

News Release

Contacts:

Missy DeAngelis

Guy Carpenter
1.917.937.3118

missy.deangelis@guycarp.com

Jennifer Ainslie

Guy Carpenter
44.207.357.2058

jennifer.ainslie@guycarp.com

Kate Dillon

Prosek Partners
1.212.279.3115 ext. 115

kdillon@prosek.com

Guy Carpenter Mid-Year Report Highlights Catalysts for Growth in (Re)Insurance Industry

New York, September 9, 2013 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), today released its mid-year market report, highlighting a time of dynamic capital growth in the reinsurance industry. As investors supply capacity through a convergence of alternative and traditional vehicles, the report details the ways in which this new supply of capital and excess capacity has changed the nature of the sector's capital structure.

"The changing dynamics of the specialty insurance and global reinsurance markets, coupled with a market characterized by excess capital, a growing investor base, low investment returns and diminishing reserve releases, presents a unique set of challenges and opportunities for our industry," said David Flandro, Global Head of Business Intelligence for Guy Carpenter. "Guy Carpenter remains committed to helping our clients navigate the challenges of this 'new normal' to achieve sustainable and profitable growth."

Convergence Capital and Excess Capacity

Over the past 18 months alone, an estimated USD10 billion of new capital has entered the market in the form of catastrophe bonds, structured industry loss warranties (ILWs) and collateralized reinsurance. This surge in capital has been driven primarily by increased supply from institutional investors seeking access to a comparably high-yielding, non-correlating asset as part of an alternative asset management strategy. This growing segment of the reinsurance market now accounts for an estimated USD45 billion of capacity, which is approximately 14 percent of the global property catastrophe limit purchased.

The most tangible evidence of the impact of convergence capital can be seen in the U.S. property catastrophe reinsurance market, where double-digit rate reductions occurred during the 2013 mid-year renewals. The influx of convergence capital has also resulted in ILS catastrophe risk pricing decoupling from price expectations in the traditional reinsurance market. For the first time, some ILS products are now offering more competitive pricing terms than seen in the traditional market. Despite a significant decrease in ILS pricing over the last 12 months, investor demand continues to be robust. Projections by GC Securities* indicate that the catastrophe bond market could reach USD23 billion by the end of 2016.

Capital Stewardship

Faced with soft pricing and excess capital, reinsurers are confronted with the challenge of deciding how to strategically deploy capital to generate returns that will satisfy the expectations of investors

Guy Carpenter Mid-Year Report Highlights Catalysts for Growth in (Re)Insurance Industry

September 9, 2013

and/or shareholders. The balance of options includes: maintaining the status quo, returning capital to shareholders, pursuing organic growth or identifying M&A opportunities.

- **Maintaining the Status Quo:** One option for carriers is to hold excess capital as a buffer against future losses. By maintaining an excess level of capital, carriers can quickly deploy funds following a catastrophe, which is often considerably less time-consuming, less expensive and more certain than raising capital in the aftermath of an event. Nevertheless, holding on to excess capital for too long will dilute returns on equity and consequently to market valuation.
- **Return to Shareholders:** As a principle, excess capital should be returned to shareholders in periods of low-return opportunity. During the last eight years, reinsurers have been relatively disciplined in returning capital when the pricing environment has softened. GC Securities expects the level of capital returned to shareholders to accelerate in 2013.
- **Organic Growth:** Organic growth is often perceived as being a low-risk strategy, but is difficult to achieve in the current economic climate. The excess capital available in the reinsurance market today, coupled with increased competition from convergence players, means that 2013 will likely see more risks assumed for the same, if not less, return than in 2012.
- **Mergers and Acquisitions:** The focus for growth and competitiveness in an evolving reinsurance market is moving towards more M&A activity, particularly strategic bolt-on transactions. The need to adapt business models to respond to these new market dynamics provides the ingredients for an increase in M&A activity.

“Although the best capital stewards will employ a strategy that encompasses all four of these approaches, the market is increasingly turning to strategic M&A opportunities to achieve scale, global reach and a more diversified product suite in order to remain competitive,” said Des Potter, Head of GC Securities, EMEA. “Evaluating the merits of each option and the interplay between them is paramount to realizing your growth objectives, and is where a trusted and informed advisor can help to identify the best route to success.”

The full report, *Capital Stewardship: Charting the Course to Profitable Growth*, is available for download at www.GCCapitalideas.com.

TAGS/KEYWORDS

Guy Carpenter, GC Securities, Des Potter, reinsurance, insurance, capital, capacity, ILS, catastrophe bonds, ILW, M&A

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

Guy Carpenter Mid-Year Report Highlights Catalysts for Growth in (Re)Insurance Industry

September 9, 2013

decision-making process and help make the firm's clients more successful. For more information, visit www.guycarp.com.

Reactions magazine named Guy Carpenter Best Global Reinsurance Broking Company Overall and Best Reinsurance Broking CEO of the year in 2012. At the *Reactions* London Market Awards, Guy Carpenter was also named Reinsurance Broker of the Year and took home Reinsurance Broking Team of the Year honors for both Property and Aviation. In the past year, Guy Carpenter has also won: Global Best ILS Advisor (GC Securities*), US Best ILS Advisor (GC Securities*) and US Best Broker for Casualty Reinsurance from *Intelligent Insurer*, *Insurance Day's* 2012 ILS Transaction of the Year (GC Securities*), and Reinsurance Broker of the Year for the Asia-Pacific region at the 16th Annual Asia Insurance Industry Awards.

Guy Carpenter is a wholly owned subsidiary of [Marsh & McLennan Companies](#) (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy and human capital. With 54,000 employees worldwide and annual revenue of \$12 billion, Marsh & McLennan Companies is also the parent company of [Marsh](#), a global leader in insurance broking and risk management; [Mercer](#), a global leader in talent, health, retirement, and investment consulting; and [Oliver Wyman](#), a global leader in management consulting. Follow Guy Carpenter on Twitter [@GuyCarpenter](#).

*Securities or investments, as applicable, are offered in the United States through GC Securities, a division of MMC Securities Corp., a US registered broker-dealer and member [FINRA/NFA/SIPC](#). Main Office: 1166 Avenue of the Americas, New York, NY 10036. Phone: (212) 345-5000. Securities or investments, as applicable, are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd. (MMCSEL), which is authorized and regulated by the Financial Conduct Authority, main office 25 The North Colonnade, Canary Wharf, London E14 5HS. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities Corp., MMC Securities (Europe) Ltd. and Guy Carpenter & Company, LLC are affiliates owned by Marsh & McLennan Companies. This communication is not intended as an offer to sell or a solicitation of any offer to buy any security, financial instrument, reinsurance or insurance product. **GC Analytics is a registered mark with the U.S. Patent and Trademark Office.

###