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GUY CARPENTER

THE (RE)INSURANCE LANDSCAPE

MID-YEAR (RE)INSURANCE
REPORT
JULY 2015

MARSH & McLENNAN COMPANIES

GUY CARPENTER

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EXECUTIVE SUMMARY

THE INCREASED DEMAND FOR REINSURANCE COMES AMID EXPANSION OF CUSTOMIZED COVERAGE WITH CLIENTS CONTINUING TO SEEK ACCESS TO INNOVATIVE NEW PRODUCTS AND IMPROVED TERMS AND CONDITIONS.

The (re)insurance industry continues to evolve and adapt to a changing market on many fronts. Recent areas of focus include heightened cyber security risk, increased regulation, political and economic uncertainty, low interest rates and slow economic growth. At the same time, (re)insurers are managing new capital inflows, excess capacity and few catastrophe losses.

Changing regulatory and rating agency requirements are leading (re)insurers to implement sophisticated capital models and enterprise risk management practices. The emergence of increasingly complex global risks is challenging the way we evaluate and mitigate their potential impacts at the same time that digitization and big data analytics offer new insights for underwriting.

Investors seeking non-correlation and returns similar to or better than comparable debt instruments continue to be attracted to the (re)insurance industry. The ongoing entry of new capital has led to changes in the sector's capital structure, further spurring innovation. One outcome impacting the industry as (re)insurers evaluate the most effective path forward, is the several large mergers in recent months. Merger activity will continue to reshape the landscape on both sides of the reinsurance transaction moving forward and we examine these developments later in this report.

In addition, in the past 18 months, approximately 18 billion of new capital has entered the market through investments in insurance-linked securities (ILS) funds such as pension and sovereign wealth funds; sidecars; hedge fund-backed reinsurance companies and collateralized reinsurance vehicles. While ILS activity is traditionally high ahead of the U.S. wind season, the first quarter of 2015 was the most active quarter in history.

Among these factors, the combination of capital inflows, excess capacity and lack of costly catastrophes have led to falling prices in the last 24 months. Rate declines on most lines of business have persisted through mid-year renewals. However, average decreases have mitigated somewhat on U.S. catastrophe reinsurance, where declines were the largest over the previous two renewals and over-capacity was not as prevalent, most notably on new or expanded layers. Industry loss warranties have seen perhaps the most significant shift as active placement activity since the end of the first quarter has reversed the trend of decreasing prices.

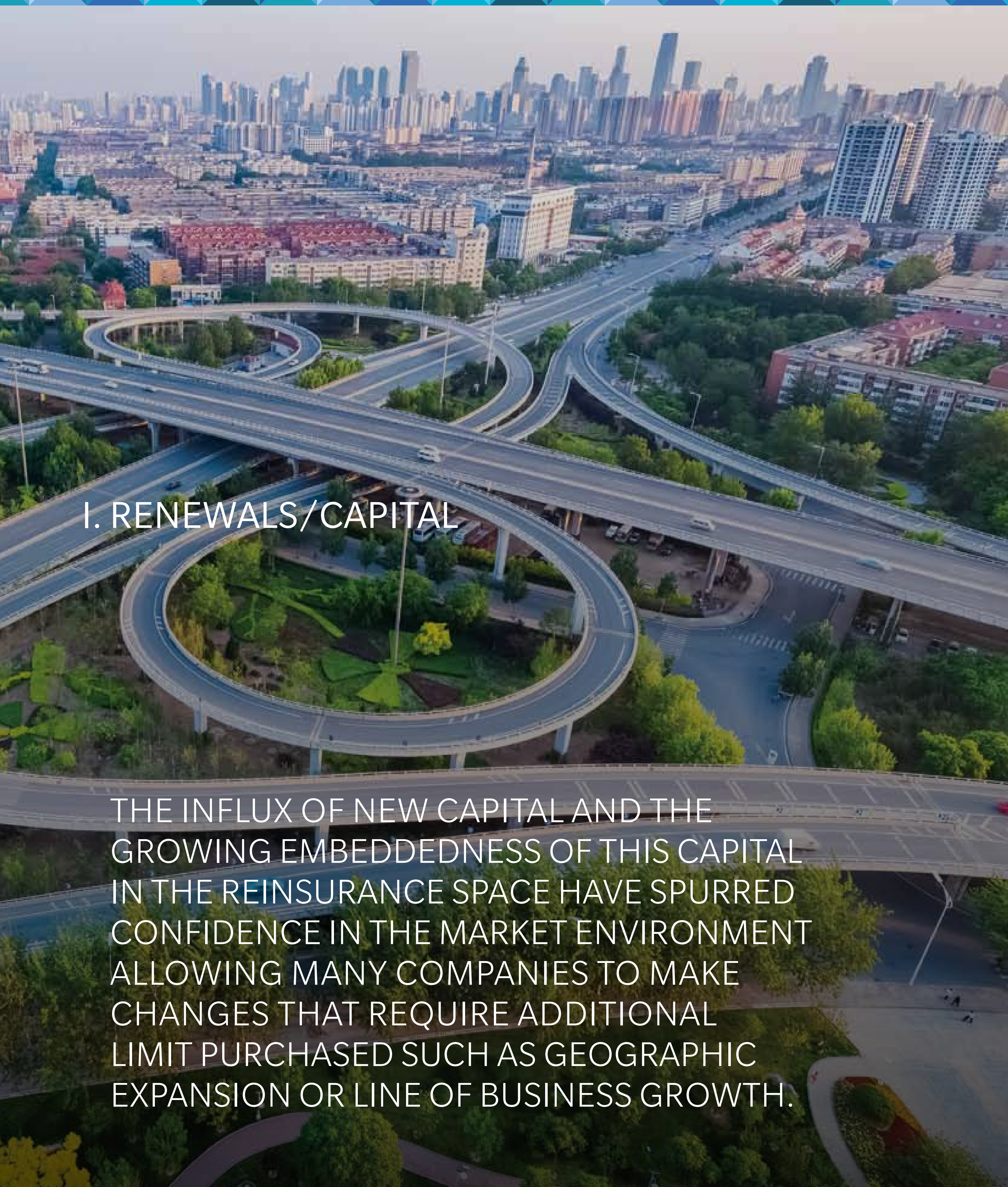
The trends outlined in Guy Carpenter's January 1 renewal report continued through the first six months of 2015. Guy Carpenter's observation that buyers were purchasing more catastrophe limit to take advantage of lower costs, continued to be borne out and even accelerated. The increased demand for reinsurance and expansion of tailored coverage persisted through the April, June and July renewals.

The increased demand for reinsurance comes amid expansion of customized coverage with clients continuing to seek access to innovative new products and improved terms and conditions. Clients continue to evaluate the effectiveness of their reinsurance purchasing to determine if there are more cost effective and efficient means to reinsure risk. In many cases this may include consolidation in purchasing within or across lines of business, inclusion of new lines, modification of coverage definitions and evaluation of multi-year contract terms.

Capacity affords us the opportunity to develop new solutions for new risks and consequently, drive growth, enabling the industry to provide cover for risks that are currently uninsured. As (re)insurers are challenged to find growth in this rapidly changing market, the need for unbiased and agnostic customized advice and services is growing. Our clients are increasingly looking to Guy Carpenter for unique ways to support their expansion into new geographies and distribution channels, development of innovative new products and evaluate the marginal capital impact of strategic alternatives.

At this point in the year as the majority of 2015 renewals have now completed, Guy Carpenter has developed this Mid-Year Review to present an assessment of industry trends. Additionally, within the report we offer insights on other factors and developments that offer opportunities for growth, such as public-private initiatives, emerging risks and regulatory changes.

We hope that the report offers insights that you will find useful in the remainder of 2015 and beyond.



I. RENEWALS/CAPITAL

THE INFLUX OF NEW CAPITAL AND THE GROWING EMBEDDEDNESS OF THIS CAPITAL IN THE REINSURANCE SPACE HAVE SPURRED CONFIDENCE IN THE MARKET ENVIRONMENT ALLOWING MANY COMPANIES TO MAKE CHANGES THAT REQUIRE ADDITIONAL LIMIT PURCHASED SUCH AS GEOGRAPHIC EXPANSION OR LINE OF BUSINESS GROWTH.

As Guy Carpenter predicted at the beginning of 2015, buyers continued to purchase more catastrophe limit to take advantage of the lower prices that have already occurred in most business segments and geographies.

