 2012

- Despite the early start to the 2012 hurricane season with the formation of tropical storms Alberto and Beryl in May, the forthcoming season is expected to see reduced activity overall.
- Meteorologists expect key atmospheric and oceanic patterns to hinder tropical cyclone development this year.

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- Predicted steering patterns suggest the western Caribbean and Gulf of Mexico region in particular may be vulnerable to landfalling storms and/or hurricanes in 2012.

PROPERTY RETROCESSION

- The upwards pricing movements in the retrocession market during the January renewals continued into June in both direction and magnitude.
- Hardening rates reflected the unprecedented run of international losses in 2011 and continuing uncertainty surrounding ultimate loss numbers from these events, particularly the Thailand floods.
- Actual rate rises were mitigated by the fact that most post-January 1 programs had already experienced rate increases in 2011.
- Capacity remains adequate for both U.S. and excluding-U.S. business, in part due to the number of retrocession sidecars activated at the end of 2011.

PROPERTY FACULTATIVE

- Writers of property facultative cover with books of business heavily weighted towards the US did not incur the same level of loss as those who suffered from last year's significant international losses and associated contingent business interruption losses. There was nevertheless a concerted effort to increase rates in 1Q 12 by all property facultative underwriters, particularly for placements with significant catastrophe exposure.
- With 2012 losses from tornado activity substantially lower than 2011, and the lack of any significant global catastrophe to date, rate increases should continue to be modest at best in the near term.
- Capacity remains at or near 2011 levels.

INDUSTRY LOSS WARRANTY (ILW) MARKET

- ILW pricing was up significantly in all territories and for all perils (other than in Europe), but down slightly from the high levels seen in mid-2011.
- As normalcy returned to the traditional market, the usual takeup of ILWs in the early weeks of 2012 was less apparent. A period of relative inactivity was followed by an uptick in activity in recent weeks.

QUOTES

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

"The reinsurance sector continues to function normally and, in the absence of a significant catastrophe loss burden, the improving capital position is likely to contain any attempt at price increases throughout the year."

Lara Mowery, Head of Global Property Specialty, Guy Carpenter & Company

"Quoting behavior for non-Florida accounts was more varied than for Florida accounts, likely reflecting the difference in reinsurer appetites across renewals exposed to a broader geographic base and significantly diverse business focus. Even as quoting volatility declined, there again was evidence of reinsurers taking a more tailored approach to each individual renewal. As seen at the January and April renewals, reinsurers are implementing more sophisticated approaches using custom risk measures, based their own research and experience. Pricing and capacity outcomes more specifically reflect each company's circumstances."

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TAGS/KEYWORDS

Guy Carpenter, Florida, reinsurance, renewals, catastrophe, retrocession, industry loss warranty, ILW, Flandro, Mowery

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