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The Catastrophe Market

Modest reductions in most lines of catastrophe business occurred at April 1 renewals. Most program structures remained similar.

	Average ROL			Risk Weighted Price Mov't
	2007	2008	Change	
Windstorm Excess of Loss	5.65%	5.46%	-3.36%	Flat to -10%
EQ Excess of Loss	3.17%	3.10%	-2.21%	-5% to -10%
EFEI Excess of Loss	1.99%	1.94%	-2.51%	-5% to -10%
EQ Pro Rata	4.18%	4.19%	0.24%	flat
Personal Accident	1.74%	1.65%	-5.34%	-5% to -10%
General Casualty	N/A	N/A	N/A	Flat to -5%

Source: Guy Carpenter & Company, LLC

Windstorm

The windstorm market was fairly stable, with only a slight increase in overall capacity for 2008. Where pricing warranted, buyers explored new layers, especially at the top of existing programs. This resulted in a small expansion of total limits for some companies. Windstorm is the single largest reinsurance expense for most cedents.

Generally, large programs had trouble achieving actual premium reductions, but buyers with aggregate exposure growth were able to make risk-adjusted price reductions by maintaining or slightly reducing Rates on Line (ROLs). Larger reductions in ceded premiums tended to be possible for smaller programs.

The overall market deductible level changed little; most companies sought to maintain attachment and ground-up limits. Price softening meant that buyers did not resort to deductible management to control costs. Modeled loss ratios for the market rose in line with exposures, while risk loads, which can be used to represent net margin to reinsurers after acquisition costs and expenses, fell. This indicated that there was little margin remaining over modeled loss cost. According to Guy Carpenter’s Windstorm ROL index, market average ROL declined by 3.4 percent.

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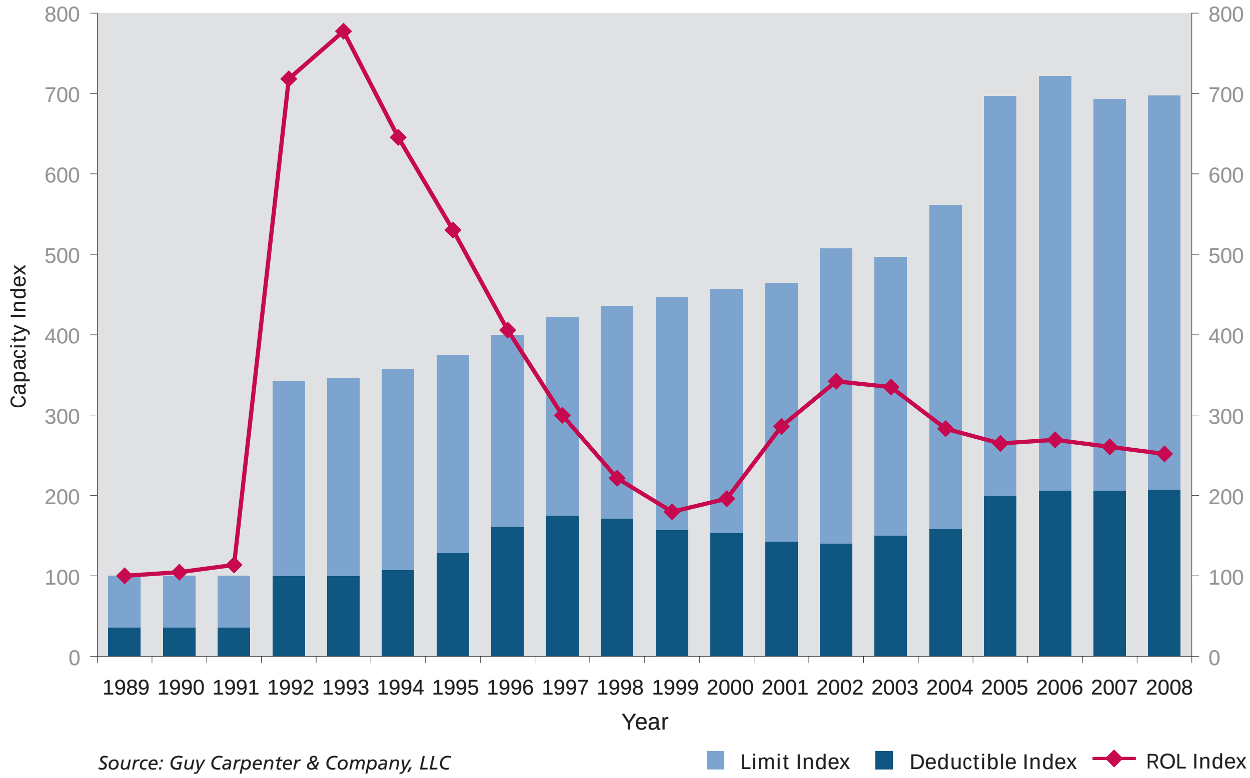
Wind: Market Capacity and Pricing – Non-Life Companies