PROPERTY

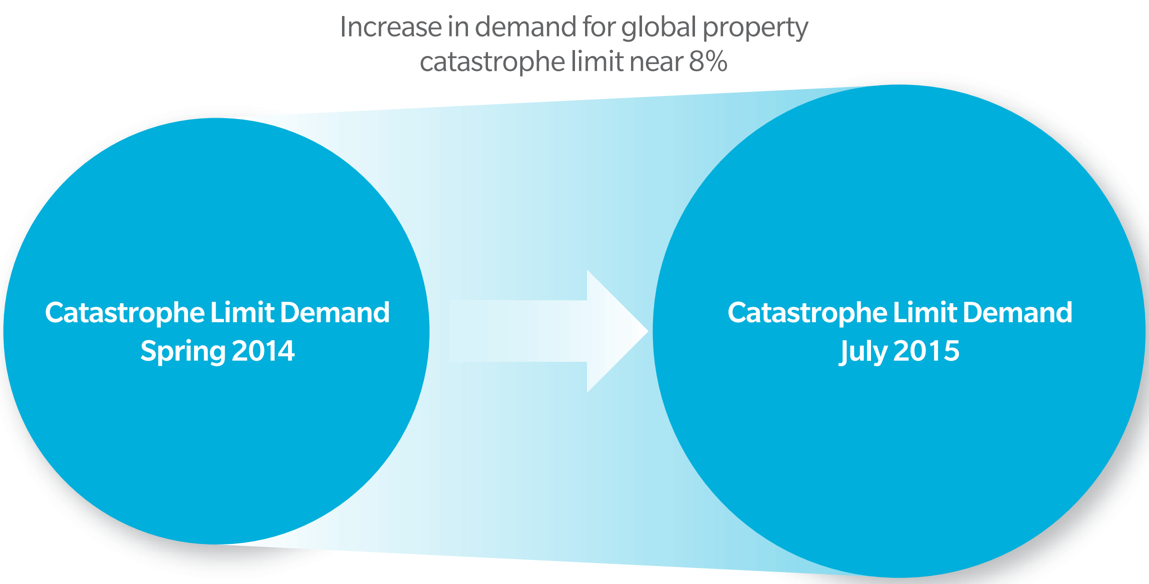
Continuing the trend at June 1, price declines moderated somewhat, particularly on programs covering U.S. wind. This was due to a combination of factors including pricing pressure created by the past two seasons of decreases and a significant amount of new limit placed. While capacity is still plentiful and low loss experience continues, many reinsurers held the line against the more extreme declines.

In June and July, for the first time over the last three renewal seasons, many markets were in a position of dwindling aggregate for U.S. wind-exposed zones. The most significant examples were seen in new covers or expanded layers where reinsurers were more focused on price adequacy for providing new limit.

Additional limit placed over the past few months has been one factor in the stabilization of price declines. The chart below details the growth in demand for worldwide property catastrophe coverage from the spring of 2014 to the present. It is significant to note this growth is occurring at a time when the large nationals/globals are increasing retentions and co-participations and generally spending less on reinsurance protection. While growth in demand has been measurable, its primary cause stems from companies using a portion of their savings to enhance coverage or fill in gaps and to provide additional coverage as they expand their business.

To date, much of this expansion has occurred on U.S. wind exposed business and solutions shifting risk from government entities to the private market. Decreasing reinsurance costs for example, have allowed companies to take out significant numbers of risks from Florida Citizens, shifting responsibility for these policies to private insurers and reinsurers. Increases in limit purchased are also the result of expanded use of reinsurance by large pools. Flood Re and Pool Re in the UK and the Florida Hurricane Catastrophe Fund are significant first time buyers of reinsurance in 2015 (Flood Re coverage to incept in 2016).

F-1 | GLOBAL PROPERTY CATASTROPHE DEMAND



Source: Guy Carpenter

The influx of new capital and the growing embeddedness of this capital in the reinsurance space have spurred confidence in the market environment allowing many companies to make changes that require additional limit purchased such as geographic expansion or line of business growth. This is notable, but the next step in this process, that has the potential to increase demand much more significantly, is growth in coverages that don't yet fully exist in the insurance space.

The industry is just beginning to assess solutions for some of the larger under-insured or uninsured risk issues, including expansion of flood coverage options and the evolution of cyber coverage.

CASUALTY

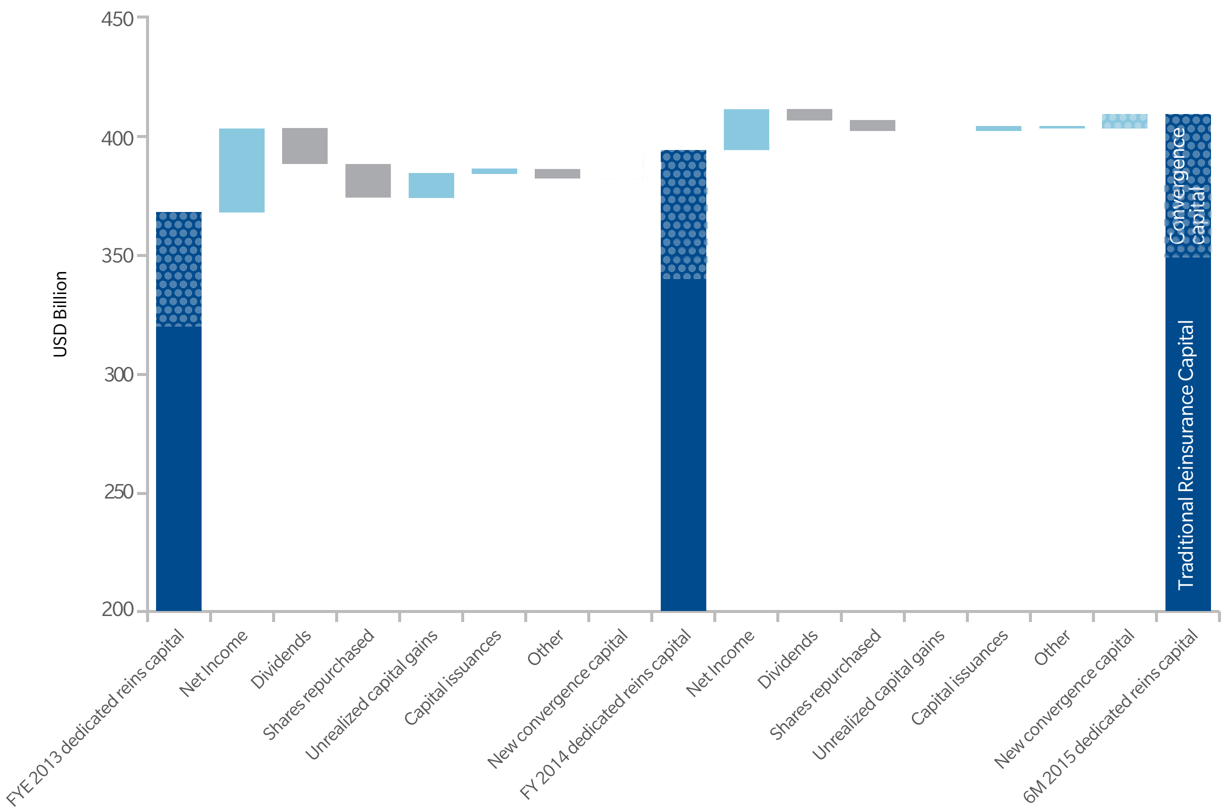
Consistent with the post-January 1, 2015 renewal report, the U.S. casualty reinsurance market continued to soften on both quota share and excess of loss reinsurance programs. This trend continues to be driven by the reduction in property catastrophe premiums, causing reinsurers to further diversify their overall premium writings into casualty lines and by the improved loss ratios among these underlying lines of business. As a result, reinsurance pricing continued to soften via ceding commissions increases on quota share placements (albeit at a slower pace than in 2014 and earlier in 2015) and rate decreases on excess of loss placements (subject to stable loss experience).

Traditional reinsurers continued to dominate the casualty reinsurance marketplace as the newer alternative capital entrants remain cautious and limited in their ability to participate on some of the longer tail liabilities inherent among many casualty lines. Importantly, traditional markets continue to work with core clients to tailor specific reinsurance coverage to each client's needs. Examples include: multi-year contracts, private layers, aggregate coverages, hybrid structures, and including additional lines of business into broad-based casualty treaties. Treaty retentions and co-participations continued to vary across the casualty space. Some clients have elected to purchase more cover in light of current market conditions, while others have increased retentions in select areas. Reinsurance capacity remains ample to fill treaty placements. In brief, the trends exhibited at the start of 2015 continued through the July 1st renewal period.

CAPITAL

Guy Carpenter's estimate of dedicated reinsurance sector capital as of July 1, 2015 was again produced through our work with A.M. Best. Our estimate is not a simple aggregation of the capital of all companies that write reinsurance since some capital is allocated to the insurance business or other outside interests. In fact, we have seen increased evidence that some companies are shifting capital toward insurance lines and away from reinsurance lines based on the current rate environment. A.M. Best and Guy Carpenter have estimated the amount of capital dedicated to writing reinsurance by reviewing A.M. Best's proprietary capital model (BCAR) results as well as line of business allocations. Our current estimate of total capital dedicated to reinsurance is approximately USD 400 billion of which the convergence capital, including catastrophe bonds, ILWs, collateralized reinsurance and sidecars is USD 66 billion.

