STATE OF THE REINSURANCE MARKET
SPECIFIC LINE OF BUSINESS REVIEW

November 2009

AON BENFIELD

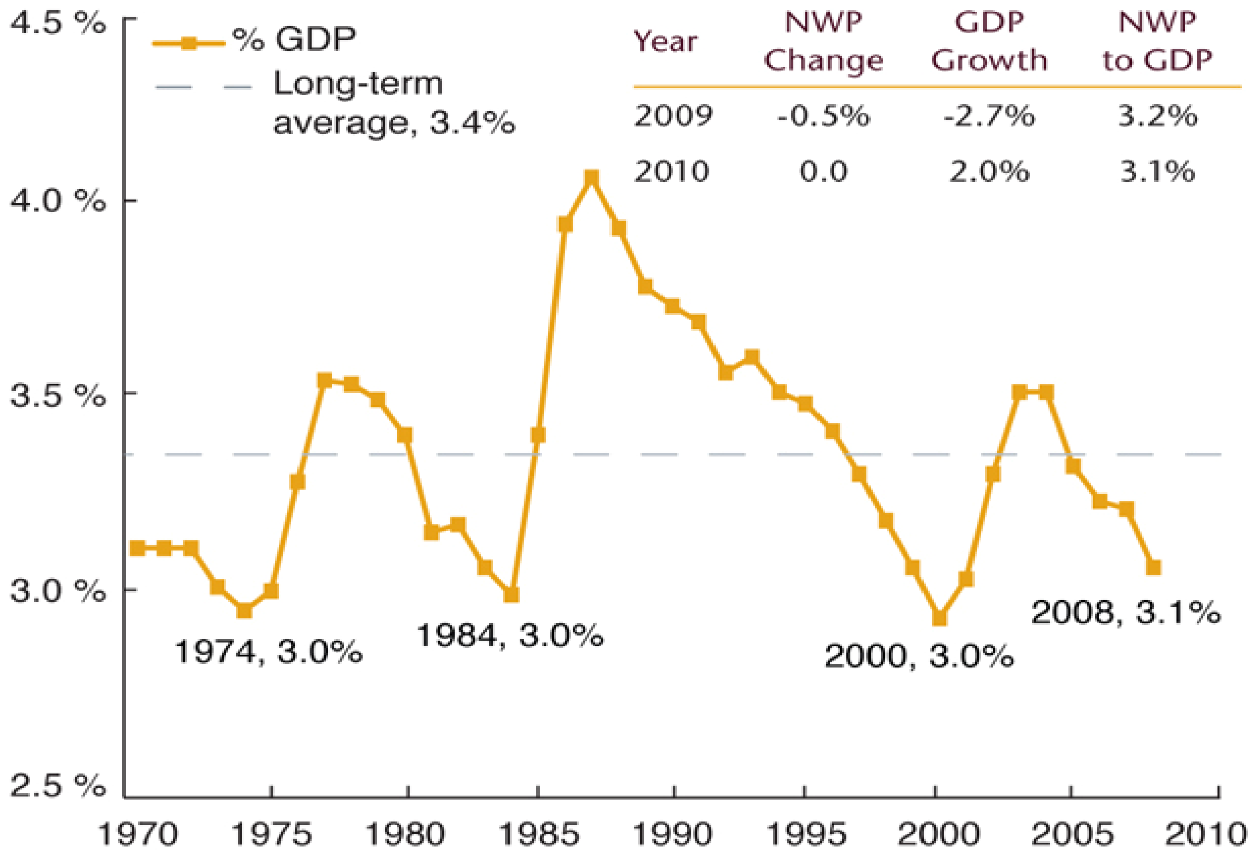
Lines/Sector Analysis

- Some Macroeconomics – Setting the Stage
- Property Catastrophe
- Property Per Risk
- Workers' Compensation
- General Liability/Umbrella/Excess
- D&O and E&O
- Medical Professional
- Environmental
- Surety
- Trade Credit
- Marine & Energy

GDP Index by Country

- **Insurance premiums tend to run at levels between 3-4% of GDP. GDP in decline likely means growth in premiums and profits will be hard to find.**