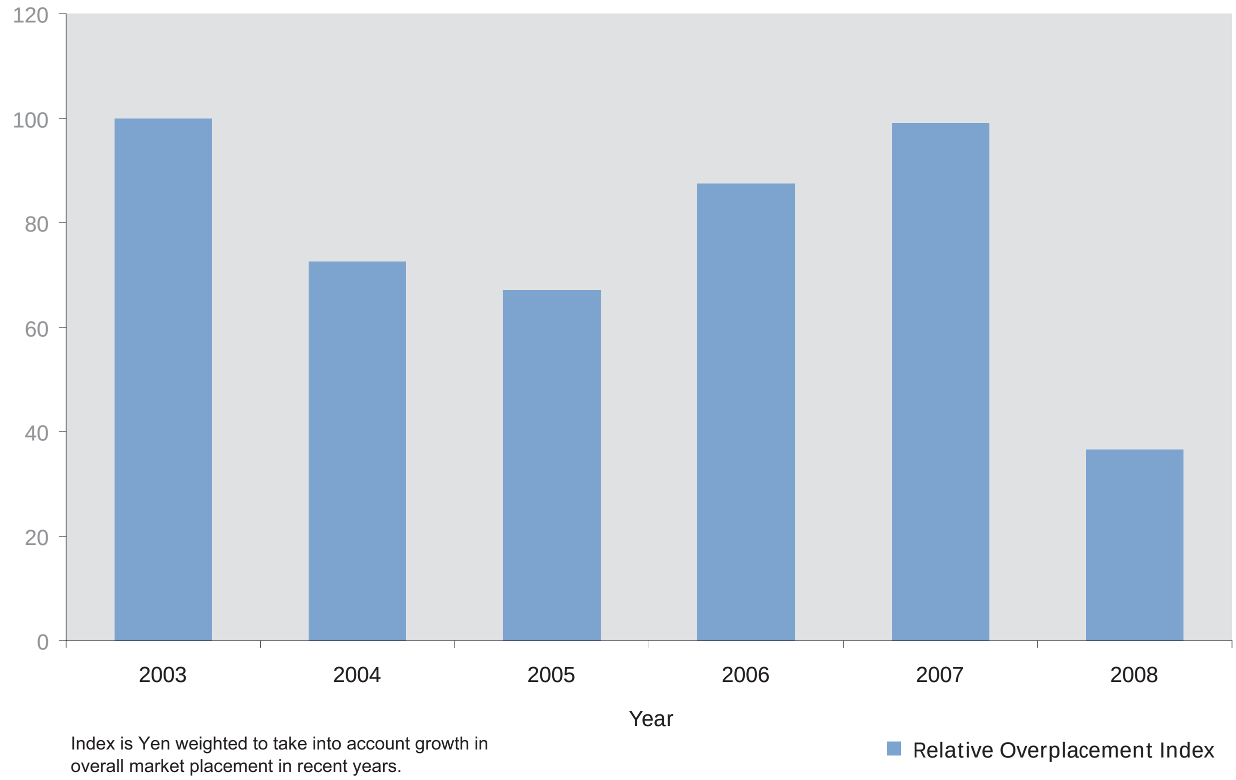


Source: Guy Carpenter & Company, LLC

Several windstorm programs moved duration in the hours clause from 72 hours to 96 hours. This was accepted by most reinsurers. A similar change from 72 to 168 hours occurred on some earthquake programs.