F-2 | ESTIMATED EVOLUTION OF DEDICATED REINSURANCE SECTOR CAPITAL – 2013 TO 6M 2015



Source: Jointly produced by Guy Carpenter & A.M. Best

INSURANCE-LINKED SECURITIES/CATASTROPHE BONDS

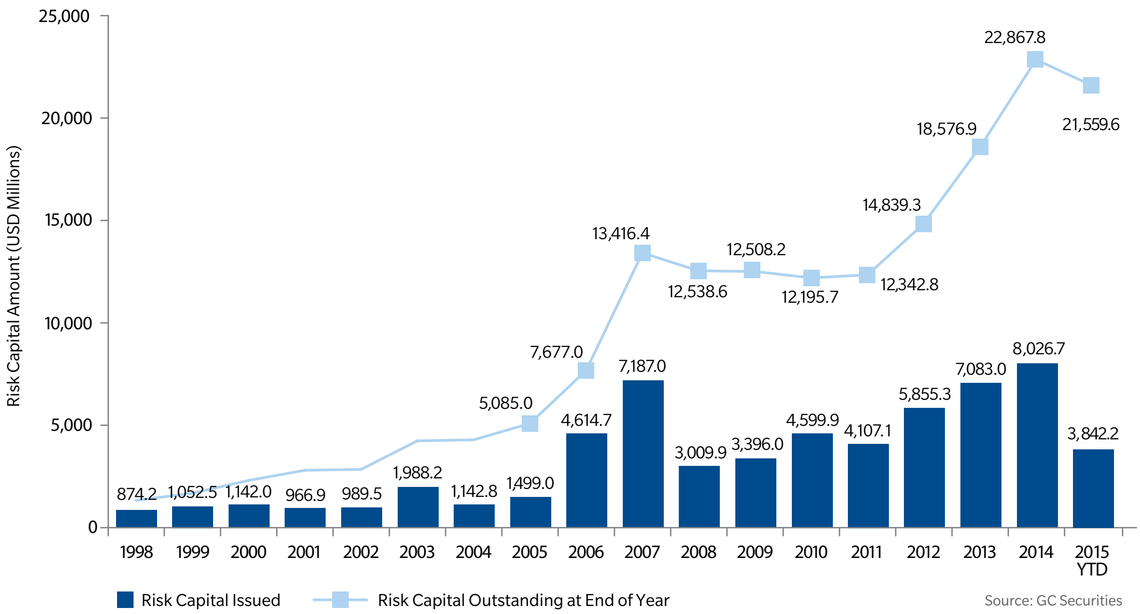
A high-volume of maturities coupled with a diverse and steady stream of new issuances created a dynamic catastrophe bond environment in the first six months of 2015.

The first quarter of each year is particularly active in terms of issuance for the property/casualty (P&C) catastrophe bond market. USD 1.49 billion of 144A P&C catastrophe bond limit in the First Quarter of 2015 was successfully placed with investors, which is the highest first quarter volume in history, with issuance of USD 1.49 billion. Furthermore, the highest quarterly volume of 144A P&C catastrophe bonds matured in the first quarter, returning USD 3.544 billion of principal to investors.

While the first quarter is usually quite active, the second quarter of each year typically has the highest activity in terms of issuance for the P&C catastrophe bond market. The second quarter of 2015 was no different, with USD 2.35 billion of 144A P&C catastrophe bond limit successfully placed with investors. Furthermore, the quarterly volume of 144A P&C catastrophe bonds maturing in the second quarter returned USD 1.606 billion of principal to investors.

The combined maturities in First Quarter and Second Quarter 2015 are the highest volume of 144A P&C catastrophe bonds to mature in the first half of the year. As of July 1, 2015, USD 21.559 billion of P&C 144A catastrophe bond risk capital was outstanding.

F-3 | 144A P&C CATASTROPHE BOND RISK CAPITAL ISSUED AND OUTSTANDING – 1998 TO 2015 YTD



Source: GC Securities

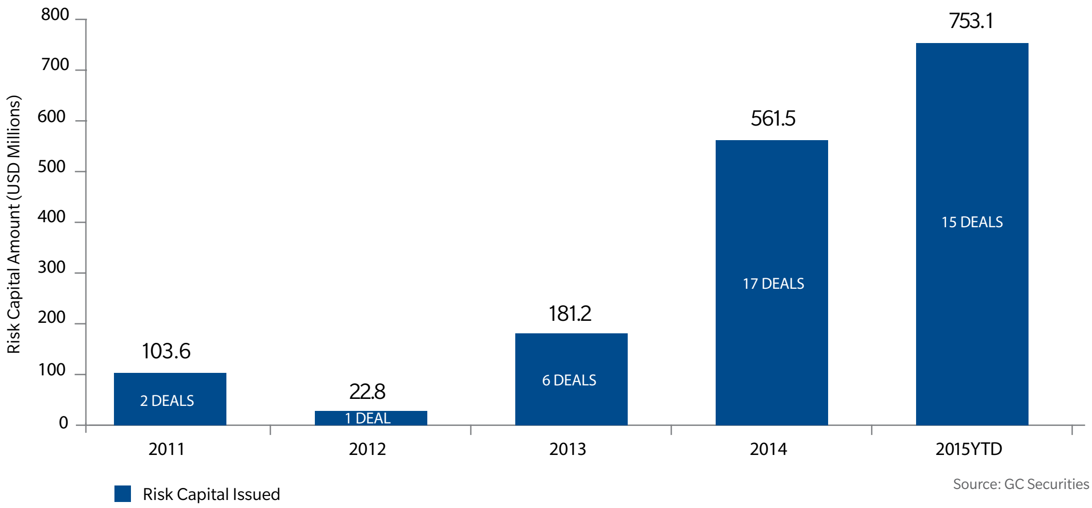
NEW ISSUANCES IN REVIEW (REPEAT ISSUERS)

Fourteen repeat sponsors re-entered the market in the five months ending May 31, each issuing either replacement coverage or additional limit in advance of the North Atlantic wind season. Many of the repeat sponsors sought to continue to take advantage of attractive pricing.

PRIVATE CATASTROPHE BOND MARKET

The private catastrophe bond market continues to grow faster than the 144A marketplace with USD 753.1 million of limit placed in rule 4(2) private placement format via fifteen transactions in the first six months. The 2015 year-to-date volume has exceeded the significant total full-year issuance in 2014 of USD 561.5 million, which was the highest ever at the time. With the acceptance of private cat bond programs by both cedents and investors, we expect to see this segment of the marketplace to continue significant growth.

F-4 | PRIVATE CATASTROPHE BONDS RISK CAPITAL ISSUED 2011 – 2015 YTD



Source: GC Securities

Note: P&C catastrophe bonds as of June 30, 2015 excluding deals currently being marketed.

KEY ILS DEVELOPMENTS IN THE FIRST HALF 2015

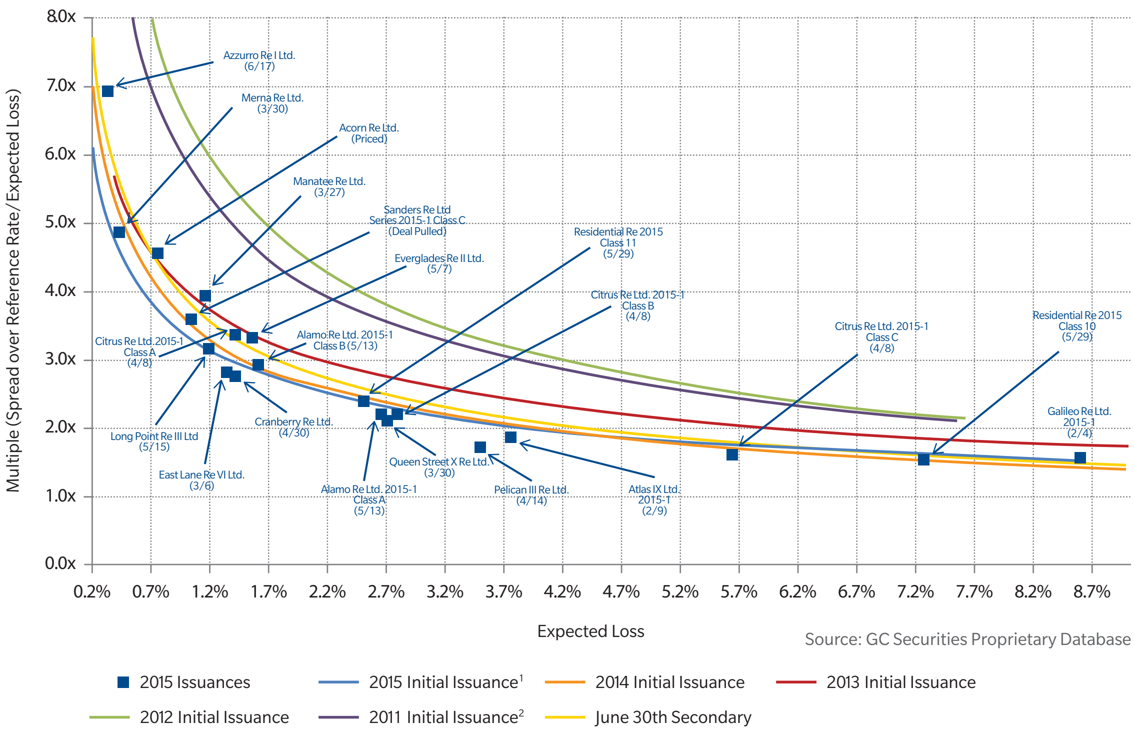
Investors' pricing discipline that emerged in the Fourth Quarter of 2014 persisted into the first half of 2015 as recent deal pricing and investor feedback suggests that further catastrophe bond pricing reductions in the near-term would be unlikely.

There appear to be two driving forces behind the pricing stabilization: Pricing fell dramatically from 2012 to 2014 year-end. As a result, the market began to stabilize in 2014 and continues to remain at that level. And, as a result of the price decreases in previous years the spread of P&C cat risk over traditional "risk-free" fixed-income products has declined. As a consequence, investors are questioning if price reductions leave them adequately compensated for the risk they are bearing.