Industry NWP as Percent of GDP



Year	NWP Change	GDP Growth	NWP to GDP
2009	-0.5%	-2.7%	3.2%
2010	0.0	2.0%	3.1%

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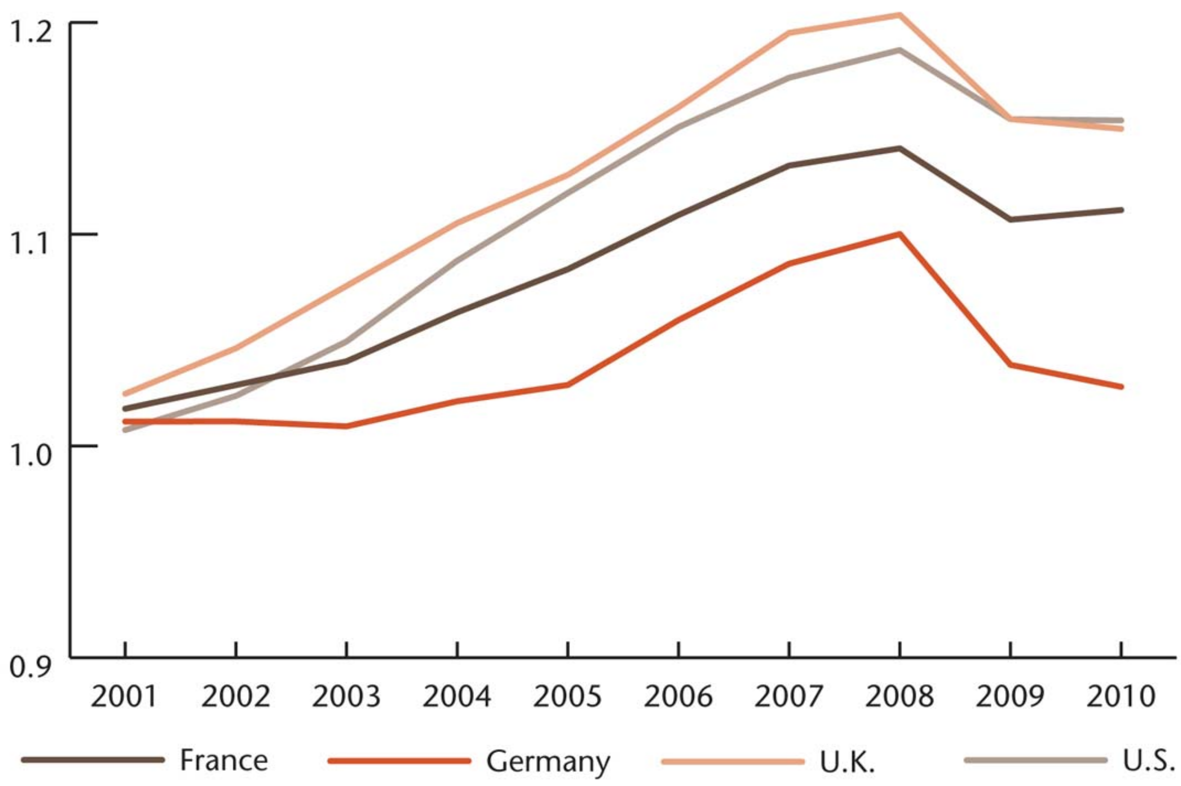
GDP Index by Country

