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News Release

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July 1 Renewals Indicate Downward Pressure on Reinsurance Rates Likely to Continue through 2013, Reports Guy Carpenter

New York, July 9, 2013 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), reports that reinsurance market rates on line (ROLs) continued to be driven by an influx of capital from third-party investors at the July 1 renewals, in spite of catastrophe losses reaching approximately USD20 billion during the first six months of 2013 (above the ten-year average for the period). In a briefing released today, Guy Carpenter comments that robust catastrophe bond, sidecar and collateralized reinsurance activity throughout the year has for the first time pushed pricing in the capital markets to "decouple" or breakaway from levels set by the traditional market. This has in turn prompted downward pressure on overall traditional market pricing.

According to the report, convergence capital now accounts for an estimated USD45 billion of the global property catastrophe limit, or approximately 14 percent of the market. The amount of excess capital in the market helped mitigate the impact of catastrophe losses resulting from severe tornado activity in the United States and floods in parts of Europe, India and Canada during the second quarter of 2013.

"At July 1, we saw continued significant decreases in U.S. property catastrophe program pricing. Although the impact of convergence was less dramatic elsewhere, general downward pressure on rates was observed for property business in several other regions and across some casualty lines," said David Flandro, Global Head of Business Intelligence at Guy Carpenter. "Without further significant catastrophe losses in the remainder of 2013, we expect that this downward pricing trend will likely continue through the remainder of the year and into the January 1, 2014 renewals."

"For the third consecutive year, we've seen a significant shift in market conditions during the second half of the renewal season," said Lara Mowery, Global Head of Property Specialty at Guy Carpenter. "This behavior is contrary to the market's historical precedent, as the factors that typically impact the mid-year renewals are normally driven by those already present in January. As seen in this year's July renewals, the excess capital in the market, and more importantly, the behavior of that capital, has encouraged a dramatic shift that triggered downward pricing in the traditional market in order to remain competitive."

Key July 1 renewal highlights from the briefing include:

Property

- Pricing for loss-free U.S. property catastrophe programs continued to decrease significantly at July 1, providing some of the largest individual program decreases of 2013
- Loss impacted programs generally saw more moderate decreases
- U.S. property per risk pricing also came under pressure

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- In Latin America and the Caribbean, a high level and diversity of reinsurer offerings led to rate reductions at July 1. The exception to this trend was Argentina, which suffered significant flood losses in April 2013 and faces a reduced offering due to regulatory restrictions

- Property retrocession business saw significant rate decreases, with the greatest risk-adjusted reductions achieved on growing portfolios. Further downward pricing pressure is expected through the remainder of the year, absent a significant loss

- Reinsurance rates for global marine and energy lines varied at July 1 dependent on territorial region and loss-free/loss-hit business. Pricing between the U.S. and London has grown closer together as the year progressed

- Aviation business continued to see primary rate reductions, depending on the sector

- Credit reinsurance rates were again flat at July 1, which, when coupled with increasing underlying exposures, resulted in a risk-adjusted reduction in reinsurance terms

- While aggressive pricing caused terms for industry loss warranties (ILWs) to tumble in early 2013, the market has shown signs of increased activity with the peak U.S. wind season approaching

- Through July 1, we saw USD4.2 billion of property casualty catastrophe bonds issued, risk capital outstanding likely reaching an all-time high of around USD16 billion, deal books marked with oversubscription and increased risk profiles in both books of business and triggers

Casualty

- U.S. primary casualty lines showed an improved underlying pricing environment, with rate increases across some segments

- Rate hardening continues to be notably more evident in primary workers compensation, but major challenges to the line remain, including depressed investment rates, reserve development and deficiencies, growth in residual market volume, the unknown impact of the Patient Protection and Affordable Care Act (PPACA) and the pending expiration of Terrorism Risk Insurance Program Reauthorization Act (TRIPRA)

- Primary insurance rates in umbrella and excess liability showed continued rate increases, depending on the exposure, size of the insured and loss activity

- Indications of a soft workers compensation reinsurance market continued through the first and second quarters of 2013

- Excess of loss rates for UK motor business continued to see upward pressure driven by expectations of an increase in periodical payments order (PPO) settlements

- Motor reinsurance rates in Continental Europe remained stable

- Employers and public liability rates in the UK continued to soften at July 1 for programs with good loss histories and a continued increase in burning cost weighting versus exposure

- (Re)insurance for professional lines remained competitive in all sectors, with the possible exception of larger financial institutions

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- Primary premiums increased slightly for general liability lines in some Eurozone countries because of rising revenues

Life and Accident & Health

- Mid-year renewals in 2013 mark over 18 months of a highly competitive market for medical reinsurance, with reinsurers showing increased interest in the healthcare space as insurers and managed care companies grow increasingly wary of the impact of the PPACA

- 2013 has seen an improvement in both incidence rates and recoveries for disability claims, but low investment income continues to pose significant pricing challenges for both primary and reinsurance disability companies

- The accident reinsurance market continues to become more competitive as a result of increased capacity from Lloyd's and other traditional life reinsurers, no significant catastrophe losses since 9/11 and increased competition among reinsurers looking to grow their overall book of business amid decreasing premiums in other lines

TAGS/KEYWORDS

Guy Carpenter, renewals, property, casualty, ILS, catastrophe bond, capital markets, liability, aviation, marine, energy, workers compensation, life, accident & health

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; 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.

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