Evidence of price discipline and thoughtful conversations between protection buyers and sellers about adequate compensation for risk should be welcomed by all market participants. It is clear that catastrophe/insurance risk still provides an attractive risk/return profile and that the asset class will continue to occupy an important strategic role in the investment portfolios of institutional investors. Despite considerable spread reductions over the past 24 months, there are more investors participating in the asset class than ever. The case remains that there is significant additional capital available in the global financial markets eligible to participate in this asset class. Critically, however, it is just as important to recognize that this capital is seeking to bear risk at a fair and justifiable rate of return. Innovation and new product features are acceptable but protection buyers and intermediaries should be prepared to substantiate their rationale for adding new features and be willing to discuss the value that new additional features provide. Marketing experience during 2015 year-to-date suggests that the investor base is more than willing – and in fact, is actively seeking – to engage on these frontiers to continue to explore how capital markets products can continue to deliver mutual value to both protection buyers and sellers.

Participation from so called "hot money" investors has never been lower. Although some investors continue to use financial leverage, they were far more the exception than the rule. If financial leverage was used, it tended to be in small amounts. Current price levels, though down from previous years, could represent a "golden compromise" in which protection buyers perceive good value for a multi-year fixed price protection and capital providers remain inclined to continue to build out their participations in the context of additional investment opportunities. Trading within this mutual value zone, while issuance costs and time to market requirements continue to decline, could provide the substantial issuance boost that market participants have long been awaiting. The all-time record issuance activity for the first quarter of 2015 could portend big things to come for the remainder of the year.

F-5 | PRICING CURVE



Source: GC Securities Proprietary Database

1. Kizuna Re II Ltd. not displayed (EL 0.018%, 11.1x).
2. Excludes Combine Re Class A
Note: P&C catastrophe bonds as of June 30, 2015 excluding private transactions.

II. MERGERS AND ACQUISITIONS

INFLUENCES ARE CONVERGING TO CREATE AN ENCOURAGING M&A ENVIRONMENT IMPACTING GLOBAL REINSURANCE AND SPECIALTY INSURANCE MARKETS. GIVEN THE WIDE-RANGING STRATEGIC INTERESTS OF POTENTIAL ACQUIRERS AND MERGER PARTNERS, THE NATURE OF THE DEALS CREATED WILL CONTINUE TO BE VARIED.

MERGERS & ACQUISITIONS DEVELOPMENTS: THE PROLIFERATION OF MERGERS & ACQUISITIONS IN SPECIALTY MARKETS

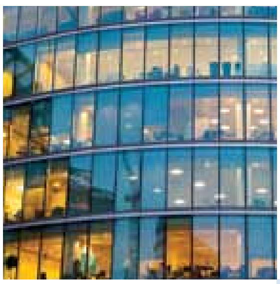
THE ARRIVAL OF THE EXPECTED MERGERS & ACQUISITIONS WAVE?

New capital inflows, excess capacity and few catastrophe losses have contributed to falling reinsurance prices and a challenging environment for specialty insurers and reinsurers. These factors have driven predictions of a forthcoming wave of market consolidation, which appeared to become a reality in late 2014 and 2015 when a series of rumors and announcements related to a number of large (re)insurers grabbed headlines.

While mergers and acquisitions (M&A) transactions were anticipated, a closer examination of recent deals raises questions about whether the driving forces led to expected outcomes. There is a benefit in considering the historic relationship between the (re)insurance pricing cycle and M&A activity, and whether current external forces have led to a shift in this relationship.

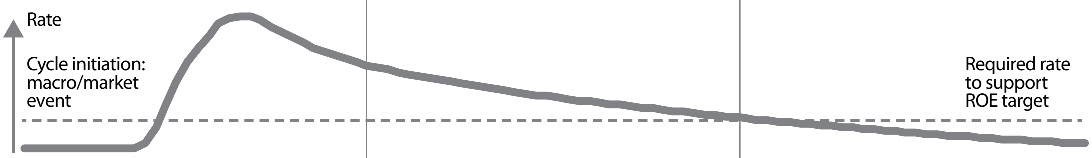
M&A DRIVERS

A casual observer might consider that reduced profit margins and a history of pulsing rate cyclicality mean that today is the time to batten down the hatches and wait for the storm to pass. That conclusion, however, fails to acknowledge the behaviors and economics that drive the insurance cycle. The more accepted notion is that there is a rational anti-correlation between the market's pricing cycle and M&A activity, with soft market conditions leading to heightened M&A activity and valuation multiples.



The table below considers in broad terms the stages of the insurance cycle and the resulting drivers of M&A transactions:

T-1 | STAGES OF THE INSURANCE CYCLE AND THE RESULTING DRIVERS OF M&A TRANSACTIONS

	Dislocated Markets	Hard Markets	Soft Markets
Demand/ Capital Factors	**Capital withdrawal:** impaired assets and/or increased value and uncertainty of reserves. **Product demand:** event adds to perceived value of insurance.	**Capital reloads:** secondary capital raises to permit continued expansion of carriers. **Product demand:** continued strong product demand.	**Capital:** surplus capital following a period of profit retention. **Product demand:** reduced demand as deductibles/reinsurance retentions increase.
Insurance Rates/ Profitability	 **Pricing models reset:** step change in rates to reflect event. **High margins:** strong risk margin results in attractive expected ROEs.	**Market discipline:** rates begin to exhibit softening but continue to be attractive. **Margins exceed ROE targets:** attractive market conditions.	**Falling rates:** markets compete aggressively with a consequent reduction in rates. **Thin margins:** profitability eventually falls below ROE target.
M&A Markets	**Distressed M&A:** companies enter run- off and/or are absorbed into other operations. **Organic growth:** plentiful opportunities limit M&A focus. **Start-ups:** entities established to access attractive margins.	**Acquire diversification:** transactions to broaden access to attractive market segments with minimal ROE dilution and a strategy to insulate performance from future market cycles.	**Consolidation:** develop scale, revenue, capital and expense synergies. **Acquire platforms:** acquire smaller businesses to provide immediate diversification and an option for future hard markets.

Source: GC Analysis

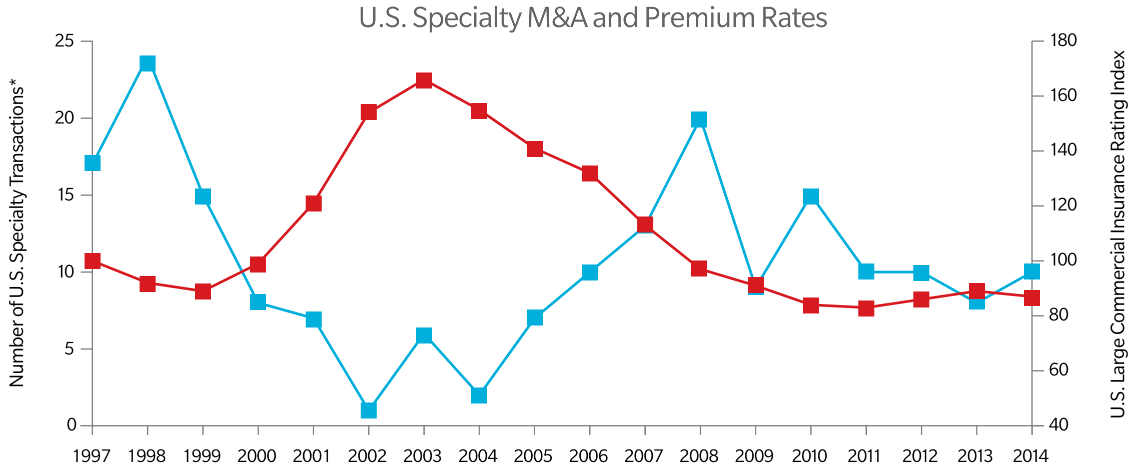
In hard markets it is likely that the demand for M&A transactions would be inhibited by the strong inherent profitability of market participants and an ability to continue to access attractive organic growth without the cost and risks associated with acquisitions.

A symptom of soft markets is that the lower margin environment substantially challenges a business's ability to maintain returns and deploy surplus capital through organic growth. While a number of strategies are available to rationalize the capital base to reflect these challenges, many businesses are attracted to the alternative routes of deploying capital, and achieving synergies through the acquisition of their peers. The M&A pressures, in turn, may heighten demand for opportunities and drive premium valuations relative to earnings for target companies.

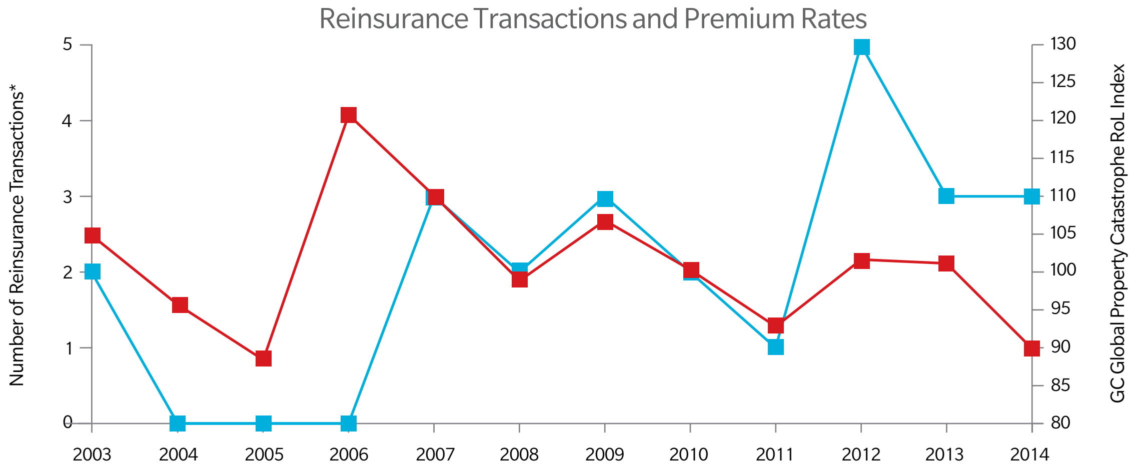
A COMPELLING CORRELATION TO PAST MARKET CYCLES

Before acceptance of the anti-correlation concept, it needs to be considered in the context of historic M&A activity.

