

News Release

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July 1 Reinsurance Renewals Reveal Plentiful Capacity amid Benign Catastrophe Activity, According to Guy Carpenter

New York, July 9, 2012 – Reinsurance renewals took place against a backdrop of plentiful capacity at July 1, 2012. Capital has continued to strengthen through the second quarter of 2012, moderating pricing pressures, according to a briefing released today by Guy Carpenter & Company, LLC. Guy Carpenter is a global leader in providing risk and reinsurance intermediary services and a member of Marsh & McLennan Companies (NYSE: MMC).

Although there have been upward revisions to catastrophe-related losses that hit the United States during Q1 2012, as well as more storm and wildfire activity across the country in Q2, insured losses during the first six months of the year totaled USD11 billion, significantly below the USD76 billion recorded during the same period of 2011.

As detailed in the briefing, during Q1 2012, the Guy Carpenter Global Reinsurance Composite's capital position increased by 4 percent to USD184.5 billion. Benign catastrophe activity, continued reserve releases and falling yields on high-grade fixed income securities have played a prominent role in bolstering capital and subduing pricing pressures so far in 2012. These factors will continue to influence the direction of the reinsurance market between now and January 1, 2013.

Strong Risk Assessment Focus amid Plentiful Capital during 2012 Renewals, available now at www.gccapitalideas.com, provides an analysis of the improving capital position of the reinsurance sector, as well as updates on the property and casualty markets in the United States and across the globe; trends within life, accident and health; and industry loss warranty (ILW) markets.

Highlights of the briefing include:

PROPERTY

- The global property market saw unprecedented losses last year, however, entered 2012 in roughly the same capital position as the start of 2011. With a benign start to 2012, July 1 renewals show plentiful capacity and moderated pricing trends.
- In the US, analysis to date indicates overall pricing for 2012 was up 6.5 percent over 2011. Reinsurers' implementation of risk management changes brought about by global loss activity and new model version releases (particularly RMS v11) that impacted mid-year renewals in 2011 continued to have an effect through this year.
- In Latin America and the Caribbean, renewals generally continued trends seen at January 1, 2012, renewals. Latin American catastrophe excess of loss business rates increased from flat to up 5 percent, while the Caribbean market experienced slightly higher increases between 3 and 7.5 percent.

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- Property retrocession activity continued the trend towards the rate increases seen throughout 2012, particularly on loss-affected programs. The magnitude of these rate rises year-over-year was lower than those in earlier 2012 renewals due to the rate increases seen in Q2 2011.

INDUSTRY LOSS WARRANTIES AND CATASTROPHE BONDS

- ILW prices did not change appreciably from the June 1, 2012 renewal.
- Catastrophe bond issuance has been particularly robust, with 15 transactions totaling USD 3.4 billion coming to market in the first half of 2012.
- Risk principal outstanding for the first six months of 2012 stands at USD13.5 billion, a 113 percent increase from the same period in 2011. This is approaching the 2007 high water mark of USD14 billion that followed an issuance surge after Hurricanes Katrina, Rita and Wilma.

GLOBAL MARINE AND ENERGY

- Primary rates on global marine and energy covers were flat for the July 2012 renewals.
- Pricing and attachment levels for marine ILW contracts increased, however, primarily driven by losses sustained from the Costa Concordia event (estimated at USD1 billion)
- A notable change that marked the July 2012 renewals is the limited availability of retrocessional capacity.

AVIATION

- At July 1, the major risk sector of aviation reinsurance, including airline and aerospace covers, showed a marked reduction on pricing of 3 percent to 5 percent on like exposures.
- While the overall reinsurance market remains stable, the direct market saw significant rate reductions on all sectors of aviation, primarily due to over-capacity and the absence of significant losses since mid-2010.

CREDIT REINSURANCE

- Capacity in credit reinsurance remained abundant.
- Credit reinsurance rates were flat which, when applied to a rising income base and exposure that are up approximately 20 percent, resulted in a marked reduction in a rate on exposure measurement.

CASUALTY

- Overall, US casualty lines showed an improved underlying pricing environment, with rate increases across casualty lines.
- Commercial primary casualty pricing improved during the second half of 2011, with an acceleration of this upward trend in the first six months of 2012.
- Of all US casualty lines, workers compensation showed the most evident rate hardening, while general liability rates were up slightly.
- In the UK, 2012 saw a flattening in original private motor rates after a sustained period of increase. Commercial rates in the region, however, continued to trend upward, with a year-on-year increase of 10 percent.
- Reinsurers in Australia and New Zealand were constrained in their efforts to increase rates to offset declines in investment income.

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- Most programs in China experienced flat or minor decreases in pricing ranging from 0 to 5 percent.

LIFE, HEALTH AND ACCIDENT

- The market for medical reinsurance remains highly competitive.
- For personal accident catastrophe, excess capacity continued to push rates down and, in turn, alleviated most rate increase pressures.
- Although disability claims historically have been correlated with the economy, claims have held steady throughout the financial crisis until recently when, as a result of the persistent economic stagnation, claims incidence is up and termination rates are down across the industry.
- Regarding healthcare reform, most (re)insurers appear to be moving forward in a “business-as-usual” fashion amidst uncertainty over the US operating environment.

QUOTES

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

“Catastrophe losses have been relatively limited for the reinsurance sector to date in 2012. As a result, we have seen a continued improvement in the sector's dedicated capital position, which has mitigated price increases. As we enter hurricane season, we will continue to track catastrophe activity, reserving and asset-side issues in our analysis of pricing trends for the remainder of the year.”

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

“In 2011 the industry experienced one of its most challenging years, due to the tremendous volume of catastrophe losses across the globe. With light losses to date in 2012, July 1 property renewals are marked by disciplined underwriting amid plentiful capacity. Based on the impact of July increases in 2011 and available capacity, pricing trends have moderated.”

TAGS/KEYWORDS

Guy Carpenter, reinsurance, renewals, property, casualty, ILW, catastrophe, cat bonds, marine, energy, capacity, liability, Solvency II, Flandro, Mowery

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Guy Carpenter & Company, LLC is a global leader in providing risk and reinsurance intermediary services. 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. GC Fac® 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. For more information, visit www.guycarp.com.

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