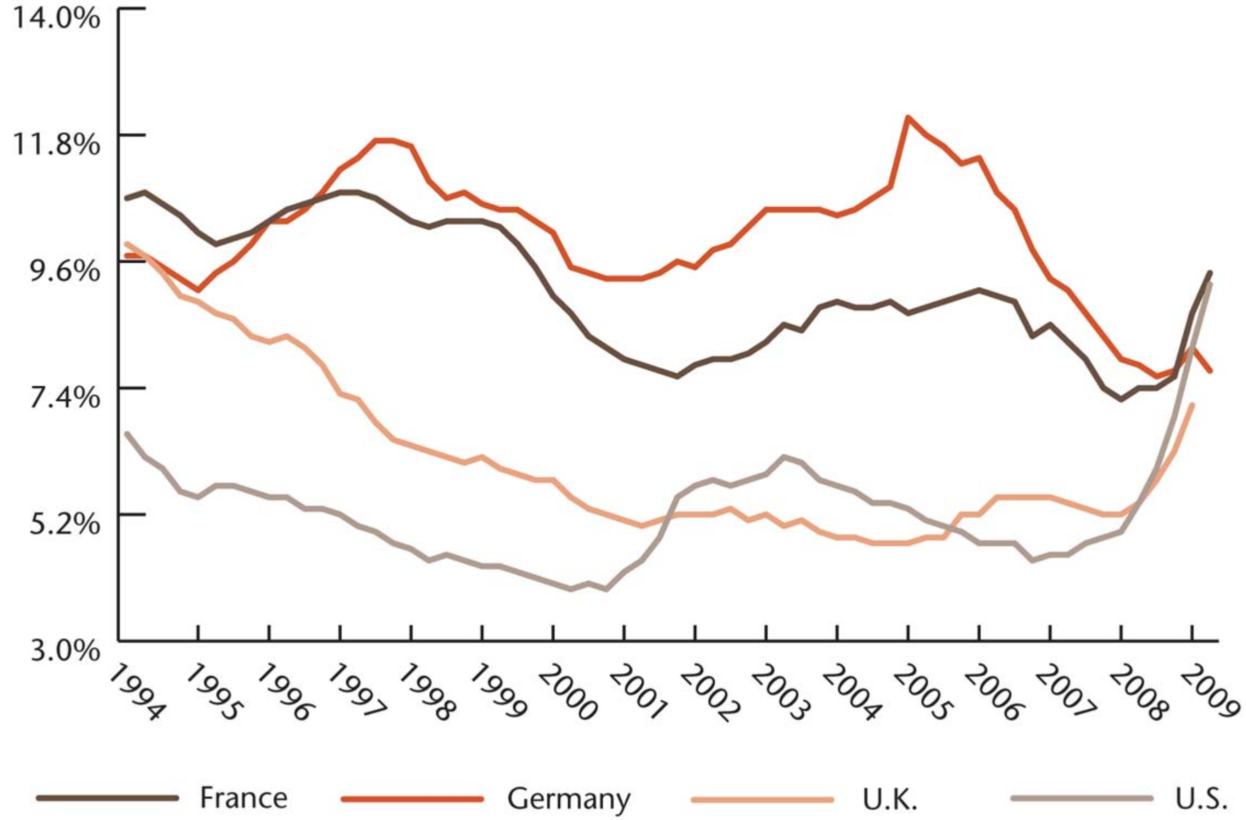
- GDPs are expected to turn positive with slight increases in the second half of 2009



Source: International Monetary Fund World Outlook Database

Unemployment Rates by Country

- Unemployment increased in much of the United States and Europe during the credit crisis
- Unemployment is still expected to rise as it is a lagging economic indicator



