

# Specialty Practice Briefing

*An update from the Property Specialty*

July 2007

## Florida Market Update

*Last year's Florida catastrophe renewal season (June and July) exemplified the difficulties of the 2006 market. Capacity was extremely scarce and the auction mentality of reinsurers forced prices to increase on each successive day. We have come a long way from that 2006 pricing peak. Although we are not yet at the point that clients would like, capacity and price stability have returned. What a difference a year makes.*

The 2007 legislative changes to the Florida Hurricane Catastrophe Fund (FHCF) structure had a significant impact on clients' open market reinsurance needs. To allow for additional time to study the anticipated changes to the FHCF and determine the impact such changes would have on the market and our clients' own portfolios, Guy Carpenter extended the reinsurance effective dates of many of our 2/1 to 5/1 clients' programs to 6/1. Business plan changes as a result of the January legislative moves were incorporated into negotiations with reinsurers.

One impact of having all of the Florida companies' reinsurance programs in the market, concurrently, in May, was that the placement timeline was compressed. Reinsurers were jostling to maximize their capacity closer to inception date as final lines for all programs were being unveiled. Contrary to last year, there was sufficient capacity in the market with many programs over-subscribed. In addition, there was a Capital Markets impact in the form of alternative sources of traditional reinsurance capacity. More activity was seen from hedge funds participating through transformers to provide traditional reinsurance. For example, DE Shaw out of Bermuda put large lines down using Allianz Risk Transfer as a front. In addition, Pulsar Re was actively writing Florida reinsurance on behalf of Magnetar Capital LLC. As well, the risk appetites of these non-traditional companies showed evidence of change, as they had previously not been interested in offering support below a 1:100-year event, but now were very competitive in this space.

In general, Guy Carpenter saw year-over-year rate decreases that varied between 10 percent and 20 percent. Lower layers saw the biggest decrease of around 20 percent, and the upper layers saw the smallest decrease of around 10 percent. The open market was also competitive with the FHCF TEACO layer, providing capacity at an average 15 percent to 20 percent lower than the TEACO (average 75 percent ROL, 1 prepaid) pricing. Other than the pricing change, there were no significant changes in terms and conditions. Many clients preferred expiring wording to avoid any additional timing delays.

In response to increases in their exposure base, increased PMLs from catastrophe model version changes, and more funds available to buy reinsurance due to the extended FHCF and softening reinsurance market, most companies purchased more limit than they had the expiring renewal. On a dollars-basis comparison, companies purchased an average of 30 percent more limit. Retentions remained the same or increased, varying significantly from company to company. Year-over-year, keeping model version static, the average attachment point return period increased 5 percent from 2006 to 2007, and average limit exhaustion return period

increased 44 percent. The average Florida company catastrophe program attaches at the 3rd year and exhausts at the 89th year.

Bermuda and London markets were by far the most active from a quoting perspective, representing 93 percent of all quotes received (56 percent Bermuda, 37 percent London). In total, both the average Bermuda market and average London market quotes were within 1 percent of the chosen firm order terms. In addition, the remaining 7 percent average domestic quotes were within 2 percent of the chosen firm order terms. The tight range of these quotations reinforces the concept that stability had returned to the market.

Aside from traditional reinsurance purchases, Florida clients were particularly interested in credit risk covers to protect against both timing risk and credit risk of FHCF claims reimbursement, reinstatement premium protection covers and 3rd and 4th event covers.

Should you require additional information about the Florida market or would like to create a bespoke ROLePlay analysis with the most recent Florida companies included please do not hesitate to contact your Guy Carpenter representative.

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