GUY CARPENTER

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

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

Reinsurance Pricing Falls Again at June 1, 2014 as Competition Heightens, Guy Carpenter Reports

New York, June 3, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), reports that downward pressure on reinsurance pricing has increased since the June 1, 2013 renewal due to continued competitive pressure from alternative markets, strong reinsurer balance sheets and low loss experiences. In its June 2014 renewal briefing, Guy Carpenter reports that competition increased as markets offered abundant capacity at reduced pricing. Terms and conditions also came under pressure and multi-year transactions continued to be an area of investigation. Traditional reinsurers sought to protect their market share and alternative providers looked to utilize growing funds.

"Assessing the outcome of the June 1, 2014 renewal, it is clear that the pace of the pricing decline observed in 2013 has not relented. Reinsurance buyers received significant rate decreases for both Florida and non-Florida renewals, compounding 2013 decreases," said Lara Mowery, Global Head of Property Specialty at Guy Carpenter. "As catastrophe bond pricing continues to fall, reinsurers are continuing to find ways to compete. New product offerings are abundant, as flexibility and tailored coverage are becoming trademarks of this rapidly evolving market."

Impact of Convergence on Reinsurance Market

Investor demand for insurance-linked securities (ILS) continues to be robust despite the significant decrease in ILS pricing that occurred over the past 18 months. Capacity emanating from alternative markets now accounts for roughly USD50 billion or 15 percent of global property catastrophe reinsurance limit.

Although the impact of convergence capital has been most acute in the property catastrophe market, opportunities are now being sought in other business segments. For example, recent movement toward longer-tail lines demonstrates a growing willingness on the part of capital market investors to explore casualty lines. This new capacity, coupled with more traditional reinsurance capital moving into casualty reinsurance to escape intense competition in the property catastrophe market, is likely to benefit cedents with more negotiating leverage and, ultimately, improve pricing, structure and coverage.

Florida Reinsurance Renewals

Florida reinsurance rates settled into a fairly stable band between 2007 and 2012 but pricing drifted below this level last year as June 1, 2013 was the first renewal date to experience the full magnitude of the decline in catastrophe bond pricing and the subsequent market response. Pricing moved even further below the 2007 to 2012 range this year as risk-adjusted decreases continued.

Reinsurance Pricing Falls Again at June 1, 2014 As Competition Heightens, Guy Carpenter Reports
June 3, 2014

Volatility in quoting behavior for Florida business increased in 2014 as pricing declined. Some quotes at the top end of the spectrum were above 2013 pricing on a risk-adjusted basis but the vast majority of quotes represented decreases between five and 15 percent.

“As reinsurers look to position themselves in a market that is particularly attractive to alternative capital, pricing approaches are more varied than has been typical for the Florida market,” said George Carse, Guy Carpenter Tampa Branch Manager. “This year, heading into wind season following eight consecutive years with no hurricane loss and continued excess capacity, we are seeing solid discounts from last year’s pricing. Of course, there are still a range of outcomes around the average for individual company characteristics, so it is essential for those operating in the market to have a sound holistic and individual understanding of market dynamics.”

Retrocessional

Retrocession pricing also fell at June 1, 2014 as a consequence of over-capitalization in the marketplace and a lack of significant losses. Although mid-year has not historically been a core date for retrocession renewals, companies that have not traditionally bought retrocession cover expressed considerable interest in various products this year. This was driven by a general feeling among buyers that terms have now reached levels where transferring catastrophe exposure into the marketplace has become a more realistic option.

Some of these tentative explorations had initial difficulties gaining traction however, suggesting perhaps that a floor on pricing is being reached for new business in the retrocession space. With reinsurance spend and inwards book concerns, interest in bundling reinsurance into multi-line placements, for example, and alternative products such as catastrophe bonds has remained high in 2014.

“As noted a year ago, one of the main challenges facing reinsurance buyers is the expanding variety of structure options from a growing number of providers,” said Mowery. “The dynamics of this renewal season demonstrate the benefits of consistent communication with markets and a thorough understanding of the risk being presented, particularly in a rapidly evolving marketplace.”

Hurricane Activity

Hurricane activity for this year is expected to be below average and the outcome of the 2014 hurricane season will have a strong influence in determining the future direction of reinsurance pricing and capacity. The factors of greatest influence for the 2014 hurricane season include the expected onset of an El Niño and the cooler than average sea surface temperatures in the Atlantic Main Development Region.

While overall 2014 basin counts may be reduced, development in the northern Caribbean and West Atlantic is a distinct possibility, and storms developing in this area have a higher chance of landfall.

TAGS/KEYWORDS
Guy Carpenter, Lara Mowery, George Carse, renewals, June, Florida renewals, reinsurance, alternative capital, ILS, hurricane activity, retrocession

Reinsurance Pricing Falls Again at June 1, 2014 As Competition Heightens, Guy Carpenter Reports
June 3, 2014

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.

# # #