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# News Release

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## January 1, 2014 Renewals Bring Downward Pressure on Pricing, Reports Guy Carpenter

*Strong Capital Levels and Continued Influx of Convergence Capital Spurs Innovation and Competition in Traditional Market*

**New York, December 30, 2013 –** Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), reports that reinsurance rates-on-line fell at the January 1, 2014 renewal in nearly all classes and regions. According to Guy Carpenter's 2014 global renewal report, strong balance sheets, relatively low loss experiences and an unprecedented influx of convergence capital spurred competition and innovation at renewal. These factors led in turn to surplus capacity across most business segments as competition spilled beyond property catastrophe lines.

**2014 Renewal**

The Guy Carpenter Global Property Catastrophe Reinsurance Rate-on-Line Index fell by 11 percent at the renewal. Much of this was driven by a 15 percent decline in the United States. Property catastrophe pricing also came under pressure in Continental Europe and the United Kingdom at January 1, 2014, where prices fell by 10 percent and 15 percent respectively, with risk-adjusted reductions of up to 20 percent achievable in some cases. Indeed, it is the first renewal in over a decade where all major territories saw pricing move in the same direction, with some isolated exceptions. Germany and some parts of the Nordic region suffered significant catastrophe losses during 2013, causing catastrophe rates for loss-affected programs to rise. Canada also saw pricing increase as severe flood events meant the country experienced its most expensive insured catastrophe loss year on record.

"It is difficult to think of another time in recent history where multiple factors have come together to support a market so focused on individual client need. There is tremendous innovation driving tailored solutions at reduced pricing to the benefit of our clients," said Lara Mowery, Global Head of Property Specialty at Guy Carpenter.

Softening market conditions spilled beyond property catastrophe lines at January 1, 2014 as pricing fell in most other business segments. Although the impact was less dramatic outside of property catastrophe lines, price movements across non-catastrophe business showed a general trend of decline as reinsurers deployed more capacity into these lines. Casualty pricing was generally flat to down, despite low investment yields due to historically low interest rates and adverse development for some U.S. workers compensation writers.

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## Maximizing Client Value

In a year which saw record amounts of new capital entering the market, Guy Carpenter's client-centric approach and deep industry relationships have helped clients pursue specific coverage and pricing goals by maximizing the use of both traditional reinsurance and diversified capital market products. This was clearly evident during this year's U.S. property catastrophe renewal where the broadening of coverage terms was prevalent. While a wide range of options were considered based on specific priorities, clients most commonly sought an extension of hours clauses, improved reinstatement provisions and expanded coverage for terror exposures. This was achieved on a case-by-case basis, with clients weighing the benefits specific to the composition of their portfolios and corporate goals against the relative cost savings. Multi-year coverage was also more widely available, with enhanced features such as price adjustment caps. Many clients took advantage of this opportunity.

Guy Carpenter's commitment to deliver innovative solutions while closely collaborating with markets was demonstrated in 2013 with the launch of a new property catastrophe reinsurance facility for mutual companies. The creation of this facility began in July and included significant analysis specific to terms requested. Coverage within the facility focused on enhancements important to clients and pricing was provided by the market independent of the core renewal. Many of these coverages were often additionally incorporated more broadly into the renewals.

At Guy Carpenter, year-round work with each client enables the creation of customized programs based on a thorough understanding of the market and of clients' unique business objectives. This ensures the broadest and most effective coverage on each client's behalf. Clients place value on many different priorities which, in this innovative market, has led to a less standardized, more tailored reinsurance product. Guy Carpenter has always believed that an open and transparent dialog with all counterparties enables clients to make the most informed decisions regarding their reinsurance programs.

## Market Drivers

The continued expansion of accessible capital, strong balance sheets and relatively low catastrophe losses were all drivers of the January 1, 2014 renewal outcome. Guy Carpenter estimates dedicated sector capital remained at near record levels having risen marginally to USD322 billion at year-end 2013. Significantly, global insured losses totaled approximately USD40 billion in 2013, lower than the ten-year average loss of USD60 billion, contributing to ample capital available in the reinsurance market at January 1, 2014. This meant reinsurance supply often outstripped insurer demand.

"We have seen a surge in capital, through both alternative and traditional vehicles, over the last two years, which has transformed the nature of the reinsurance sector's capital structure," said David Flandro, Head of Business Intelligence at Guy Carpenter. "Today's market conditions present both challenges and opportunities for all market constituents."

### *Push to Innovate for Traditional Reinsurers*

Virtually all traditional reinsurers responded to this competitive environment by embracing the call for innovation in an effort to meet client needs. In doing so, many reinsurers offered more tailored coverage utilizing options such as aggregate and quota share cover, multi-year arrangements and early signing opportunities at reduced pricing. New product offerings for terror and cyber risks were also developed.

Such accommodative actions by the traditional market served as a reminder of its ability and willingness to adapt to changing circumstances. In addition, insurers also continue to value the understanding traditional reinsurers bring to the transaction and their strong record in making swift claims payments. Many insurers also view reinstatement provisions offered by traditional reinsurers, something convergence players have not typically provided, as essential coverage in their reinsurance programs.

*Buying Behavior*
As a result, many buyers retained the bulk of their traditional coverage at January 1, 2014. Some large buyers focused their programs on a smaller group of key counter-party relationships that were meaningful in relation to the overall size of the program. Carriers outside of these strategic partner groups were aggressively seeking to secure shares by offering competitive prices and supplemental coverages and products.

"Buyers continue to place a high value on historical relationships with traditional reinsurers," said Nick Frankland, CEO of EMEA at Guy Carpenter. "With pricing significantly lower in most lines, reinsurers are offering increased flexibility on reinstatement provisions and other terms and conditions, which is helping clients to obtain more from core partners."

**2014 Outlook**
The excess capacity that now exists in the marketplace, combined with the sustained challenges of subdued economic and premium growth, persistently low investment returns, statistically higher long-term catastrophe loss trends and reduced reserve releases, are forcing (re)insurers to rethink old ways of doing business and to seek new opportunities through innovation. The potential emergence of reserve deficiencies in particular is likely to be a more important factor over the next five years. As highlighted by Guy Carpenter research, it is becoming increasingly apparent that the reserving cycle is approaching, or in some cases passing, an inflection point where accident year deficiencies may become more common than redundancies. This is particularly apparent in long-tail lines at present and emphasizes the need to explore new and prudent growth avenues.

Guy Carpenter will hold a U.K.-based press briefing on January 6, 2014, where the full report will be released to clients.

**TAGS/KEYWORDS**
Guy Carpenter, renewals, convergence capital, ILS, David Flandro, Lara Mowery, Nick Frankland, emerging markets, alternative capital

## About Guy Carpenter

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; excess and surplus lines; life, accident and health; marine and energy; medical professional liability; mutual insurance companies; 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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