F-6 | HISTORIC U.S. SPECIALTY AND REINSURANCE M&A TRANSACTIONS VERSUS PREMIUM RATES



* SNL data filtered for global non-life and composite insurers with an underwriting portfolio including U.S. specialty lines and a disclosed deal value >$30m.



* Bloomberg data for reinsurance M&A transactions filtered for live non-life reinsurance targets.

Premium Rate Index   U.S. Specialty M&A Deal Count

Source: Guy Carpenter, SNL, Bloomberg

The charts illustrate that while the specialty and reinsurance markets appear to bear out the anti-correlation thesis, other factors have also influenced activity.

As expected, U.S. specialty insurer-M&A activity increased in the soft markets of the late 1990s, deal volumes were lower in the hard markets of the early 2000s and activity increased as the markets softened in the mid to late 2000s. However, the upward trend was disturbed in 2009 by the financial crisis and since then the activity has remained at lower levels despite the subsequent improvement in macro-economic conditions and continuation of soft markets.

Reinsurance market M&A activity is more difficult to interpret given the smaller number of transactions. However, it is notable that since 2006, M&A numbers have trended upwards as premium rates have decreased, and this shift would be more exaggerated when considered on the basis of deal value.

TODAY'S REALITY

Recent M&A activity is highlighted in the following list of sizeable transactions:

T-2 | RECENT M&A DEAL ACTIVITY

Announced Date	Target	Acquirer	Consideration USD billion	Deal Status	Commentary
7/1/15	Chubb Corp.	Ace Ltd.	28.3	Pending	"Complementary businesses and skills....Growth and efficiencies from greater U.S. capabilities and increased international presence.... Combination will have greater growth and earnings than the sum of the two companies separately. Transaction immediately accretive to EPS and book value."
6/10/15	HCC Insurance Holding, Inc.	Tokio Marine Holdings, Inc.	7.5	Pending	"Enhances Tokio Marine's operation in the United States, solidifies Tokio Marine's standing as a truly global insurer in line with Tokio Marine's strategy to expand its international business..... Build a more diversified and highly profitable global portfolio with low volatility."
5/3/15	Ironshore, Inc.	Fosun International, Ltd.	2.3	Pending	Acquisition of remaining 80 percent of the business not owned by Fosun. Aim to "further expand Fosun's insurance business and strengthen the Group's capability to access long-term high-quality capital... enhance the Group's insurance business capabilities" while realizing "synergies derived from shared resources."
4/14/15	PartnerRe, Ltd.	EXOR SpA	6.7	Pending	Axis' initially accepted all-stock offer remains under consideration alongside the proposed all-cash counter offer from Italian investment house EXOR.
1/25/15	PartnerRe, Ltd.	Axis Capital Holdings, Ltd.	6.5	Pending	
3/31/15	Montpelier Re Holdings, Ltd.	Endurance Specialty Holdings, Ltd.	1.8	Pending	Acquisition expected to bring about "meaningful transaction synergies through cost savings and greater capital efficiencies... increase breadth of distribution with the addition of a good-sized and scalable Lloyd's platform and an attractive property catastrophe business that complements the existing reinsurance portfolio..." The transaction also provided "Endurance with a natural introduction to the business of managing insurance and reinsurance investment products for third-party capital investors."
2/17/15	Brit PLC	Fairfax Financial Holdings, Ltd.	1.9	Completed	"Brit will be able to leverage Fairfax's expertise in the U.S. and international insurance and reinsurance markets, thus enhancing Brit's global product offering and providing it with expanded underwriting opportunities and support."
12/30/14	Meadowbrook Insurance	Fosun International, Ltd.	0.4	Pending	"This transaction allows Fosun to establish a presence in the important U.S. P&C market, consistent with our strategy of expanding our core insurance business."
12/17/14	Catlin Group, Ltd.	XL Group PLC	4.1	Completed	Transaction achieves "immediate scale in specialty insurance... creates a more efficient and more capable global network... and a top 10 reinsurer with expanded alternative capital capabilities."
11/24/14	Platinum Underwriters Holdings, Ltd.	RenaissanceRe Holdings, Ltd.	1.9	Completed	"Integration with RenaissanceRe will benefit our combined companies' clients through an expanded product offering and broker relationships. It will also accelerate the growth of our U.S. specialty and casualty reinsurance platform and as a result, create enhanced value for our shareholders."
6/11/14	Western World Insurance Group Inc.	Validus Holdings, Ltd.	0.7	Completed	"Bringing together Validus, a leader in the short-tail insurance and reinsurance market, and Western World, with its excellent U.S. distribution platform, outstanding management and industry leading technology, creates a franchise that will provide compelling products and services for our customers."

Source: Public market data. Commentary taken from news release

A number of these transactions provide support for the anti-correlation theory, notably Renaissance Re and Platinum; XL and Catlin; Endurance and Montpelier; Axis' merger approach to Partner Re and the most recently announced behemoth tie-up of Ace and Chubb. All these transactions illustrate the expected deal flow of companies seeking the synergies available through consolidation to address the challenges of soft markets.

However, the consolidation predicted by the anti-correlation thesis does not explain the broader spectrum of transactions such as Fairfax and Brit; Fosun and Ironshore/Meadowbrook; Tokio Marine and HCC and Exor's counterbid for Partner Re. In each of these cases, the transactions are not driven by consolidation synergies but rather by recognition of the inherent attractiveness of a target's business model and ability to generate an acceptable investor return on capital despite market conditions.

In addition, while these high profile transactions, in particular the recent offer announcements for HCC and Chubb, have created the impression of a prolific M&A environment, as described above for U.S. specialty markets, the overall number of transactions outside of reinsurance markets has not yet shown a meaningful uptick.

The lower U.S. specialty insurer M&A activity may be in part attributed to rates not having softened as much as reinsurance markets. However, when combined with the varied rationale for transactions beyond market consolidation, it is possible that a shift has occurred in the drivers of M&A that may impact on our expectations of future activity.

DISRUPTIVE FORCES TO M&A ACTIVITY

The reality is that many external forces continually disrupt the impact on M&A activity of the insurance pricing cycle.

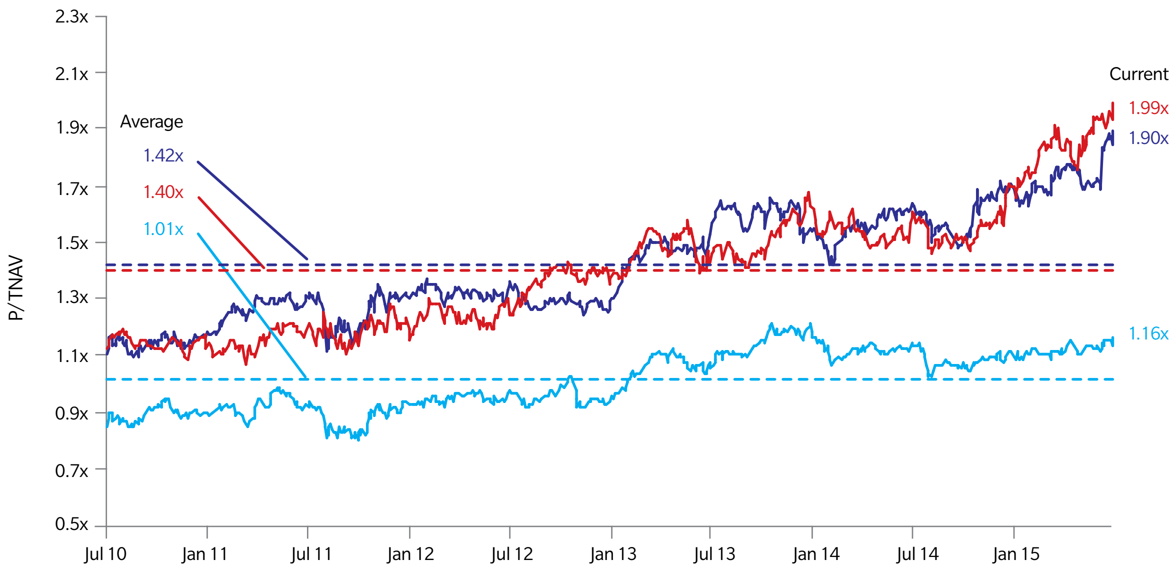
This is especially true in recent years as insurance markets are influenced by wider financial conditions, new investors, globalization and the benefits of healthy profits despite a prolonged period of rate softening. These disruptive forces provide both positive and negative contributions to the M&A-conducive market conditions resulting from the current stage in the insurance cycle.

