1166 Avenue of the Americas
New York, NY 10036
917 937 3000

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

July 1 Renewals Reveal Continued Double Digit Price Decreases Across Many Lines and Geographies, Reports Guy Carpenter

Alternative Capital Drives Record High Catastrophe Bond Issuance at Mid-Year

New York, July 8, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), reports that market pressures at July 1 renewals continued to drive price decreases across virtually all geographies and lines of business, many in the double digit range. As loss activity remained minimal, reinsurers added to surplus capacity and additional capital continued to come into the market via alternative sources.

“While the impact on property renewals, especially in the US, has been well documented, a wide variety of lines including marine, aviation, casualty, workers compensation and healthcare experienced improved terms and abundant capacity,” said Lara Mowery, Managing Director and Head of Global Property Specialty for Guy Carpenter. “As a result, we have seen continued discussions around the expansion of terms and flexibility in adapting solutions to provide more client-specific tailored coverage that extend well beyond property.”

According to the report, the growth of alternative capital and expansion of its range of offerings continues to impact the marketplace in a meaningful way. Catastrophe bond issuance was extremely strong through the first half of 2014, with a record-setting half year issuance of USD5.7 billion of 144A property catastrophe bonds. Total risk capital outstanding now sits at an all-time high of USD20.8 billion (excluding private placements). In fact, even with no further activity for the remainder of the year, 2014 would still register as the fourth largest year in terms of new issuance.

“With an abundance of alternative capital, catastrophe bond pricing continues to decline. In addition, greater flexibility in the market has facilitated first-time achievements in 2014, including a European windstorm bond utilizing an indemnity based trigger and the first ever Japanese yen denominated bond,” said David Priebe, Vice Chairman of Guy Carpenter. “Alternative capital is also extending its market impact through increased interest in non-catastrophe lines of business, including entities specifically focused on writing more stable business but with a more aggressive investment strategy.”

Property

US Market

Over the last three prior years, fluctuating conditions between January 1 and July 1 resulted in mid-year market movement. In 2014, renewal behavior returned to a more historical norm as the market remained fairly consistent through the first six months of the year. Price decreases averaged in the mid-to-high teens and changes in coverage, more diverse product offerings and an increase in multi-year options enabled companies to better tailor their coverage to meet their risk management needs.

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Global Market Highlights
Rates for Latin America and Caribbean property catastrophe excess of loss cover declined at the July 1, 2014 renewal. However, the fall in pricing was somewhat less pronounced than in other regions. In China, July 1 renewals continued to be a significant marker for catastrophe programs with reinsurers generally offering quotes at levels that were expected. In Australia/New Zealand July 1 renewals continued to show significant decline in rates due to oversupply of capacity following a benign year for catastrophe losses – despite some uptick in the ultimate losses from the 2010/2011 New Zealand earthquakes. Coverage terms expanded in this environment.

Catastrophe Bonds & Capital Markets

Catastrophe bond price decreases and oversubscription of placements continued in 2014. As a result, a number of deals were upsized and priced significantly below their initial range during the first six months of the year, leading to a record setting pace in issuance. However, price adjustments moderated somewhat towards the end of the second quarter, especially for Florida hurricane exposed placements, although the majority of deals in this period still priced comfortably within their initial guidance.

Despite the aggressive price decreases of the past year, there are signs that market participants are continuing to apply consistent underwriting standards. While there is undoubtedly an abundance of investor capacity, it still appears to be acting in a reasonably disciplined manner.

Casualty

US Casualty
Rates and terms continued to soften significantly on post-January 1, 2014 quota share reinsurance program renewals. This trend was driven by reinsurers' desire to diversify their writings as a result of the continuing reduction in property catastrophe premiums. In addition, loss ratios improved on the underlying business as a consequence of rate increases and reserve releases. Casualty clash pricing was flat at July 1, 2014 as programs with losses experienced flat to increased rates and there was no notable increase in available capacity for the sector.

International Casualty
Price trends for July 1, 2014 UK motor reinsurance renewals were very similar to those of January 1, 2014 — single digit increases in program rates with the increases weighted toward higher layers in excess of GBP5 million.

June/July renewals for UK and international programs in general liability, employers liability, commercial directors and officers liability and professional liability continued to experience rate reductions. One minor exception was financial institutions where historic loss experience and the inherent volatility within the class meant it remained the one long-tail sector with less overall capacity. However, even financial institutions experienced rate reductions in both the primary and reinsurance sectors in some instances.

Workers Compensation
Reinsurance workers compensation renewals throughout the first half of 2014 were bound at reduced rates for both working layer (single claimant) and catastrophe layer (multi-claimant loss) programs. Overall, 92.5 percent of the catastrophe layers renewing at July 1 reflected rate decreases. For working layer renewals at July 1, the ratio of layers bound with rate decreases versus rate increases was three to one.

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Terror

The lack of US legislative activity in 2013 and through the first quarter of 2014 to renew the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) was a major concern for carriers, particularly for insurers writing workers compensation cover as the peril cannot be excluded from the standard policy. Although the uncertainty surrounding a successful renewal of TRIPRA has been tempered by recent Congressional action, the final terms of TRIPRA's replacement and timing of enactment may still be an issue for some insurers.

Healthcare & Life

Healthcare
The US healthcare environment saw mid-year pricing trending down for programs with strong performance. Innovation, creativity and flexibility were watchwords as bespoke solutions were explored and implemented for all types of cedents. With the expansion of healthcare access and availability intended by the Patient Protection and Affordable Care Act (PPACA), insurers are looking to capitalize on opportunities for growth with a continued interest in proactive capital management. While there continues to be an abundance of reinsurance capacity and interest, changes in healthcare claims are beginning to have an impact on the market.

Group Life, Disability & Accident Catastrophe
Competition and capacity were adequate for group life and disability lines, affecting market dynamics and somewhat muting the impact of cedents' loss experience. Pricing remained disciplined at July 1, 2014 and many programs renewed with favorable terms. Additionally, adequate capital and significant rate reductions in property and casualty lines made accident risk a very attractive line to write. Minimum premiums in this segment were tested including those for nuclear, biological, chemical and radiological where cedents exhibited favorable risk characteristics.

TAGS/KEYWORDS
Guy Carpenter, renewals, property, casualty, ILS, catastrophe bond, capital markets, aviation, marine, workers compensation, life, accident & health, casualty, Mowery, Priebe, Latin America, China, Caribbean, TRIPRA, motor liability, general liability, Australia, New Zealand

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; cyber solutions; 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.

Guy Carpenter is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy and human capital. With 54,000 employees worldwide and annual revenue of $12 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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