In contrast to previous years, reinsurers reduced written shares, often to the level of 2007's signed line. Some reinsurers declined business because they considered it underpriced or because the exchange rate (strengthening Japanese Yen) forced a reduction of their aggregate exposures. Consequently, overplacement of programs declined substantially. In terms of surplus capacity, the market went from a record high in 2007 to a record low in 2008. This could signify a turning point. Overplacement is now small, and many layers are paying at or below the modeled loss cost. As a result, the market may have neither the scope for large reductions similar to those of the last soft market (late 1990s) nor the ability to sink to levels experienced during that period.

Windstorm Market Degree of Overplacement



Source: Guy Carpenter & Company, LLC

Earthquake Pro Rata

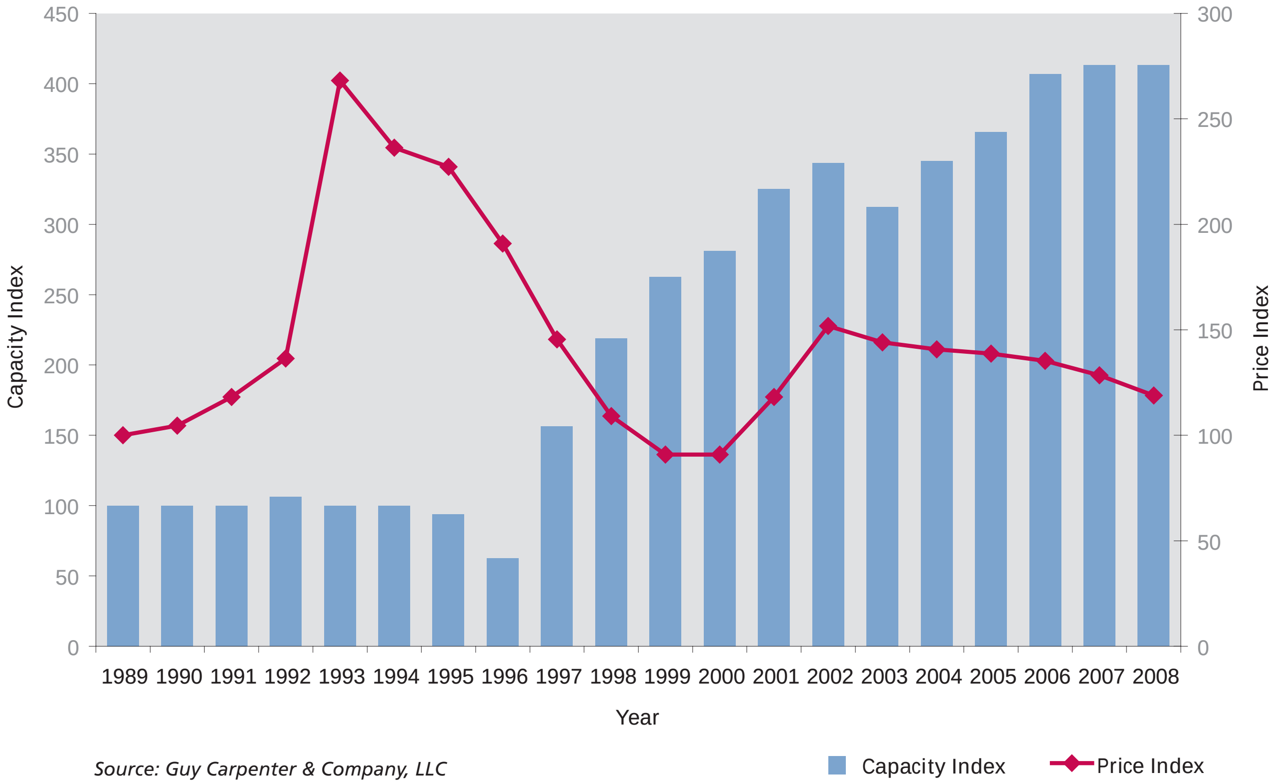
For the first time in six years, the estimated Probable Maximum Loss (PML) ceded to the reinsurance market decreased. The total capacity sought grew only slightly, leading to higher levels of "Air Capacity" – unused capacity that cedents retain in their treaties to allow for possible increases in aggregates – in the treaty market as a whole. As measured by treaty ROL, pricing was stable. Treaties with fire sections tended to be more difficult to place than those for pure earthquake; poor fire results removed any potential to lever increases in earthquake commission levels. Nevertheless, the treaties were successfully placed.