CAPITAL MARKETS HAVE PROVIDED IMPROVED BUYER CURRENCY

Wider financial market conditions naturally impact M&A activity. As illustrated above, the reserved M&A markets following 2008, despite softening markets, were consistent with the onset of the financial crisis.

Insurance company valuations have in recent years shown substantial appreciation. Given the soft premium rates and low investment yields, the heightened valuations can be attributed principally to broader market sentiment but also the anticipated M&A activity within insurance markets.

F-7 | HISTORIC PRICE/TANGIBLE NET ASSET VALUE VALUATION



Market data as at close 03/07/2015

Source: Guy Carpenter analysis, Bloomberg, SNL Financial, Lloyd's companies Report & Accounts

The improved value of stocks provides insurance companies with acquisition currency through stock-based considerations and/or equity issuances. When this is combined with improved debt markets, market consolidators have an improved ability to finance transactions. It is further notable that management's confidence to enter into transformational transactions has been bolstered through investor acceptance of the arguments of scale and merger synergies and willingness to withstand short to mid-term tangible book value per share dilution

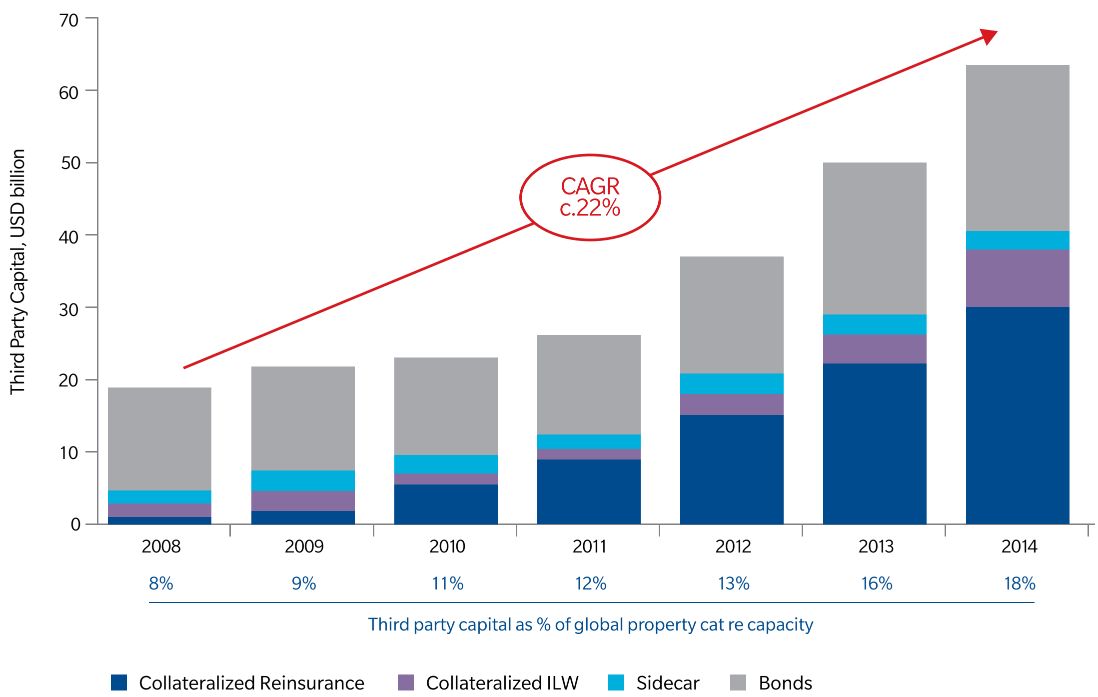
The increased availability of acquisition finance and supportive investor sentiment are likely enablers of market consolidation, thereby supporting the soft market motivations described above.

ALTERNATIVE CAPITAL DIRECTLY SUPPORTING INCREASED MARKET COMPETITION

The flow of alternative capital into the reinsurance markets has been sustained and substantial. The growth of this capital, coming from a number of sources, including fund managers and sidecars, has been a staggering 22 percent – compounding since 2008 and accelerating to 34 percent during the period 2012 to 2014. There was a consequent rate softening, mostly felt within the reinsurance landscape, particularly in short tail lines. The softening then trickled down into the specialty insurance classes.

This inflow of capital drove declines in pricing, challenged (re)insurers and impacted the wave of M&A deals. It is likely that the increased fluidity of capital simply accelerated the development of the challenging market and the onset of consolidation activity.

F-8 | THE GROWTH IN ALTERNATIVE CAPITAL WITHIN REINSURANCE MARKETS



Source: GC Securities' analysis

CAPITAL WITH ALTERNATIVE STRATEGIC INTERESTS COMPETING FOR M&A OPPORTUNITIES

While the alternative capital entering reinsurance markets has spurred transactions in accordance with the anti-correlation theory, other investors that have entered the market via acquisition of businesses have certainly blurred the theory's parameter of the required level of underwriting margin.

Required Combined Ratio		Investment Yield							
		1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
ROE Target	8%	90.3%	93.0%	95.6%	98.2%	100.9%	103.5%	106.2%	108.8%
	10%	87.3%	89.9%	92.5%	95.2%	97.8%	100.4%	103.1%	105.7%
	12%	84.2%	86.8%	89.5%	92.1%	94.7%	97.4%	100.0%	102.6%
	14%	81.1%	83.7%	86.4%	89.0%	91.7%	94.3%	96.9%	99.6%

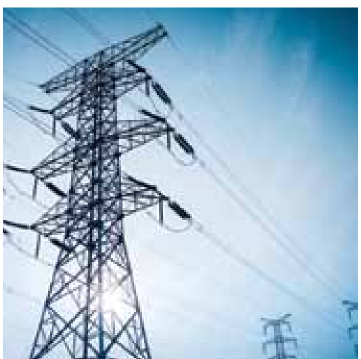
Assumptions: Investments = 264% of equity and corporation tax rate of 35%. No corporate revenues and expenses (outside of combined ratio) have been included nor any adjustment to capital requirement in relation for greater capital intensive for a higher yielding investment strategy.

Source: GC Analysis

Exor's offer to acquire Partner Re is an example of a knowledgeable investor identifying reinsurance market returns as an attractive opportunity relative to the yields available elsewhere, despite current market conditions. In its early approach, Exor cited an objective of returns exceeding the MSCI World Index (Euros) over the cycle, which it interpreted as an 8 percent hurdle. This is materially below the traditional view of the cost of equity capital for specialty insurance and reinsurance markets.

Similarly, the use of investment float has been a long-term feature of the market. However, the introduction of Fosun as an acquirer, Fairfax's acquisition of Brit and the proliferation of the new hedge fund reinsurance model has emphasized a model with a much greater focus on generating returns from the investment float than the market mean. Given the ratio of investment float to equity within specialty insurance markets, an additional 1 percent investment return can equate to approximately 2.5 percent of combined ratio.

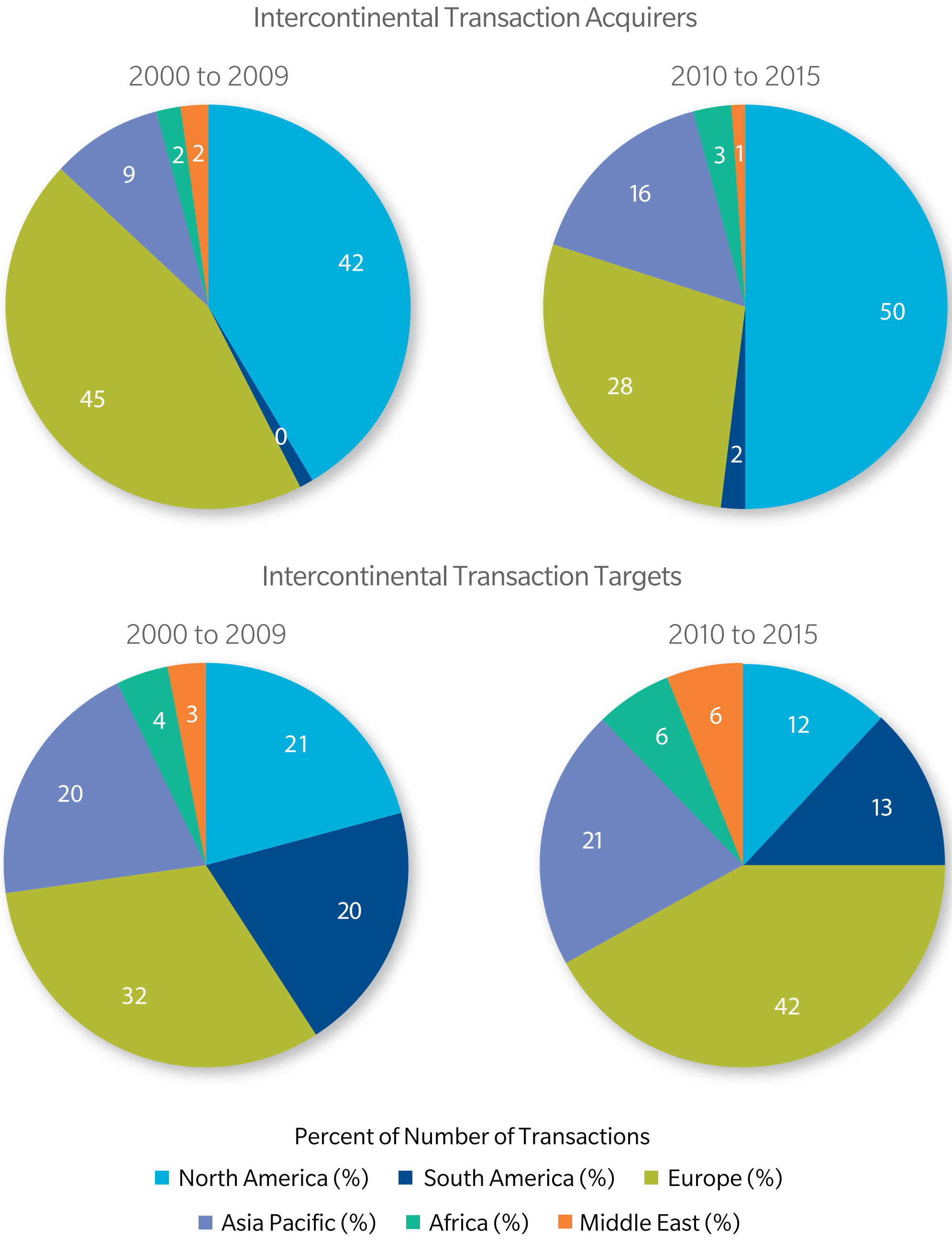
Both of these sets of acquirers exhibit a lower requirement for underwriting return than normally assumed in markets. They are therefore able to effectively compete in soft markets for M&A transactions with traditional market consolidators — which require higher underwriting margins — despite not accessing the benefit of underwriting synergies.



