

News Release

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Guy Carpenter and Oliver Wyman Publish Fourth Annual Insurance Risk Benchmarks Research

2014 Research Conducted in Collaboration with Columbia University

New York, October 26, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and Oliver Wyman, the international management consulting firm, both wholly owned subsidiaries of Marsh & McLennan Companies (NYSE: MMC), announced today the release of the 2014 *Insurance Risk Benchmarks Research: Annual Statistical Review*, the first in a two-part series detailing research executed in collaboration with Columbia University. This, the fourth annual report, provides detailed analysis and insight on the property/casualty industry to help insurers strategically evaluate and benchmark inputs to economic capital models.

With increased global regulatory supervision over the enterprise risks of insurance companies, effective and efficient economic capital modeling has become increasingly essential to insurance executives. The *Insurance Risk Benchmarks* research provides metrics and insights to allow clients to understand if they are accurately quantifying risks by line of business, by industry segment and across cycles. The risk benchmarks are based on proprietary analyses of a database of financial results from thousands of property/casualty (P&C) insurance companies over a period of more than thirty years. This year's research also refines the industry market segments to include regional composites designed to better group companies with similar exposure to natural perils.

The second report, *Applications and Perspectives*, will be available to clients in December 2014 and will include papers that will each examine best practices in risk appetite and tolerance, Own Risk and Solvency Assessment (ORSA) readiness across the industry, results and analysis on the P&C industry capital model, and advanced modeling research.

"As detailed in this year's report, relatively low natural peril activity, impressive returns on the stock market, benefits from deferred tax assets and changes to pension accounting all contributed to the strong financial results seen in the 2013 property/casualty market," said Micah Woolstenhulme, Manager, ERM Services Team for Guy Carpenter. "Whether we are in a soft market, where the industry shows the greatest volatility, or in a more stable hard market, the Insurance Risk Benchmarks Research provides vision into the insurance landscape so that companies are able to assemble a complete image of risk and opportunity for their business."

Key top-line findings of the research include:

- The insurance industry exhibits the greatest volatility during soft markets and the least volatility during hard markets.

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- Reserve releases continued throughout 2013 as the industry recorded the largest release of the most recent accident year since 2007. Ultimate loss estimates were reduced for each historical accident year since 2004.
- Correlation between lines of business is strongest at the industry level and noisiest for small individual companies, but a company's experienced correlation can be modeled as a function of market share.
- Companies have been successful at achieving rate increases and industry written premiums grew by 4.4%. Top gainers include Workers Compensation (8.2%), Commercial Auto Liability (7.7%), and Products Liability (6.9%).
- Regional players have generated the lowest volatility in most lines of business.
- Booked loss ratios for accident year 2013 are lower than the long term average for every line of business.
- Homeowner's volatility is uncorrelated with other lines and driven by natural peril profile and geographic footprint. The underwriting cycle is much less pronounced. Large, multi-regional companies have outperformed regional players and the key to stable profitability is regional diversification and risk management.
- The lines of business with the largest difference between winners and losers include Medical Malpractice and Products Liability.

"Our research goes beyond a simple annual industry update," said Joel Vaag, Principal, Oliver Wyman, Actuarial Consulting. "The Insurance Risk Benchmarks research and subsequent reports are compiled as a living exercise in industry risk management that grows and creates new value with each installment. The depth and breadth of this analysis arms our clients with actionable intelligence to recognize risk and seize opportunity."

The full *Insurance Risk Benchmarks: Annual Statistical Review* is available on gccapitalideas.com and oliverwyman.com.

TAGS/KEYWORDS

Guy Carpenter, Oliver Wyman, Columbia University, property casualty, ERM, insurance, reinsurance, Micah Woolstenhulme, Joel Vaag

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About Oliver Wyman

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