Growth of the aggregate premium ceded in recent years has focused on zones other than Zone 5, which is essentially metropolitan Tokyo. Cedents have seen exposure increase outside Tokyo and sought to achieve a broader regional balance to ceded treaties. Consequently, the total ceded aggregate in Zone 6 exceeded that in Zone 5 for the first time in recent years.

Earthquake Excess of Loss

Capacity purchased by non-life companies was stable. Market ROL decreased by 2.2 percent on average. However, on a risk-adjusted basis, average prices were down by nearly 10 percent.

Earthquake: Market Capacity and Pricing – Non-Life Companies



Source: Guy Carpenter & Company, LLC

Earthquake excess of loss remained popular with the reinsurance market. Companies purchasing large pro rata protections used their excess of loss programs as support for the pro rata business. Smaller buyers, who are less reliant on large supplies of pro rata capacity, were more aggressive with their reinsurers and consequently achieved substantial savings. Minor changes to the duration of hours clauses did not appear to quell the desire of reinsurers to write this class.

Earthquake Fire Expense Insurance Excess of Loss

The Earthquake Fire Expense Insurance (EFEI) standalone market shrunk for the fifth successive year to stand at less than half the 2001 peak level. Significant amounts of EFEI protection are now incorporated into industrial earthquake excess of loss covers. Buyers of standalone EFEI protection achieved significant ROL reductions. The market's average ROL was down 2.5 percent, though risk adjusted-rate changes were closer to an average decline of 10 percent.

EFEI now has a minor role as a support business to earthquake pro rata treaties. EFEI specialists still participate in the market, but only where their price flexibility can accommodate the buyer's budget.

continued from the previous page

Republic of Korea

Rates dropped across the board for loss-free Korean business at April 1 renewals. Property event excess of loss treaties have been loss-free since 2003, and reductions for this category ranged from 5 percent to 20 percent. For programs where premiums declined and aggregate levels increased, placement was more difficult than for those where premium growth was equivalent to a rise in aggregates.

Certain property risk programs had severe losses in 2007, leading to renewal increases of approximately 40 percent. Loss-free risk program reductions were similar to those of event excess of loss, and some risk programs also secured broader terms and increased territorial scope. Other lines of business, which have generally run profitably in recent years, experienced reductions of up to 15 percent.

Most capacity came from Asia-based reinsurers. The London market still participates in several programs, but its shares have been declining for the last three years.

India

The Indian market continues to grow rapidly. The establishment of new non-life insurance companies continued in 2008. The effect of “de-tariffication” continues. The downward movement of original pricing is reducing volumes to proportional treaties, although this effect is mitigated by the overall growth of the market.

The major renewal for the Indian market, General Insurance Corporation of India (GIC), is scheduled for May 1 and gives the clearest picture of the state of the market. Because of the April 1 renewal trend, the obligatory cession by domestic insurers to GIC drops from 15 percent to 10 percent. However, companies are permitted to replace the lost mandatory cession with a special voluntary quota share placement of the same business. In the future, it is hoped that there may be less pressure on ratings, as insurance companies are allowed to apply new deductible and policy condition regimes.

