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Guy Carpenter Briefing Finds Catastrophe Bond Market Resilient in Face of Financial, Property Catastrophes

In 2008, Cat Bonds Continued to Prove Their Utility and Flexibility
As Risk and Capital Management Instruments

New York, February 4, 2009

Catastrophe bonds withstood the impact of onerous market forces in 2008, brought on by turmoil in the global capital markets, according to a new briefing on catastrophe bond market activity published by Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist, and GC Securities, a division of MMC Securities Corp*. Available at www.GCCapitalIdeas.com, the cat bond market update found that as a whole, in terms of issuance volume, 2008 was the market's third most active year since catastrophe bonds were introduced in 1997, accounting for 11 percent of all issuances.

Thirteen issuances, all but two of which occurred in the first half of the year, brought USD2.7 billion in new and renewal capacity to market in 2008, according to Guy Carpenter's findings. After a record-setting year in 2007, cat bond issuance in 2008 fell 62 and 52 percent in terms of risk capital and number of transactions, respectively.

The report also found that after the events of mid-September 2008, several firms that were planning catastrophe bond issuances for the fourth quarter elected to defer those issuances to the first quarter of 2009. As a result, the total amount of risk capital outstanding dropped 14.5 percent, from USD13.8 billion at year-end 2007 to USD11.8 billion at year end 2008.

"Put to the test by the unprecedented circumstances of 2008, the cat bond market proved its resilience as the market absorbed the impact of concurrent financial and property catastrophes," said David Priebe, Chairman of Global Client Development at Guy Carpenter. "And, while cat bond spreads did increase during the tumultuous days of September, they did not do so at the same rate as the credit markets generally."

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“We see an increasing number of companies integrating catastrophe bonds into their reinsurance purchase decisions as an important complement to fill gaps in traditional capacity,” said Chi Hum, Global Head of Distribution, GC Securities.

“We expect to see more transparency and tightened collateral requirements in 2009,” added Mr. Priebe. “Cat bond issuance activity likely will eventually rebound as conditions improve, and as an asset class, cat bonds should offer improved utility for both sponsors and investors.”

Other report findings include:

- **Ambiguity became a key factor** — Ambiguity in the (re)insurance market as a whole – and outright distress in the global financial markets – was the primary driver behind the sharp drop in fourth quarter cat bond issuances year-over-year.
- **Non-correlation with broader credit markets demonstrated** — Non-correlation initially was called into question in the case of four cat bonds that were marked down due to the loss of their total return swap (TRS) counterparty. As more details emerged, however, the moral hazard issues endemic to other credit related asset classes were ruled out as systemic concerns for the cat bond market, though they are potential areas for improvement for future transactions.
- **Risk capital above average** — The USD2.7 billion issued in 2008, which came to market at a time when reinsurers had excess capital on their balance sheets, was higher than the 11-year average of USD2.1 billion. Despite continued buybacks and dividends – and favorable pricing for cedents – carriers saw a benefit to transferring risk to capital markets.
- **2009 Outlook** — Disciplined risk and capital management, as well as funding diversification will persist as critical focus areas during 2009. In this type of environment, the cat bond market offers significant value to both sponsors and investors and therefore issuance activity should revive in the coming year. The extent of the revival will hinge on the prevailing supply and demand conditions for risk transfer capacity in both the traditional reinsurance and capital markets.

Guy Carpenter’s intellectual capital website, www.GCCapitalIdeas.com, leverages blog technology, including Real Simple Syndication (RSS) feeds and searchable category tags, to deliver Guy Carpenter’s latest research as soon as it is posted. In addition, articles can be delivered directly to BlackBerry® devices and other personal digital assistants (PDAs).

About Guy Carpenter

Guy Carpenter & Company, LLC is the world’s leading risk and reinsurance specialist and a part of the Marsh & McLennan Companies. With 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm’s full breadth of services includes line of business expertise in Agriculture; Aviation; Casualty Clash; Construction and Engineering; Excess and Umbrella; Life, Accident and Health; Marine; Medical; Political Risk and Trade Credit; Professional Liability; Property; Retrocessional Reinsurance; Surety; Terrorism and Workers Compensation. GCFac® is Guy Carpenter’s dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized

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management of facultative reinsurance solutions. In addition, Guy Carpenter's InStrat® unit utilizes industry-leading quantitative skills and modeling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. Guy Carpenter's website address is www.guycarp.com.

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