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GC Briefing

An update from the Global Specialty Practice and Business Intelligence Unit

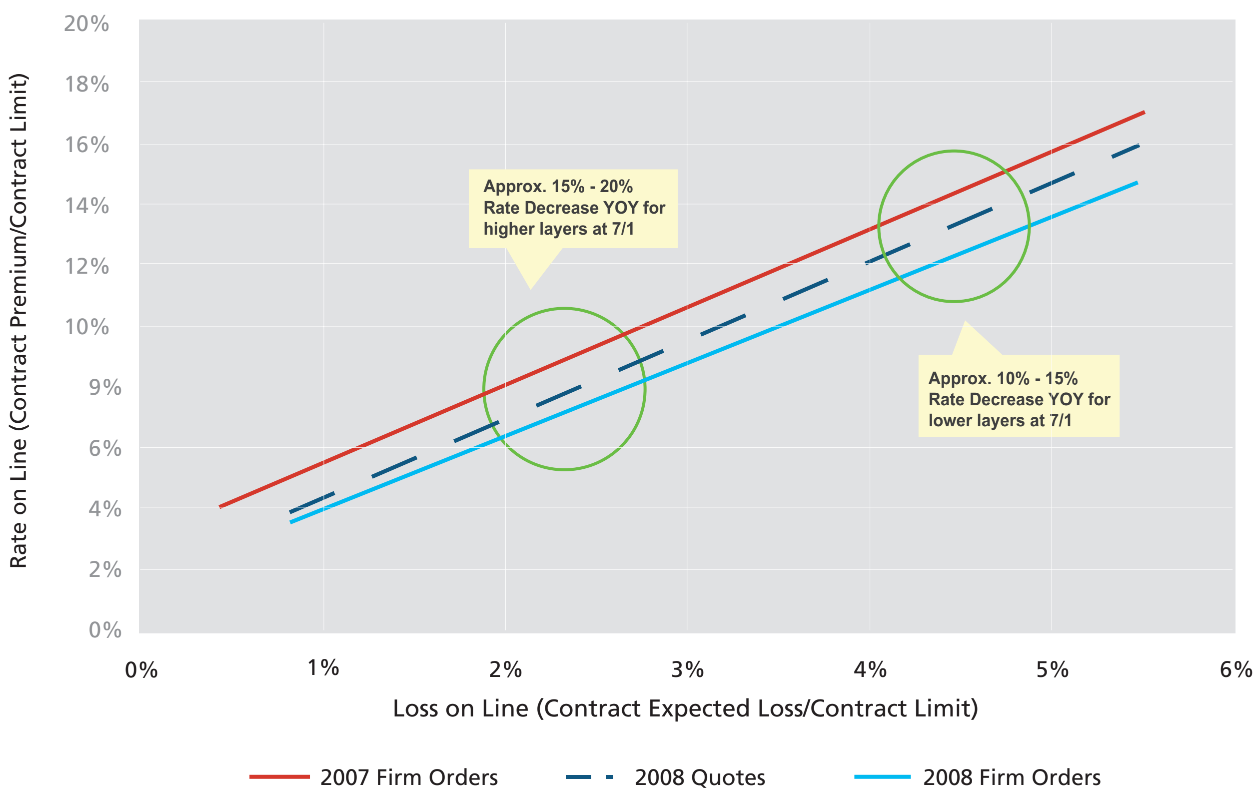
July 2008

No Surprises, Rates Continue to Fall P&C Reinsurance Renewals, July 1, 2008

Excess capital caused soft market conditions to persist at July property and casualty renewals. For property-catastrophe covers, risk-adjusted pricing dropped 10 percent to 20 percent relative to July 1, 2007. Quote ranges narrowed, though, as reinsurers responded to the realities of the market. The weakening global economy has squeezed insurance and reinsurance markets, as well as corporate profitability worldwide. This has led to considerable expense pressure, including the cost of insurance and reinsurance premiums.

Lower and Higher Layers Down at Anniversary

Quotes and firm order terms (FOTs) were down relative to July 1, 2007 renewals. Both lower and higher layers sustained double-digit declines. FOTs for the former were down 15 percent to 20 percent year-over-year, while lower layers were off 10 percent to 15 percent.



Source: Guy Carpenter & Company, LLC

Loss history was particularly important for programs outside the United States. In Australia, price drops were below the market average because of recent increases in the frequency of smaller catastrophes. In Caribbean markets, programs were significantly oversubscribed, reflecting excess capacity in the marketplace and the need for reinsurers to post revenue gains.