There has been little catastrophe activity in India in 2008, and the frequency of fire losses has been low, leading to favorable results for insurers. Despite these favorable results, reinsurers of proportional treaties are pushing for reduced commissions to address perceived margin deficiencies. The differences between private and state-owned companies continue, with the latter enjoying more favorable conditions.

Excess of loss pricing remains competitive, with risk-adjusted reductions under the catastrophe excess of loss programs ranging from 40 percent to 50 percent. The number of quoting and leading reinsurers operating in India remains small. GIC is the largest writing company with major European and Asian reinsurers being the key alternatives and followers.

United States

Property Cat Renewals

At April 1 renewals, ROLs adjusted for risk load declined across the board, continuing a pattern observed in the data for January 1 renewals.

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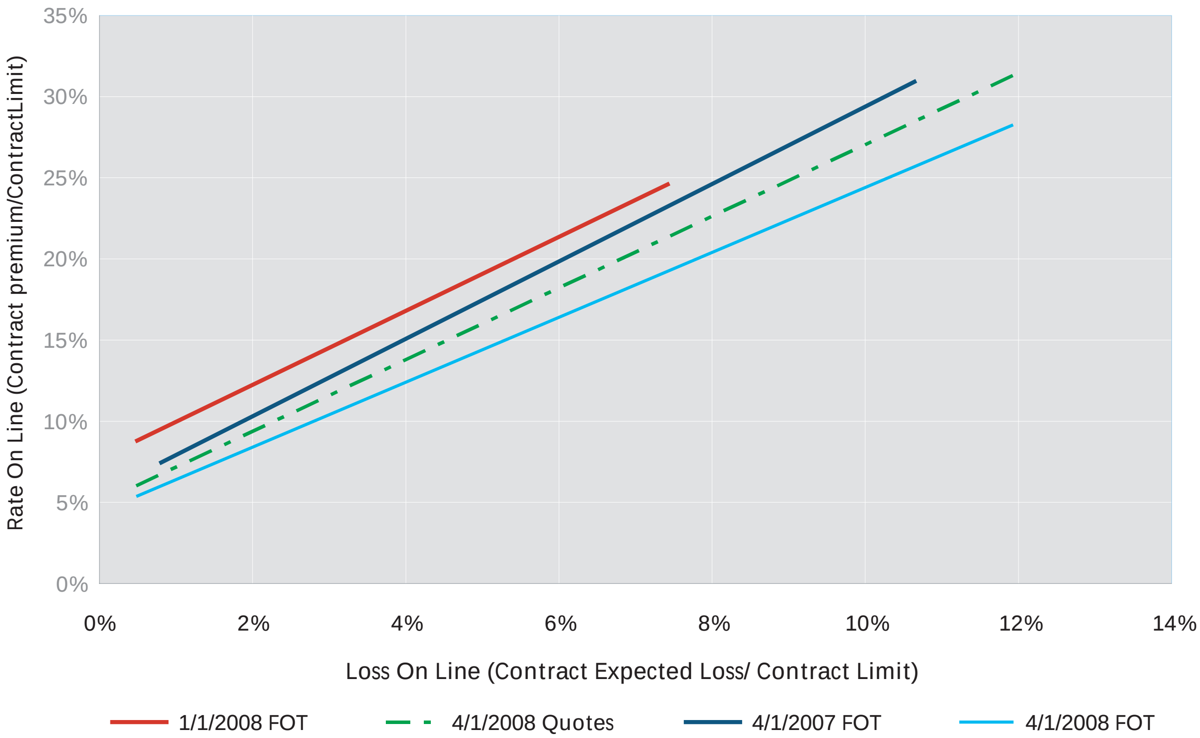
Representative 2008 Quotes & Firm Orders Compared to 2007 Firm Orders



Source: Guy Carpenter & Company, LLC

Reflecting pressure brought by cedents and their brokers on the market, Firm Order Terms (FOT) in April 1, 2008, were below quotes. Only a small amount of data is available for April 1, 2008, renewals, though it does point to a softening of the market.