Source: Bloomberg

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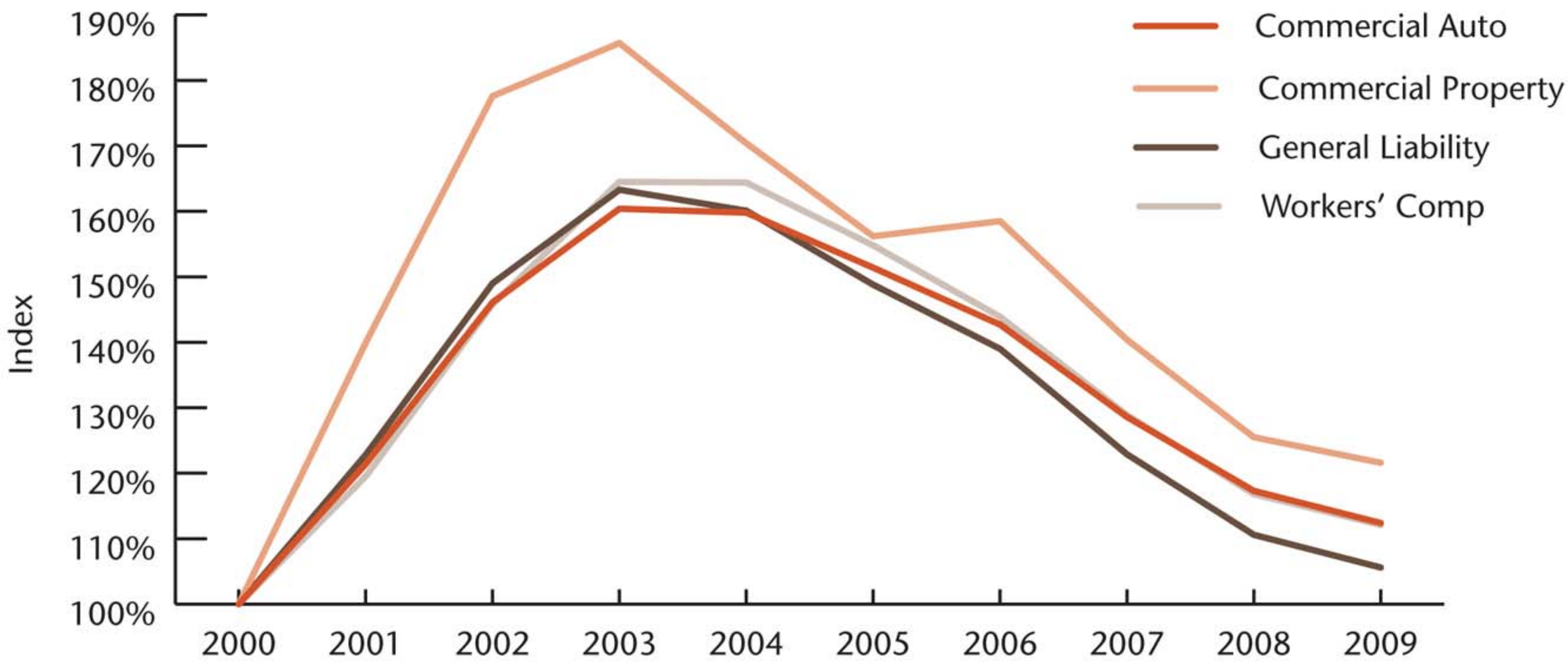
Primary Pricing Trend

- U.S. primary commercial pricing continued to decline in 2009 and is near 2000 levels
- Rate of decline has decreased significantly and may indicate rate leveling off
- Global insurers reported modest increases in some segments at H1 2009



Source: Council of Insurance Agents & Brokers

Aon Benfield Rate Monitor (ABRaM) Casualty Report

Commercial Lines and Casualty Rate Change History Consensus of Estimates

Casualty Lines Rate Changes by Quarter as Reported

						Aon Benfield Company Sample		
Year	Qtr	CIAB (GL)	Market Scout	Advisen	CLIPS	All Co.Avg	Specialty Co. Avg	Standard Co. Avg
2005	Q2	-10.0%	-2.3%	-7.1%	-2.0%			
2005	Q3	-7.7%	-5.3%	-8.3%	-2.0%			
2005	Q4	-4.7%	-4.7%	-6.6%	-2.0%			
2006	Q1	-6.0%	-5.7%	-4.4%	-2.0%			
2006	Q2	-5.6%	-6.0%	-2.1%	-1.0%			
2006	Q3	-6.3%	-9.0%	-0.4%	-1.0%			
2006	Q4	-8.4%	-8.7%	-1.3%	-3.0%			
2007	Q1	-10.5%	-10.3%	-2.0%	-4.0%	-3.9%	-5.2%	-3.0%
2007	Q2	-11.4%	-13.0%	-2.5%	-5.0%	-6.0%	-8.0%	-4.8%
2007	Q3	-12.1%	-15.0%	-2.9%	-5.0%	-7.5%	-9.4%	-5.4%
2007	Q4	-12.2%	-15.3%	-3.6%	-6.0%	-7.1%	-7.4%	-5.8%
2008	Q1	-12.6%	-13.7%	-5.4%	-6.0%	-6.6%	-6.9%	-5.5%
2008	Q2	-11.9%	-11.3%	-6.0%	-6.0%	-7.6%	-7.8%	-5.9%
2008	Q3	-9.7%	-10.3%	-6.9%	-5.0%	-5.8%	-6.0%	-4.9%
2008	Q4	-5.8%	-9.0%	-6.4%	-3.0%	-3.6%	-4.4%	-2.6%
2009	Q1	-4.2%	-8.0%	-3.9%	0.0%	-0.6%	-0.8%	-0.5%
2009	Q2	-4.9%	-6.3%	-2.8%	1.0%	0.6%	0.0%	1.2%
2009	Q3	-4.7%	-5.0%	-1.7%				

