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GC Briefing
An update from Property Specialty Practice

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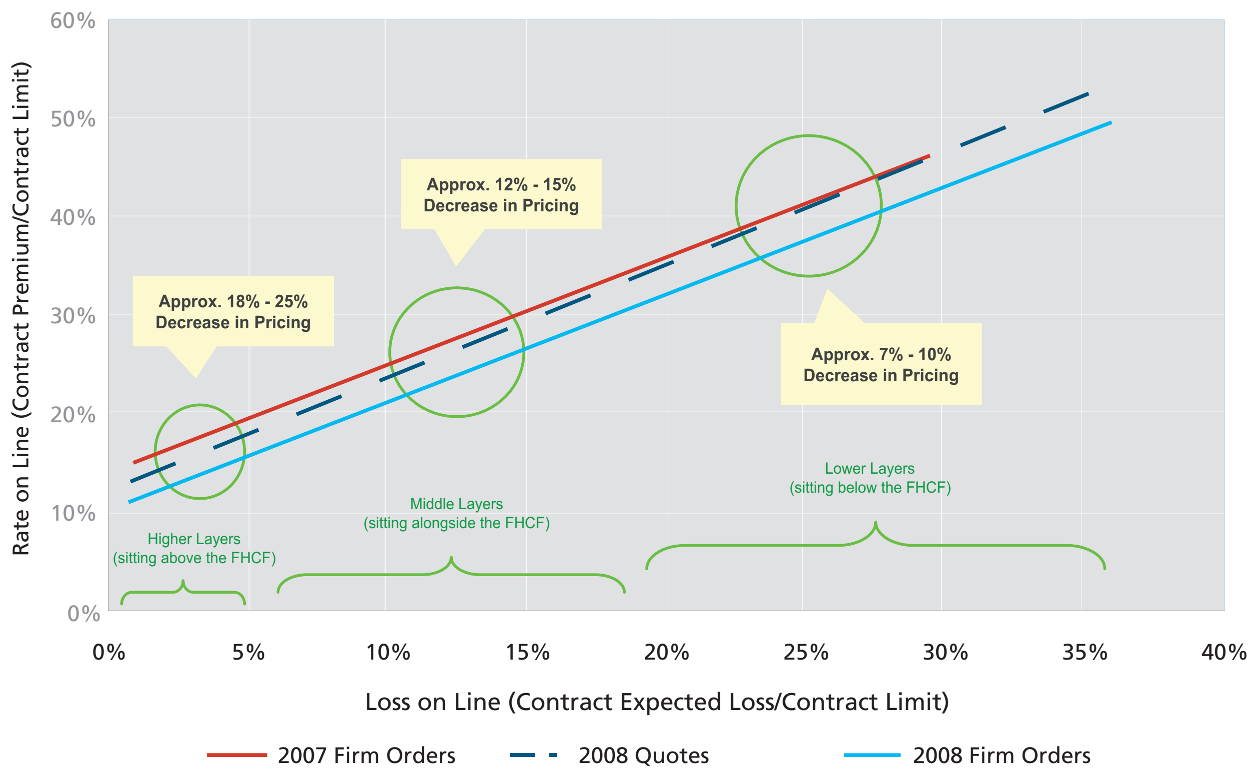
Pricing Down Approximately 15 Percent; Outlook for Florida Renewals on June 1, 2008

Florida property-catastrophe risk-adjusted pricing is expected to decline by about 15 percent on average at June 1 renewals. A competitive reinsurance market and the absence of major insured losses are driving this trend. While disasters are not in short supply, none has had a market-changing impact.

Hurricane season starts June 1, with the state-run Florida Hurricane Catastrophe Fund (FHCF) providing reinsurance property-catastrophe cover. Private reinsurers tend to renew programs at this time as well, allowing carriers to coordinate FHCF and private coverage. Within the averages, some interesting patterns appear to be emerging for some sub-groups. Firm order terms (FOTs) were considerably below quotes, reflecting the economic power of cedents in a soft market.

Florida – Risk Adjusted Pricing
2008 Orders (to date) as Compared to 2007 Orders



All losses have been modeled in RMS V6.0 and V7.0
FHCF – Florida Hurricane Catastrophe Fund is the reinsurance program run by the state of Florida.

Source: Guy Carpenter & Company, LLC

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The FHCF continues to play an important role in most companies' overall reinsurance programs, and price decreases have been more dramatic for higher layers attaching above the FHCF. This results largely from reinsurers' preference for more remote exposures. FOTs for lower layers (sitting below the FHCF) dropped 7 percent to 10 percent relative to June 1, 2007 renewals. Middle layers, usually placed alongside the FHCF, saw decreases of 12 percent to 15 percent, while FOTs for higher layers declined by 18 percent to 25 percent relative to last year.

A number of smaller Florida-only writers had significant portfolio increases in 2007. In several cases, total private reinsurance premiums were reduced, despite the increased exposures. At the other end of the spectrum, national writers are continuing to reduce their Florida portfolios, freeing up capacity for smaller players.

Citizens, the insurer of last resort in Florida, entered the reinsurance market in 2008, adding a limit USD446 million to overall demand. This proposed purchase is not large enough to absorb the excess capacity in the reinsurance market. The FHCF is reviewing measures to increase its liquidity. This could lead to a purchase of reinsurance, but probably would not impact current renewals.

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