GLOBALIZATION

Globalization in the insurance industry has historically been characterized by North American companies seeking to expand their business models to Europe, with Asia and South America as their secondary focus. European companies have sought to expand into North America, Asia and Latin America (for Spanish and Portuguese speaking companies).

F-9 | SPLIT OF INTER-CONTINENTAL ACQUIRERS AND TARGETS



Source: GC Analysis, Bloomberg M&A data set (reinsurers, P&C and multi-line)

In recent years, the international focus of the mature North American and European carriers has been exacerbated by concern that the influx of alternative capital is permanent, making the current soft market the new status quo. One consequence of this is that specialty carriers are placing greater emphasis on the opportunities within long-term growth markets.

In addition to a continuation of the above trends, two material new themes have emerged:

- (Re)insurance groups from mature Asian markets — and other emerging territories — have sought international growth in mature and emerging markets. Japanese businesses have been the pathfinders but there are signs that their interest may accelerate and spread to other Asian communities including China's large insurers and investment groups (Fosun's high level of activity is particularly notable).
- Africa has emerged as an area of interest for specialty insurance carriers, given its economic development potential and the huge ongoing project investment. Acquirers of businesses to date have predominantly been the large South African financial groups and European (re)insurers, but there is a growing focus from other geographies including the developing markets of Asia.

The globalization of M&A players does not contradict the anti-correlation theory. However, the expanded universe of participants provides another set of acquirers competing for M&A opportunities who are willing to bid competitively for acquisition targets as a result of their strategic desires to achieve international expansion.

SOFT MARKET RATES HAVE HAD LIMITED IMPACT ON COMPANY RETURNS

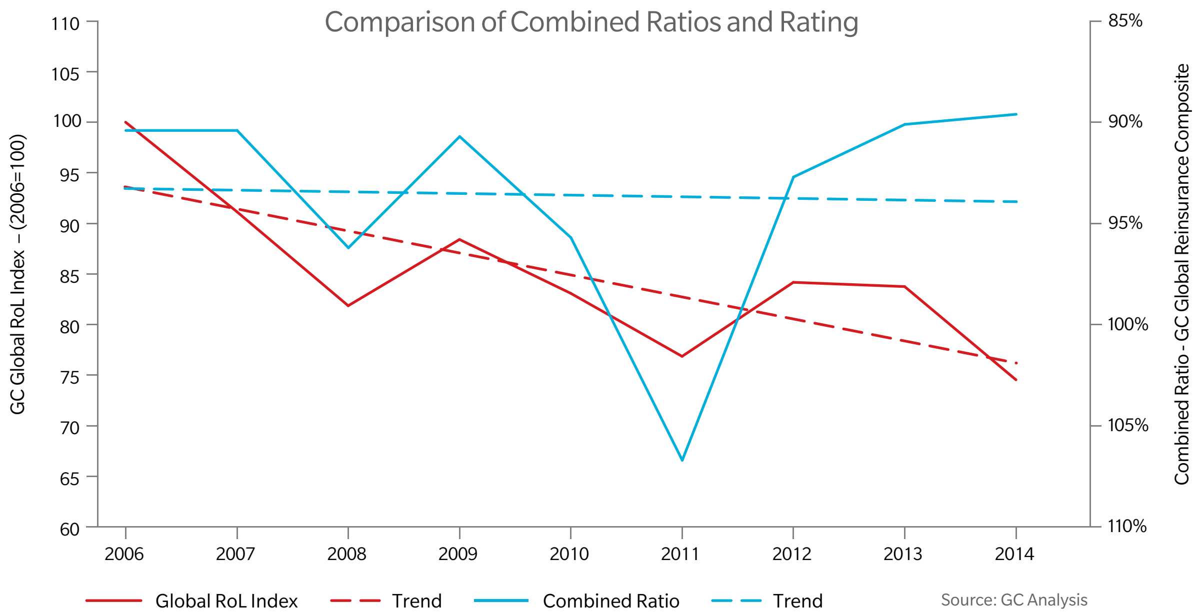
A key tenet of the anti-correlation theory is that the impact of lower (re)insurance rates will eventually be felt within carriers' return on equity, thereby forcing action.

The release of historic reserve surpluses within each turn of the cycle cushions the impact of softening rates. This cycle is no different, with annual releases continuing to be recognized from an ever depleting pool of reserve surpluses.

However, within this soft cycle, insurers have also benefited from relatively benign loss activity, especially in terms of global catastrophe activity. Since the international catastrophes of 2010 and 2011, results have not in general reflected normalized loss experience, which over the long term will be the measure of rating adequacy.

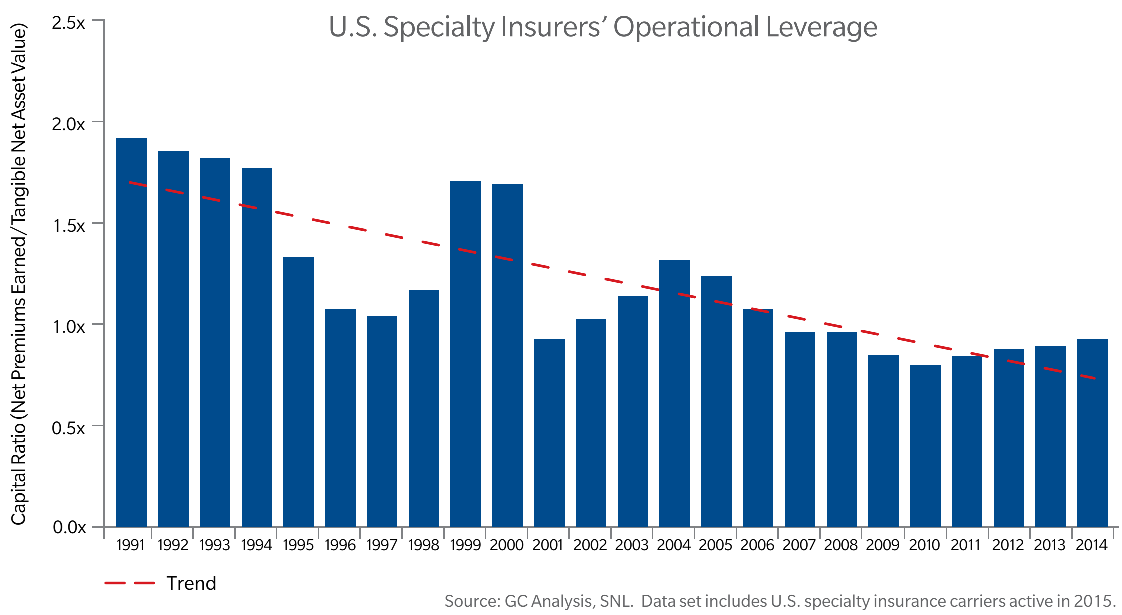
Reinsurers' combined ratios in 2013 and 2014 outperformed 2006 and 2007. This was largely a result of the combined effects of reserve releases and a benign loss environment. This occurred despite reinsurance rate declines of approximately 25 percent in the same period.

F-10 | RELATIONSHIP OF REINSURERS' RATES AND UNDERWRITING PROFITABILITY



In addition, insurance carriers have experienced ever escalating regulatory capital requirements. While the increased requirements are less prominent in specialty insurance and reinsurance markets, the escalation is still evident and provides a greater loss absorption capacity than carriers would have had in previous soft cycles.

F-11 | INCREASING REGULATORY CAPITAL OF U.S. SPECIALTY INSURERS



The combined impact of reserve releases, a benign loss environment and more robust balance sheets have helped to cushion the impact of the softening cycle and hence delay the onset of M&A pressures.

However, these delaying influences cannot be expected to endure. Reserve surpluses are finite, loss activity is unlikely to indefinitely continue at below normalized levels and higher capital requirements reduce operational leverage, thereby placing further pressure on underwriting margins.

It is reasonable to anticipate that the declining rate and low investment yield environments will eventually be realized more fully in financial results. At this time, businesses will face further challenges and consequently may pursue corporate M&A transactions. As such, the inflection point in returns where carriers focus on M&A to address low profits should continue to be relevant. Its full arrival has been delayed so far — with a possible exception in the reinsurer landscape.