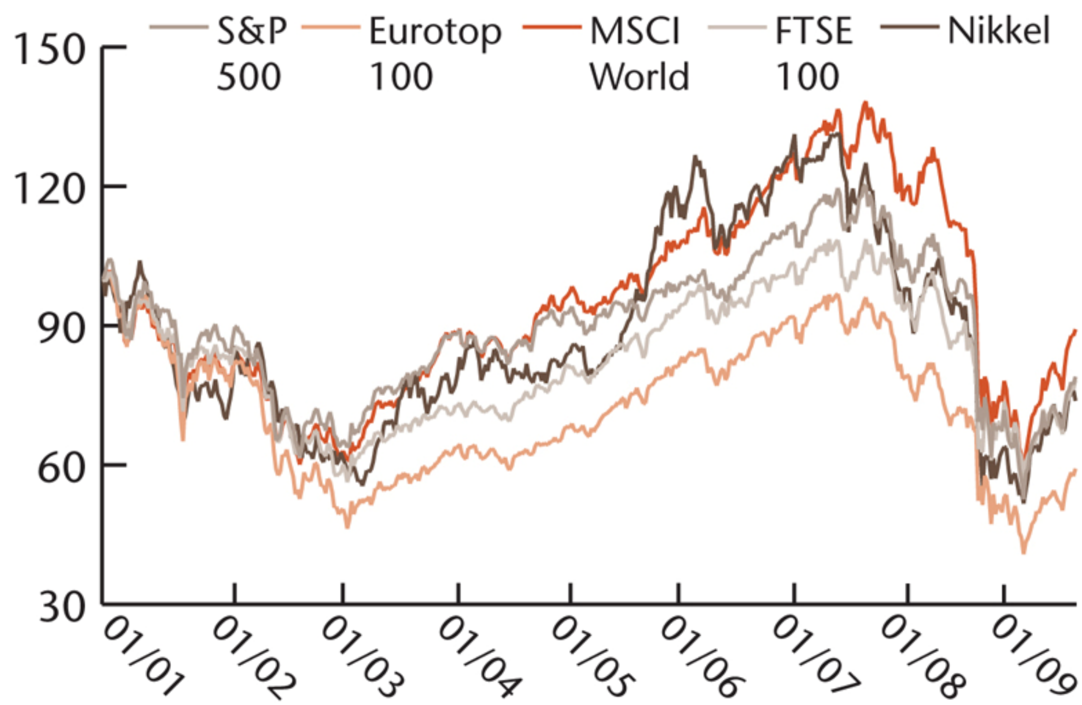
Note: Some historical data in the Aon Benfield Company Sample rate indices was revised in Q2 2009

Reference for Rate Indices

- **CIAB – Council of Insurance Agents and Brokers**
  - **consensus opinion of broker's and agent's perception of rate change**
  - **www.ciab.com**
- **Market Scout**
  - **small & middle market wholesale business compiled through their electronic insurance exchange which serves 60,000-member agencies throughout the US**
  - **www.marketscout.com**
- **Advisen**
  - **insurance research group survey, large risk management accounts predominate index**
  - **www.advisen.com**
- **CLIPS – Commercial Lines Insurance Pricing Survey**
  - **data reported by subscribing companies**
  - **www.towersperrin.com**
- **Aon Benfield All Company, Specialty Company & Standard Company Index**
  - **Selected averages of comments compiled from quarterly financials and conference call transcripts**

