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News Release

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Guy Carpenter Details Top Risks for (Re)Insurance Industry in Mid-Year Market Report

New York, September 10, 2012 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a member of Marsh & McLennan Companies (NYSE: MMC), today released its mid-year market report which addresses the top risks (re)insurers face as they seek profitable growth.

The report, *Overcoming Key Risks on the Road to Profitable Growth*, provides a detailed analysis of three key risks to the sector: economic uncertainty and emerging interest rate sensitivity, the shifting nature of catastrophe losses and reserving risk. The full report is available for download at www.GCCapitalideas.com.

Economic Uncertainty and Interest Rate Risk

Prospects for an economic recovery remain uncertain, and the global slowdown continues to constrain top-line growth, particularly in developed markets.

- The debt crisis in the Eurozone has compelled (re)insurers into a "risk-off" investment mode, seeking higher-grade investments which reduces credit risks but also renders balance sheets more sensitive to interest rate movements.
- Lower-yielding securities have reduced investment returns, placing additional pressure on underwriting results.
- As business volumes and discretionary spending moderate, demand for insurance cover may be muted in commercial and personal lines.
- Weaker economic growth could make it more challenging for companies to generate profit from rate increases on new businesses.

Catastrophe Activity: The Shifting Nature of Risk

As (re)insurers expand into developing markets, losses in non-peak zones, or "cold spots," will have a significant impact on property catastrophe lines, particularly in inadequately or unmodeled territories. Understanding the risks in these non-peak zones and monitoring exposure growth as insurance demand rises will be vital to establishing a successful future in these markets.

- Of the significant catastrophes in 2011, resulting in global insured losses in excess of USD 110 billion, only the Tohoku earthquake in Japan can be considered a "peak risk."
- Between 2009 and 2011, Asia experienced the highest insured natural catastrophe losses by region (35%); the United States, which has historically accounted for more than three-quarters of global losses, accounted for just 33 percent.

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- Given the lack of major catastrophes seen in the first half of 2012, along with increased retentions, most of the loss burden has to date fallen on primary insurers.
- The outcome of the 2012 North Atlantic hurricane season will play a key role in determining the direction of the reinsurance sector through 2013 renewals.

Reserving Releases: Coming to an End?
There are indications that (re)insurers will not be able to rely on reserve releases to mitigate losses for much longer. The sector could begin to see deteriorating reserves in 2014 financials or beyond, with significant implications for carriers' growth and profitability.

- Guy Carpenter's unique analysis of the reserving cycle, which studies booked ultimate losses by accident year, shows reserve releases slowing in the near term.
- It is expected that the U.S. Property & Casualty industry will continue to release reserves, but 2012 reserve releases will be less than the 2011 releases.
- Although it is expected accident years from 2011 will show reserve deterioration, offsets from 2010 and prior years will likely result in the industry first seeing deteriorating reserves in 2014 or beyond. For some carriers that write specific lines like workers compensation, net reserve deterioration has already begun.

QUOTE
David Flandro, Global Head of Business Intelligence, Guy Carpenter & Company
"With the sector exposed to a debt crisis, emerging catastrophe risks and a deteriorating reserving cycle, it should come as no surprise that valuations for property and casualty reinsurers stand at or near 20-year lows. Today more than ever, insurers require sophisticated solutions to help them identify, mitigate and transfer an evolving range of risks. It is essential for (re)insurers to understand and hedge these very real challenges by deploying best-in-class risk management tools, reinsurance placement and strategic advisory services to achieve profitable growth."

TAGS/KEYWORDS
Guy Carpenter, insurance, reinsurance, casualty, David Flandro, cold spots, catastrophe, emerging markets

About Guy Carpenter
Guy Carpenter & Company, LLC is a global leader in providing risk and reinsurance intermediary services. 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. For more information, visit www.guycarp.com.

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