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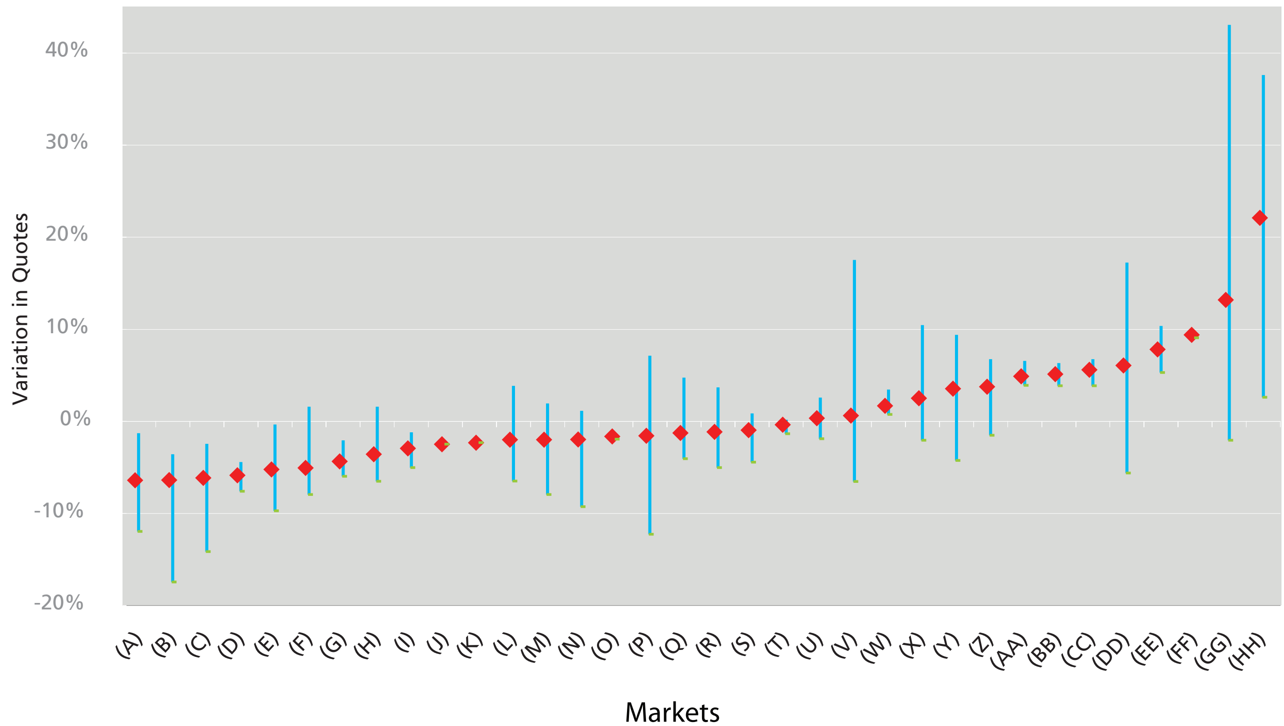
In successive renewal anniversaries, catastrophe quote spreads have tightened as reinsurers have become more realistic about their abilities to maintain expiring prices. But, there was little change in overall terms and conditions. Retentions and limits are generally stable. In the United States, the memory of terror risk seems to be fading. Rates for this peril continue to decline, particularly for covering retentions under the TRIA program (and its USD100 million event trigger).



Source: Guy Carpenter & Company, LLC

For casualty lines, the reinsurance market is showing more discipline than the primary market. Major players in primary liability lines are pursuing market share aggressively. Sharp decreases in primary pricing, coupled with pressures on ceding commissions, are pushing some reinsurers to the sidelines. In several cases, reinsurers are seeking to switch from proportional cover to excess of loss, where they believe they have more control over the price of their product.

Looking to the future, two major factors can be expected to restore some stability to reinsurance markets. As time passes and a record-shattering disaster does not occur, the fear of a natural mega-catastrophe seems to rise. Further, the weak global economy is reducing equity valuations, thus putting pressure on securing profitability on the underwriting sector of the business.

There is a long way to go to the next major renewal milestone, January 1, 2009. Both cedents and reinsurers will be monitoring developments in the external economy anxiously. The challenge will be to maintain profitability in light of pressures on both the underwriting and investment sectors.

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About Guy Carpenter

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