Equity Markets

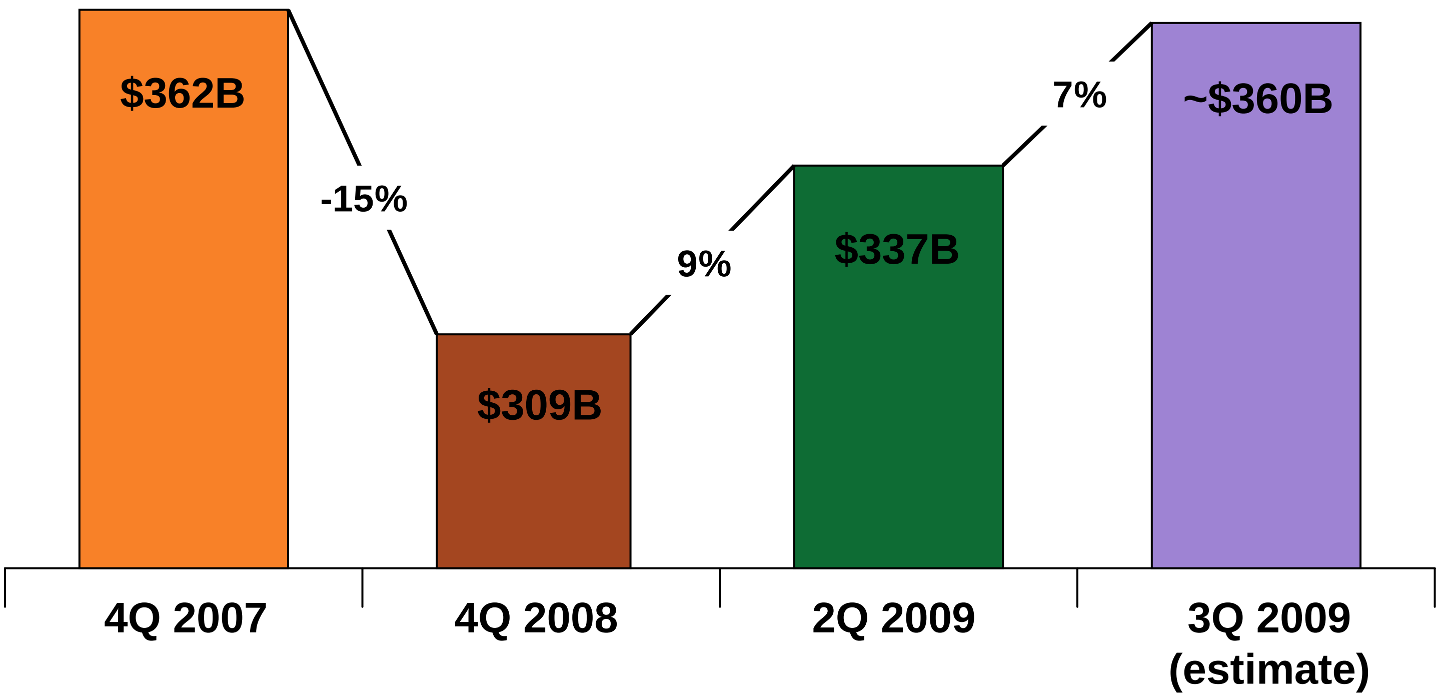
- Government response to the credit crisis has eased fears of a prolonged global recession and the equity markets have responded
- Worldwide equity markets hit a low in March 2009 but have since rebounded, some as much as 50%



Source: Bloomberg

Change in Reinsurer Capital

- Reinsurer capital has rebounded by 9% in H1 2009 after decreasing by 15% in 2008
- Q3 results are showing clear signs of further capital rebound
- Increased reinsurer capital should lead towards a healthy reinsurance market for insurers renewing programs and those looking for additional capacity in 2010



Source: Individual Company Reports; Aon Benfield Analytics

U.S. Property Cat and Risk at June 1 & July 1, 2009

Cat

- **June 1 – Florida – pricing increased by 10% to 15%**
  - **Capacity eased by Citizens program non-renewal**
- **July 1 pricing also saw 10% to 15% increases**
  - **Capacity for hurricane risk continued to be somewhat tight**
    - **However, FL (Citizens) and TX (TWIA) not buying helped to free some capacity**
  - **On regional covers, loss experience was a significant pricing factor**