ROBUST RUN-OFF MARKETS

As a final consideration of the market participants spurring M&A activity, franchises traditionally focused on run-off actively compete alongside other potential acquirers for certain active insurance operations. This interest is driven by the traditional value they place on robust management of liabilities. Increasingly however, they are seeking value from continuing a proportion of the live underwriting portfolio, thereby diversifying the revenue streams of the run-off franchises.

The involvement of run-off bidders is generally limited to the more distressed situations and is often considered to provide a floor valuation. However, as we move further into the soft cycle, such transaction structures may have a growing relevance.

FUTURE M&A

We have considered a basic theory and determined that while it can be flexed to provide a framework to explain M&A activity, the reality is that we are in a complex and challenging environment, where macro-economic developments, the pricing cycle, a wide array of sources of capital, globalization and the benign loss environment are all strong and interconnected influences.

Nevertheless, those influences are converging to create an encouraging M&A environment impacting global reinsurance and specialty insurance markets. Given the wide-ranging strategic interests of potential acquirers and merger partners, the nature of the deals created will continue to be varied.

With the dynamics in place, absent a market catalyst or a macro-environment event, we can reasonably expect continued proliferation of M&A activity.

III. 2015 CHALLENGES AND OPPORTUNITIES

WHILE 2014 SAW THE LOWEST LEVEL OF INSURED LOSSES SINCE 2009, THERE ARE NEW AND INTERCONNECTED RISKS THAT NOT ONLY HAVE THE CAPACITY FOR LARGE LOSSES, BUT THE POTENTIAL TO TRIGGER COSTLY SECONDARY IMPACTS SUCH AS BREAKDOWNS IN SUPPLY CHAINS, REPUTATIONAL DAMAGE AND DISRUPTION TO POWER SUPPLIES AND FINANCIAL INSTITUTIONS' OPERATING PLATFORMS.

While there are many challenges confronting the (re)insurance industry in 2015 and beyond, we offer in this report brief overviews of three that warrant further attention in our future thought leadership publications.

REGULATORY & RATINGS

(Re)insurers are being challenged as the regulatory environment becomes more complex, with regulation increasing considerably at multiple levels in numerous jurisdictions throughout the world. Insurers are facing new costs and pressures in their efforts to manage the regulatory landscape.

Selected Developments of note:

The International Association of Insurance Supervisors (IAIS) has been working on the development of a risk-based global Insurance Capital Standard (ICS) for Internationally Active Insurance Groups (IAIG's) as part of their development of a Common Framework for the Supervision of IAIG's – an initiative known as ComFrame.

They have also been working on the development of Basic Capital Requirements (BCR) and Higher Loss Absorbency (HLA) requirements for Global Systemically Important Insurers (G-SIIs). The BCR, which is to initially form the basis of the HLA, was developed in October of 2014, and will apply to all group activities (including non-insurance activities) of G-SIIs. The IAIS has very recently begun a public consultation to finalize the development of the HLA requirement.

The IAIS has also recently decided to change the release of the ICS from 2016 until 2017 (when the first version of the capital rules will be released) and 2019 (when the second version is to be released with the adoption of ComFrame). Members of the IAIS are currently scheduled to begin implementing ComFrame in early 2020.

UNITED STATES

The National Association of Insurance Commissioners (NAIC) has been continuously engaged in the formulation of these standards, but has expressed several concerns due to the different legal, regulatory and accounting systems that exist. The NAIC does not want the ICS, which is to be a consolidated group-wide standard, to undermine the legal entity capital requirements in the United States. As a result, the NAIC is trying to ensure that any ICS be supplemental to jurisdictional capital requirements, and include a common methodology by which it achieves comparable (substantially similar) outcomes across jurisdictions. The NAIC is working through the ComFrame Development and Analysis (G) Working Group (CDAWG), which was formed early last year, to provide on-going input with respect to all developments in this regard.

Spearheaded by the Financial Stability Board, the International Accounting Standards Board and the U.S. Financial Accounting Standards Board are moving to converge accounting standards. While the two boards were successful in producing a mostly converged standard on revenue recognition last year (although some work still remains with the Boards continuing to work to amend and clarify the standard), they still have significant differences in several other key areas.

In the United States, the convergence of Own Risk and Solvency Assessment (ORSA) regulatory requirements, which take effect this year, and rating agency A.M. Best's new emerging risk-based analytics have significant implications in 2015 and beyond. The rating agency is placing greater emphasis on risk-based analytics in its ratings process and will increasingly focus on management's ability to execute its business plans and reasonably deliver on its financial projections.

Federal involvement in the oversight of the financial services industry is expanding, causing some to question whether this trend will continue and impinge upon the authority of the individual states to regulate insurance. Additionally, large and small U.S. P&C insurers will be expected to further develop their financial forecasting, capital modeling and risk tolerance metrics for both capital and earnings. Insurers will need to more tightly link their business plans with both capital and earnings adequacy assessments from a risk-adjusted perspective, to maintain and enhance their Best's Ratings while complying with new regulatory requirements.

EUROPE

European insurers are facing a more complex regulatory environment from national, regional and superregional authorities. The approaching date for implementation of Solvency II, January 1, 2016, is taking center stage. Member states are expected to transpose the directive requirements into local requirements with equivalence decisions this year.

The upcoming Insurance Mediation Directive (IMD2), issued by the European Commission, aims to ensure professionalism and competence among insurance intermediaries with minimum professional requirements such as appropriate knowledge of markets and products, good reputation, professional indemnity insurance and sufficient financial capacities to protect customers. The overall goal at the end is the protection of customers' interests. Insurance intermediaries need to provide clear explanations to customers on the advice given.

The objective of the new European Data Protection rules is to give individuals control over their personal data, and to simplify the regulatory environment for business activities. Every day, individuals, firms and public authorities transfer personal data across borders. Conflicting data protection rules in different countries would disrupt international exchanges. Individuals might also be unwilling to transfer personal data abroad if they were uncertain about the level of protection in other countries. Common European Union (EU) Data Protection rules will be established to ensure that personal data enjoys a high standard of protection everywhere in the EU.

Currently, there is much industry discussion with the European Insurance and Occupational Pensions Authority to identify risk factors that reflect the strategic and long-term nature of infrastructure investments in a more accurate way.

ASIA PACIFIC

In Asia, solvency requirements are increasing in many territories. Hong Kong and Singapore are developing new standards around risk and capital regulations. China is developing an approach similar to Solvency II via a three tiered approach like the "three pillars."

Several insurance regulators in Asia have developed standards requiring companies to produce an Internal Capital Adequacy Assessment Process, a set of ERM practices developed by the IAIS.

EMERGING RISKS

While 2014 saw the lowest level of insured losses since 2009, there are new and interconnected risks that not only have the capacity for large losses, but the potential to trigger costly secondary impacts such as breakdowns in supply chains, reputational damage and disruption to power supplies and financial institutions' operating platforms.

Cyber risk is one of the most pressing and public topics the industry is grappling with and is being addressed as a strategic priority in corporate boardrooms and in governments around the world. As the global economy becomes increasingly dependent on e-commerce and cloud computing, the susceptibility to cyber risk increases exponentially.

The current size of the global cyber network/privacy insurance market, from a premium perspective, is approximately USD 2 billion dollars and is expected to grow to approximately USD 5 billion dollars over the next five years. The number of first time purchasers is increasing, while many existing buyers continue to increase limits purchased.

In addition to exposure from cyber network security and privacy liability policy portfolios, the potential for loss to physical assets is especially significant for energy and utility infrastructures, financial institutions and power grids that are now grappling with the consequences of "cyber" as a peril.

While this emerging risk presents significant opportunities for the industry, there are also many challenges. The potential catastrophic loss following an industrial infrastructure event effecting physical damage or bodily injury, as well as the ultimate cost and/or ramifications of a large data breach, represent a significant challenge to insurers.

The limited history, lack of data and emerging exposure makes it difficult for insurers to measure cyber risk and calculate capital needs. There is an opportunity to innovate with the development of modeling capabilities that can measure and quantify the cyber risk to determine pricing, correlated loss and capital support.

The network/privacy insurance marketplace is robust and is evolving as society becomes more interconnected. Along with rapid technology changes, the (re)insurance market is grappling with how the peril and exposure can be managed within specialty, casualty and property reinsurance programs.

PUBLIC-PRIVATE PARTNERSHIPS

The (re)insurance industry is seeing new opportunities in public-private partnerships that allow it to be socially relevant in helping close the gap between economic and insured losses. Approximately 73 percent, or USD 2.7 trillion of natural catastrophe losses globally between 1970 and 2014, were uninsured. That gap is an impediment to the development of emerging economies.

And in developed countries, there is also a growing need to build and expand effective public-private partnerships to more effectively manage the challenges associated with catastrophic loss because of the fiscal constraints brought on by unprecedented economic and budgetary burdens, including expanding public sector debt. Unfunded exposure to uninsured property, health, life and employment losses extends well beyond natural catastrophes and includes disasters stemming from man-made and other emerging risks. The creation of private sector pre-financing options will not only relieve the burden on taxpayers and in turn, public finances, but will migrate the management of these catastrophes to insurance and reinsurance companies where claims handling and risk management are core to their operations.

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