

News Release

Contacts:

Missy DeAngelis

Guy Carpenter

1.917.937.3118

missy.deangelis@guycarp.com

Jennifer Ainslie

Guy Carpenter

44.207.357.2058

jennifer.ainslie@guycarp.com

Kate Dillon

Prosek Partners

1.212.279.3115 ext. 115

kdillon@prosek.com

Influx of Convergence Capital Triggers Downward Pressure on Pricing at June 1 Renewals, Finds Guy Carpenter

New York, June 4, 2013 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), reports that the reinsurance sector has witnessed dynamic capital growth in 2012 and 2013, spurred by an influx of capital from alternative sources. In its June 2013 renewal briefing, Guy Carpenter finds that this surge in alternative or “convergence” capital has changed the nature of the sector’s capital structure, as investors grow increasingly comfortable with supplying capacity through a convergence of both traditional and alternative vehicles. This market dynamic has also begun to impact significantly reinsurance pricing for peak property catastrophe risks in the U.S., with surplus capacity and lower target returns driving downward pressure on pricing for June 1 renewals and likely through the remainder of 2013.

“The reinsurance sector has exited the fairly consistent post-Katrina Florida property catastrophe pricing range,” said David Flandro, Global Head of Business Intelligence at Guy Carpenter. “This has been driven by a very real change to the sector’s capital structure and this change is continuing unabated. New sources of capacity are emerging with implications for pricing, availability and structure. Guy Carpenter is well placed to enable clients to capitalize.”

Impact of Convergence on Reinsurance Market

For the first time, there were several instances of insurance linked securities (ILS) pricing delivering a more cost effective risk transfer solution than traditional vehicles. While traditional reinsurance has certain capital constraints for peak risk zones, such as Florida, the lower cost of capital assumptions afforded to third-party funds gives them the potential opportunity to charge less for peak U.S. wind risks than traditional reinsurers.

“After years of evaluating the catastrophe bond market as a viable risk asset class, investors are now comfortable breaking away, or “decoupling,” from price levels set by the traditional market,” said Lara Mowery, Global Head of Property Specialty at Guy Carpenter. “The impact has been dramatic this year, with robust catastrophe bond, sidecar and collateralized reinsurance activity triggering downward pressure on rates in the traditional market in order to remain competitive.”

Approximately USD10 billion of new capital has entered the market in the form of catastrophe bonds, sidecars and collateralized structures over the last 18 months as a growing number of investors have been attracted to the reinsurance space by higher yields and low correlations. Capital emanating

Influx of Convergence Capital Triggers Downward Pressure on Pricing at June 1 Renewals, Finds Guy Carpenter

June 4, 2013

from alternative markets, including catastrophe bonds, collateralized reinsurance, industry loss warranty (ILW) products and retrocessional reinsurance, has grown significantly during this period and now accounts for an estimated USD45 billion, approximately 14 percent of global property limit.

Florida Reinsurance Renewals

Reinsurance pricing has fluctuated moderately over the last two years during the Florida renewals. Expectations going into 2013 were influenced by the significant excess of available capacity and the fact that Florida has been hurricane loss-free for seven consecutive years.

"This year, market expectations going into June renewals were such that pricing would moderate in line with January 1 trends," said George Carse, Head of the Tampa Office at Guy Carpenter. "During pre-renewal discussions held in February by Guy Carpenter, reinsurers and non-traditional capital providers suggested a later renewal cycle would be more beneficial to our clients. This held true as flexibility in pricing and structure options from both traditional and alternative reinsurance providers, coupled with a divergence of pricing between Florida-specific catastrophe bond transactions and the traditional reinsurance market, resulted in more substantial price decreases on average than originally anticipated."

According to Mr. Carse, "Although catastrophe bond pricing had a major impact on the renewal process and several Florida-only bonds were quoted, very few of these transactions went to market, as more traditional products became increasingly competitive."

Many companies took advantage of the savings on their core reinsurance purchases to expand top end and aggregate coverage, allowing them to enter wind season with significantly strengthened protections. While companies over the past few years have expressed continued interest in complementary coverages, this has been difficult to achieve within existing reinsurance budgets.

Hurricane Activity

Elevated hurricane activity is expected to continue this year and the 2013 hurricane season will play an important role in determining loss activity for the remainder of the year. There is a general consensus that 2013 will see activity that meets or exceeds the 1995-2012 average of the current "active period." In 2012, the destructive landfall of Superstorm Sandy along the Northeast U.S. coast served as a reminder of the loss potential of hurricanes in the Atlantic, even for areas where landfalls are comparatively rare. Carriers will be closely monitoring this year's Atlantic hurricane season as its outcome could influence the direction of reinsurance pricing into next year's renewals.

For more information, visit <http://www.gccapitalideas.com>.

TAGS/KEYWORDS

Guy Carpenter, renewals, reinsurance, catastrophe, sidecars, ILS, convergence, alternatives, traditional capital, nontraditional capital, Florida renewals, hurricane season

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

Influx of Convergence Capital Triggers Downward Pressure on Pricing at June 1 Renewals, Finds Guy Carpenter
June 4, 2013

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.

Reactions magazine named Guy Carpenter Best Global Reinsurance Broking Company Overall and Best Reinsurance Broking CEO of the year in 2012. At the *Reactions* London Market Awards, Guy Carpenter was also named Reinsurance Broker of the Year and took home Reinsurance Broking Team of the Year honors for both Property and Aviation. In the past year, Guy Carpenter has also won: Global Best ILS Advisor (GC Securities*), US Best ILS Advisor (GC Securities*) and US Best Broker for Casualty Reinsurance from *Intelligent Insurer*, *Insurance Day's* 2012 ILS Transaction of the Year (GC Securities*), and Reinsurance Broker of the Year for the Asia-Pacific region at the 16th Annual Asia Insurance Industry Awards.

Guy Carpenter is a wholly owned subsidiary of [Marsh & McLennan Companies](#) (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital. With 53,000 employees worldwide and annual revenue exceeding \$11 billion, Marsh & McLennan Companies is also the parent company of [Marsh](#), a global leader in insurance broking and risk management; [Mercer](#), a global leader in talent, health, retirement, and investment consulting; and [Oliver Wyman](#), a global leader in management consulting. Follow Guy Carpenter on Twitter [@GuyCarpenter](#).

*Securities or investments, as applicable, are offered in the United States through GC Securities, a division of MMC Securities Corp., a US registered broker-dealer and member [FINRA/SIPC](#). Main Office: 1166 Avenue of the Americas, New York, NY 10036. Phone: (212) 345-5000. Securities or investments, as applicable, are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd., which is authorized and regulated by the Financial Services Authority. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities Corp., MMC Securities (Europe) Ltd. and Guy Carpenter & Company, LLC are affiliates owned by Marsh & McLennan Companies. This communication is not intended as an offer to sell or a solicitation of any offer to buy any security, financial instrument, reinsurance or insurance product. **GC Analytics is a registered mark with the U.S. Patent and Trademark Office.

###