Risk

- **Pricing continued to firm**
  - **Underwriting discipline around experience and exposure**
  - **Continued focus on cat exposure within program**
    - **Reinsurers reluctant to use cat aggregate for per risk treaties**

U.S. Property Cat Expectations January 1, 2010

- **Downward trend in modeled loss for EQ and frequency changes in RMS should assist companies in securing capacity at favorable prices**
- **United States reinsurance rates for property catastrophe protection are still expected to decline in a light loss scenario**

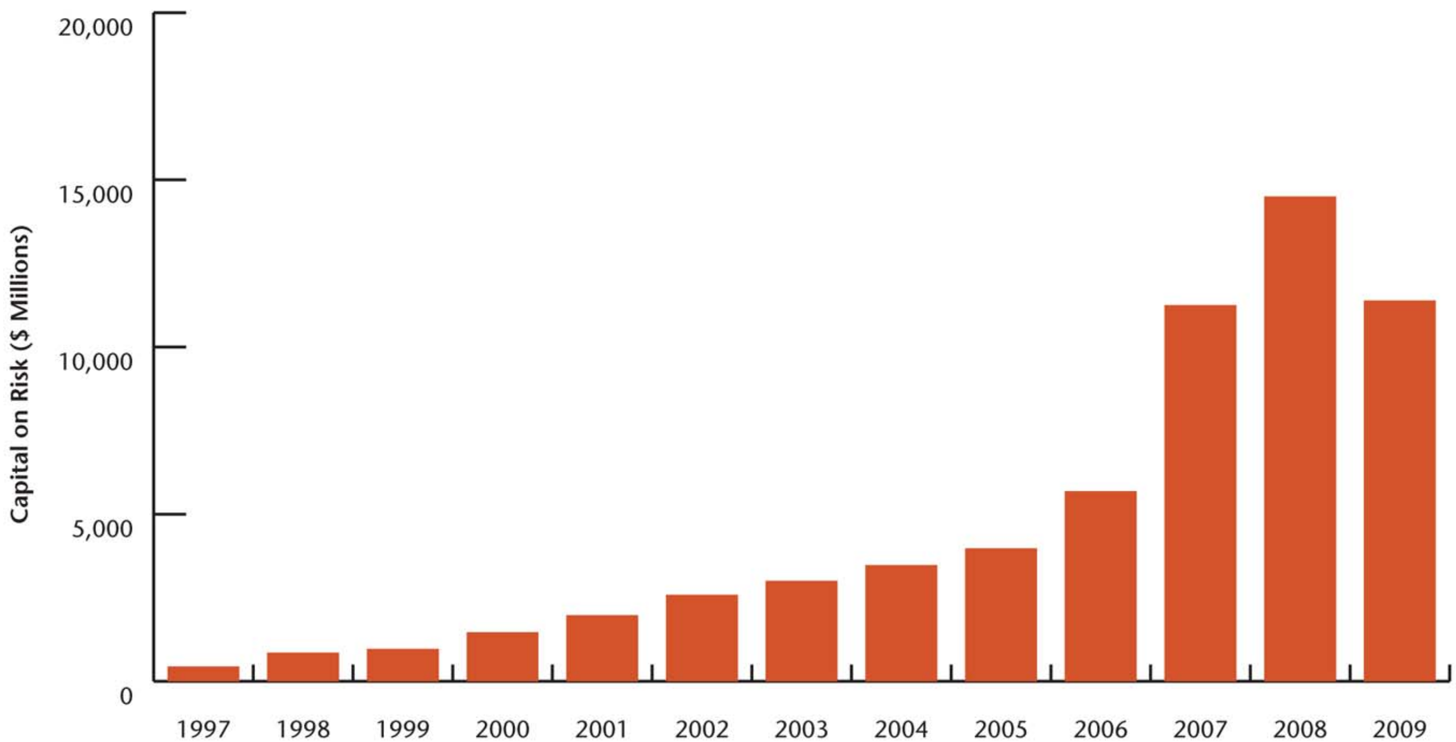
	ROL CHANGES	CAPACITY CHANGES	RETENTION CHANGES
Personal lines national			
Light	-10% to Flat	Stable to +10%	Stable to +10%
Medium	Flat to +10%	Stable	Stable to -5%
Heavy	+10% to +20%	Stable to -10%	Stable to -15%
Personal lines regional			
Light	-15% to -5%	Stable to +10%	Stable to +10%
Medium	Flat to +10%	Stable to +5%	Stable to +5%
Heavy	+5% to +15%	Stable	Stable
Standard commercial lines			
Light	-10% to Flat	Stable to +10%	Stable to +10%
Medium	Flat to +10%	Stable	Stable
Heavy	+10% to 30%	-5% to -15%	Stable to -15%
Complex commercial lines			
Light	-10% to -5%	Stable to +10%	Stable to +10%
Medium	Flat to +15%	Stable to +10%	Stable
Heavy	+15% to 30%	-10% to -20%	Stable to +20%

