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# News Release

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## Guy Carpenter Reports Stable Capital at January 1, 2016 Renewals

*Moderate Catastrophe Losses Contribute to Reinsurance Price Reductions*

**New York, January 6, 2016** – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), reports that overall capital levels dedicated to reinsurance have stabilized, showing no growth for the first time in several years. In a highly competitive environment, companies assessed broader opportunities and the rate of incoming capital slowed. However, moderate loss experience kept capacity at abundant levels for the January 1, 2016 renewals. The continued scarcity of costly catastrophe losses and more than adequate capacity led to reinsurance pricing reductions, although there are signs the rate of descent is slowing as compared to 2015.

According to Guy Carpenter's 2016 global January renewal report, *The Reinsurance Market 2016: Innovation and Customization,* pricing declined for most lines of business and geographies but the rate of decline moderated, particularly in US property catastrophe. This trend was largely influenced by two prior years of steep declines and a larger increase in demand in property and certain other lines that began in 2015. Pricing also flattened in the insurance-linked securities space as protection buyers and sellers assessed adequate compensation for risk. As this sector was initially at the leading edge of attracting new capital while undergoing significant decreased price adjustments, it is notable that rates have currently reached an equilibrium. This evidence of underwriting discipline may eventually lead to a greater increase in capital attracted to the space, particularly if growth in demand continues.

In 2015, while the commitment from the capital markets grew, the rate of growth slowed and was offset by a decline in dedicated capital by rated carriers, leading to overall capital levels that were flat. However, capacity remains more than adequate and with buyers recognizing that significant capital levels combined with cumulative decreases in pricing provided a unique opportunity, they increased limits purchased in the past 12 months. These purchases included those of first time buyers, attracted to a market that evolved into a mechanism to manage risk they previously viewed as better addressed elsewhere.

"As reinsurance providers continue to evaluate how to compete in a market flush with capacity, an environment of innovation, responsiveness and customization has become the norm," said Lara Mowery, Global Head of Property Specialty at Guy Carpenter. "Solution-oriented dialogue has elevated significantly and insurers are increasingly able to focus on improvements in the structure and efficiency of their programs to incorporate more refined capital management goals."

**Property Catastrophe Pricing**

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January 6, 2016

While there was some slight variation between major regions tracked in the Regional Property Catastrophe ROL index, all experienced decreases of between seven percent and 10 percent, with international regions experiencing greater reductions in the index than the US. Individual renewals experienced a wide range of outcomes dependent on loss activity, type of structure, geographic concentrations, past renewal experience and other company specific features.

Risk adjusted pricing for US property catastrophe decreased by five percent to eight percent, on average, moderating from the average decreases a year ago of down seven percent to down 14 percent. Capacity continued to be plentiful, but with a wider range of responses to individual renewals as markets were somewhat more apt to decrease lines or decline participation as margins tightened further.

“The January 2016 reinsurance renewal in the EMEA region was orderly and business-like with abundant capacity. There were few surprises and pricing, terms and conditions were broadly in line with expectations expressed at Baden Baden in October 2015. Reinsurance buyers generally took cash savings from reduced prices rather than expanding coverage, suggesting a priority of supporting profitability. After many years of waiting, Solvency II exerted a meaningful influence on buying and we expect this to increase in 2016 as the new regime becomes embedded,” said Nick Frankland, CEO of EMEA Operations at Guy Carpenter.

### Global Catastrophe Losses

Globally, significant insured losses from catastrophes reached approximately USD 30.5 billion in 2015, compared to USD 32 billion in 2014. Record-breaking cold weather in the US and Canada, along with winter storms in Europe, were the major natural disasters that occurred during the first quarter of 2015. Tropical cyclone activity in the Pacific also contributed to losses. Heavy rains in the Southern United States and hailstorms in Australia contributed to the bulk of losses in the second quarter, along with an earthquake in Nepal.

Among man-made disasters, the most significant loss event occurred in the third quarter with the explosion at the Port of Tianjin in China in August. This landmark event caused significant insured losses in the range of USD 1.6 billion to USD 3.3 billion, and is likely to constitute one of the largest insured man-made losses to date in Asia.

### Influence of Capital

In 2015, the industry experienced an estimated two to three percent decline in the amount of capital dedicated to writing reinsurance by rated markets, while convergence capital continued to grow, though at a slower rate in comparison to previous years. The decline in rated capital was driven in large part by the rate environment, which caused capital to shift slightly toward insurance lines and away from reinsurance lines.

At year-end, total capital dedicated to reinsurance was approximately USD 400 billion, unchanged from the previous year. Convergence capital, including catastrophe bonds, industry loss warranties (ILWs), collateralized reinsurance and sidecars amounted to USD 68 billion, up 13 percent from year-end 2014.

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During 2015, a combination of factors led to a notable increase in the amount of catastrophe limit purchased. Overall, growth in global property catastrophe limits is estimated to be roughly four percent between January 1, 2015 and January 1, 2016, with the convergence capital component growing by approximately 13 percent.

### Catastrophe Bonds & ILS

Both the 144A cat bond and the private cat bond market continued to be active in 2015. The 144A cat bond market had 23 primary issuance 144A property/casualty (P&C) catastrophe bonds successfully completed, amounting to a total of USD 5.917 billion in 144A P&C issuance.

In the fourth quarter, insurance linked security (ILS) pricing conditions generally held steady, as investors continued to spend time on portfolio management. Pricing stabilization in the ILS market was evident throughout 2015 and ample capital remained available, as managers continue to grow pragmatically.

### 2016 Outlook

As the pricing environment shows signs of stabilization across both the ILS and traditional markets, accessing multi-year capacity at pre-agreed static rates is a focus for many cedents. A significant and growing number of property programs were placed at least partially on a multi-year basis at January 1 and notably, multi-year options are beginning to emerge in some casualty sectors, where they have not been available in the past. The capital markets are also in a strong position to provide multi-year capacity, and 2016 is expected to bring new opportunities in the ILS space for public sector entities, corporates, insurers and reinsurers. Although US peak perils will continue to be a driver of the ILS marketplace, the industry is also likely to see opportunities including new perils, new geographies, new types of protection structures and new sponsors.

The past year has also brought about several mergers and acquisitions as insurance and reinsurance management teams assessed the changing landscape and looked to position themselves advantageously for the future.

“The reinsurance market has been challenged by a persistent low interest rate environment, the continued inflow of new sources of capital, benefited from an extraordinarily long period of few major natural catastrophes, and record levels of merger and acquisition activity in 2015,” said David Priebe, Vice Chairman of Guy Carpenter. “As a result, (re)insurance companies are evolving their operating strategies to embrace this complex environment. We believe that alternative capital will be a consistent source of risk capital for (re)insurance and corporates and we expect to see sustained high growth to continue in this sector.”

**TAGS/KEYWORDS**

Renewals, David Priebe, Lara Mowery, Nick Frankland, ILS, catastrophe bonds, M&A, Solvency II, pricing, capital, property, catastrophe, reinsurance, insurance,

### 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; cyber solutions; excess and umbrella; excess and surplus lines; healthcare & life; marine and energy; mutual insurance companies; political risk and trade credit; professional liability; property; public sector; 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 modelling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. For more information, visit www.guycarp.com and follow Guy Carpenter on Twitter @GuyCarpenter.

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