FOT for January 1, 2008, were declining to the levels reached at April 1, 2007. The fact that January 1, 2008, FOT is higher than that of April 1, 2008, is likely a statistical anomaly.

Credit rating appears to have little effect on quoting behavior. Evaluated by A.M. Best rating, 13 of the 19 reinsurers with average quotes below the baseline have A ratings, almost equal to the 12 that are rated A among the 19 above the baseline. These results are somewhat counter-intuitive, as one would expect higher rated firms to have more beneficial quote variations.

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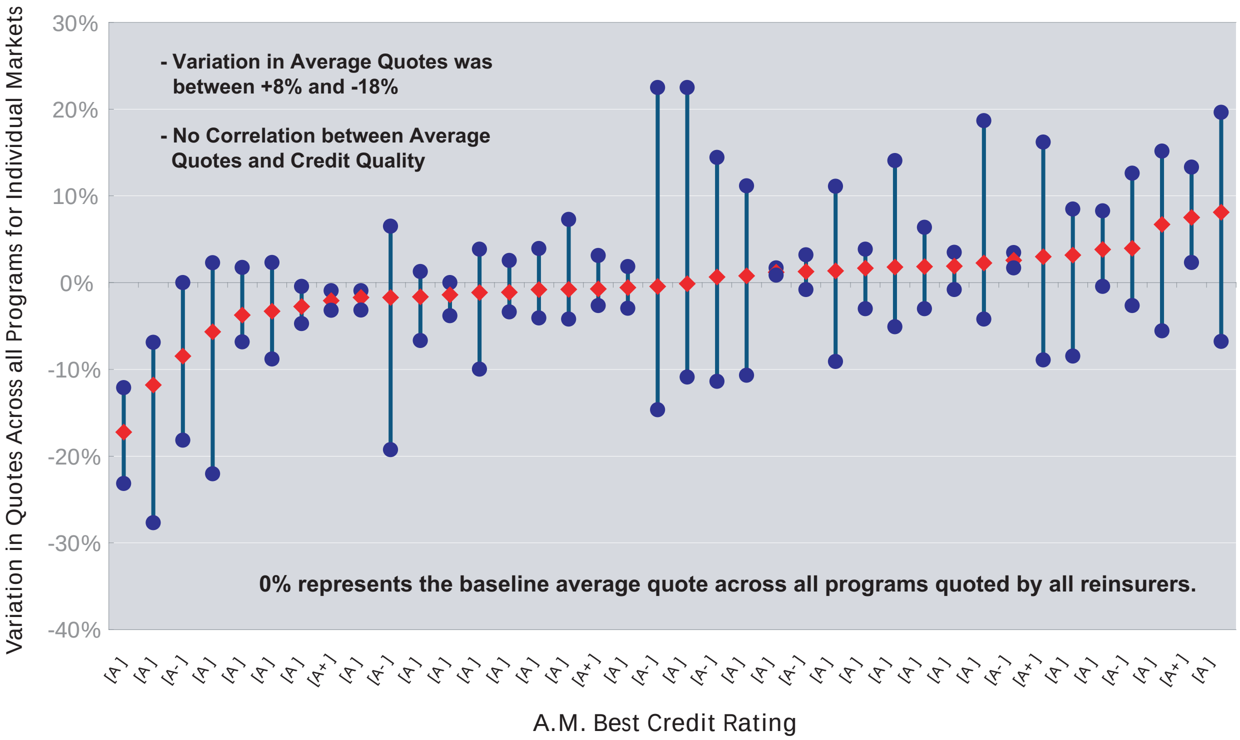
Market Quoting Behavior, April 1, 2008, Property Catastrophe Renewals



Source: Guy Carpenter & Company, LLC

Looking ahead to the critical renewal dates of June 1 (Florida) and July 1 (most regions in the Western hemisphere), current trends suggest that rates are likely to continue to decline. However, this assumes that catastrophe losses will remain low. With forecasters calling for an above-average North Atlantic hurricane season (15 named storms versus the historical average of 9.6), the industry's two-year string of good fortune may come to a close.

Contact Information

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