GUY CARPENTER

1166 Avenue of the Americas
New York, NY 10036
917 937 3000

News Release

Contacts:

Alexis Levenson	Jennifer Ainslie	Karen DeMartine
Guy Carpenter	Guy Carpenter	DeMartine Group
1.917.937.3264	44.207.357.2058	1.203.221.2790
alexis.levenson@guycarp.com	jennifer.ainslie@guycarp.com	kdemartine@demartinegroup.com

Market in Transition at July 1, 2011 Reinsurance Renewals, According to Guy Carpenter

New York, July 1, 2011
The July 1, 2011 reinsurance renewals revealed a market that continues to be in transition, according to Guy Carpenter & Company, the leading global risk and reinsurance specialist and a member of Marsh & McLennan Companies (NYSE: MMC).

In the first quarter of 2011, the reinsurance sector's dedicated capital position fell by 4.4 percent to about USD165 billion. In the second quarter, reinsurance capital remained essentially flat and moderately down year-to-date. While the global catastrophe losses of 2011 and the version 11 release of Risk Management Solutions, Inc.'s catastrophe model (RMS v11) have impacted reinsurers' view of risk, the longer-term implications remain to be seen. This will come into sharper focus when recent event losses are fully realized and the industry reaches consensus on the integration of the model changes.

PROPERTY

- US property catastrophe rates have experienced a directional shift since January 2011, with increases due primarily to global losses and new versions of the catastrophe models. In particular, the RMS v11 hurricane release, which generated significantly increased loss estimates for many companies, has triggered a slow trend of increased pricing.
- In Australia and New Zealand pricing was adjusted upwards to account for exposure growth and a further general increase in pricing, as reinsurers sought a higher return for the deployed capacity. Additional increases were imposed on catastrophe programs impacted by loss activity. Overall, increases ranged from 20 percent to more than 100 percent.
- Property catastrophe rates in Latin America and the Caribbean were stable, with general increases between 5 percent and 10 percent in wind-exposed regions. The market varied more than in previous renewals, as some markets sought to grow in the region while others tightened their underwriting criteria.
- Property retrocession activity continued to trend towards rate increases on loss-affected programs and, to a lesser extent, loss-free programs. This was driven mostly by industry loss warranty (ILW) and county weighted industry loss purchases.

INDUSTRY LOSS WARRANTIES AND CATASTROPHE BONDS

- ILW prices increased steadily, and capacity is freely available for most types of covers.
- Unlike last year, rated carriers are the most active buying group of ILWs.

- The percentage of the cat bond market with exposure to US hurricane has almost doubled from 38 percent in 2003 to 71 percent today.
- In the second quarter of 2011, four catastrophe bonds came to market, totaling USD592 million of new bond issuance.
- In the same time period, USD1.6 billion of risk capital was returned to investors through maturing cat bonds.

MARINE & ENERGY

- For London Market Excess Loss and global retrocession, April 2011 and prior renewals with energy exposure experienced rate increases of approximately 20 percent. Pricing for non-energy classes remained flat but with little downward pressure.
- Capacity in the Europe, Middle East and Africa region is plentiful, particularly for single territory marine business where rates have remained flat at best. In Asia Pacific, cargo excess of loss attracted rate increases of 20 percent to 40 percent, depending on level and circumstances.
- The majority of US programs covering general marine portfolios renewed with small premium and occasional rate reductions, owing to good loss records and significant capacity. On more specialized programs with good records, reductions of 10 percent to 15 percent were achieved.
- The potential marine loss from the Japan earthquake remains below initial expectations. The event is unlikely to have a significant impact on ongoing rates outside of Japan. Barring a catastrophic event, and with capacity remaining plentiful, resistance to upward pricing pressure will continue for the foreseeable future.

AVIATION

- The major risk (airline and manufacturing) sector showed stable pricing on a “like for like” exposure basis. Ratings movements reflected individual performance, with matching exposure and loss activity.
- The expected upward movement in the US market did not materialize, and rates are stable.

CREDIT REINSURANCE

- Credit reinsurance rates remained under pressure for a variety of reasons.
- Even though the Greek financial crisis was the market’s one-in-eighty-year event, most excess of loss structures were untouched.
- Capacity remains meaningfully over-subscribed, impacting pricing and terms.

CASUALTY

- For US casualty, commercial primary casualty pricing continued to decline during the first half of 2011, but at a slower pace than 2010. Rate hardening on a relative basis has been more evident in workers compensation. General liability rates remain flat.
- In the UK motor market, movements in the original rates, combined with substantial excess capacity in the reinsurance market, meant that reinsurance rates were generally flat. Accounts with good loss experience saw reductions of up to 5 percent.
- There is concern about the high level of capital needed for future allocation to long-tail reserves and catastrophe volatility exposures, as companies prepare for Solvency II. This puts new emphasis on the value of reinsurance for catastrophe and reserve run-off exposures, with revived interest in loss portfolio transfers and adverse development covers.

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LIFE, ACCIDENT & HEALTH

- Medical insurance reform remains the strongest driver in this market, with insurers concerned by unlimited lifetime maximums and minimum loss ratios. Reinsurers have offered unlimited lifetime excess of loss coverages that are popular with some insurers. Pricing for these high layers, such as unlimited excess of USD10 million per person, is capacity- and market-based.
- For personal accident catastrophe, ample capacity from other markets was sufficient to forestall significant market hardening. Incumbent markets generally pushed for rate increases between 5 percent and 10 percent, but new capacity offered general decreases of 5 percent.

QUOTES

David Flandro, Global Head of Business Intelligence, Guy Carpenter & Company

“How the reinsurance sector’s capital position develops over the remainder of the year is heavily dependent on large loss experience, which will be influenced by the hurricane season. A light hurricane season with no significant landfalls could enable reinsurance capital to resume growth, while a heavy season with at least one significant landfall could mitigate growth or potentially result in an impairment of capital for 2011.”

Bill Kennedy, CEO of Global Analytics and Advisory, Guy Carpenter & Company

“Reinsurers are carefully evaluating where to deploy their capacity in a transitional market. Looking ahead, insurers’ ability to provide detailed reasoning for their own assessment of their portfolios, as well as reinsurers solidifying their position on metrics for deploying capacity, will be key factors leading to the January 1, 2012 renewal season.”

Lara Mowery, Global Head of Property Specialty, Guy Carpenter & Company

"There have been significant global occurrences impacting the property sector in 2011. Both insurers and reinsurers face a significant amount of work between now and the January 1, 2012 renewals as companies solidify their assessment of the impact on capital from the global losses and model version changes. In particular, analysis of the changes driving the new RMS results will influence the effect that the model changes have on reinsurance pricing, program structures and, ultimately, primary rates as the market finds its new equilibrium."

TAGS/KEYWORDS

Guy Carpenter, reinsurance, renewals, property, casualty, ILW, catastrophe, cat bonds, marine, energy, capacity, liability, Solvency II, Flandro, Kennedy, Mowery

About Guy Carpenter

Guy Carpenter & Company, LLC is the world’s leading risk and reinsurance specialist and a member of Marsh & McLennan Companies. With over 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 and Energy; Medical Professional Liability; Political Risk and Trade Credit; Professional Liability; Property; Retrocessional Reinsurance; Surety; Terrorism and Workers Compensation. GC Fac® is Guy Carpenter’s dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized management of facultative reinsurance solutions. In addition, GC Analytics℠ 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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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 BlackBerrys and other handheld devices.

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