

News Release

Contacts:**Ed Dixon**

Guy Carpenter

1.917.937.3118

edward.dixon@guycarp.com**Jennifer Ainslie**

Guy Carpenter

44.207.357.2058

jennifer.ainslie@guycarp.com

Guy Carpenter Reports Capital Growth and Market Resilience Despite 2017 Losses

New York, January 18, 2018 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), today released an estimate of year-end reinsurance capital levels and results of the January 2018 reinsurance renewal.

According to the analysis, capital dedicated to reinsurance continued to grow in 2017 despite catastrophe losses. Due to ongoing excess supply and overall market resilience at January 1, rate firming was generally moderate and pricing shifts focused on client-specific justification.

Guy Carpenter's estimate of dedicated reinsurance capital, completed in conjunction with A.M. Best Company at year-end 2017, is approximately USD 427 billion, up 2 percent from year-end 2016. While traditional capital is flat, convergence capital grew 9 percent to USD 82 billion including replacement of lost or trapped capital. Guy Carpenter and A.M. Best's estimate of traditional capital is calculated using A.M. Best's proprietary capital model (BCAR) results as well as line of business allocations.

Last fall's concentrated period of events, including four land-falling hurricanes of which three were Category 4 or greater, helped make 2017 the third year on record with insured catastrophe losses over USD 100 billion, according to Guy Carpenter. The company's current estimate of USD 113.5 billion in insured loss excludes the NFIP, which does not significantly impact industry capital or profitability. The estimate also accounts for recent decreases in some estimated losses.

"Despite substantial catastrophe losses in 2017, the market demonstrated significant resilience with no notable capital withdrawal and moderate price increases. Evolving market dynamics and innovative reinsurance solutions serve to mitigate significant loss events and protect industry capital and profitability," said David Priebe, Vice Chairman, Guy Carpenter. "The reinsurance and capital markets responded favorably to those companies who were able to present quality data and well developed and executed loss mitigation strategies. These measures support companies' ability to attain customized risk transfer solutions and maximum protection for their risk profiles."

In most lines, loss-impacted policies or those with thin margins were most likely to see price increases. The Guy Carpenter Global Rate on Line Index, measuring the change in catastrophe premiums year over year, increased 6.1 percent. This was driven by the impact of large loss activity and exposure growth, as reinsurers' focus on flat risk adjusted pricing led to higher premiums for increased exposure. Unlike past firming events where supply and demand imbalances and shifting views of risk drove rates higher, the 2017 events were largely within model parameters, and overall industry capital did not decline. Assessment of the market response will continue through the spring, when many of the most heavily loss-impacted programs renew.

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The analysis also reviews reinsurer profitability, noting reinsurers have leveraged retrocession coverage more aggressively in recent years, supported by the use of convergence capital. This helped avoid a negative return on average equity (ROAE) for the Guy Carpenter Global Reinsurance Composite, a representative sampling of carriers in the sector, as of the third quarter. Despite the erosion of profits from the first half of the year by third quarter losses, the 10-year weighted average ROAE is 8.1 percent – a figure including two of the three costliest catastrophe years on record. While reinsurers exercised greater caution in deploying capital at January 1, there was no indication markets' support of the sector was diminished.

TAGS/KEYWORDS

Guy Carpenter, A.M. Best, January 1, renewals, property, risk, reinsurance, catastrophe, capital

About Guy Carpenter

[Guy Carpenter & Company, LLC](#) is a leading global risk and reinsurance specialist with more than 2,300 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a wholly owned subsidiary of [Marsh & McLennan Companies](#) (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With more than 60,000 colleagues and annual revenue over \$13 billion, through its market-leading companies including [Marsh](#), [Mercer](#) and [Oliver Wyman](#), Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment. For more information, visit www.guycarp.com. Follow Guy Carpenter on Twitter [@GuyCarpenter](#).