Assumptions: No changes in insured catastrophe exposures. Rate of change measured from the expiring January 2009 terms. Annual reinsurer catastrophe loss activity defined: Light means reinsurer capital decreases between zero and five percent from catastrophe losses. Medium means reinsurer capital decreases between five and 10 percent from catastrophe losses. Heavy means reinsurer capital decreases between 10 and 20 percent from catastrophe losses.

Source: Aon Benfield Analytics

Catastrophe Bonds

- Although new issuances have declined in the past 12 months, AB Securities expects long-term trend of increasing catastrophe bonds outstanding to resume
- Most recent transactions were upsized and well received
  - Eurus II Ltd - €150 million European windstorm
  - Parkton Re - $200 million North Carolina hurricane



Source: Aon Benfield Securities

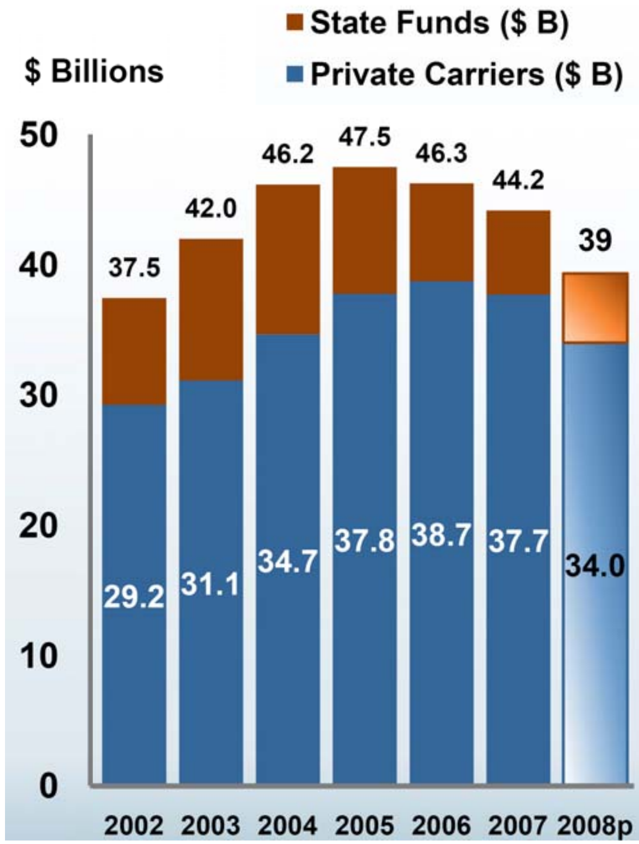
Property Per Risk Expectations at January 1, 2010

- Reinsurance pricing continues to focus on minimizing cat exposure
- Pricing remains based on experience
- Programs with low cat exposure and good experience should see:
  - Margins flat to down
  - Ceding commissions flat to up
- Primary and reinsurance pricing yet to turn the corner
- Reinsurers beginning to reduce participations or walk away from programs where terms are less than quoted

2008 Workers' Compensation Insurance Industry Results

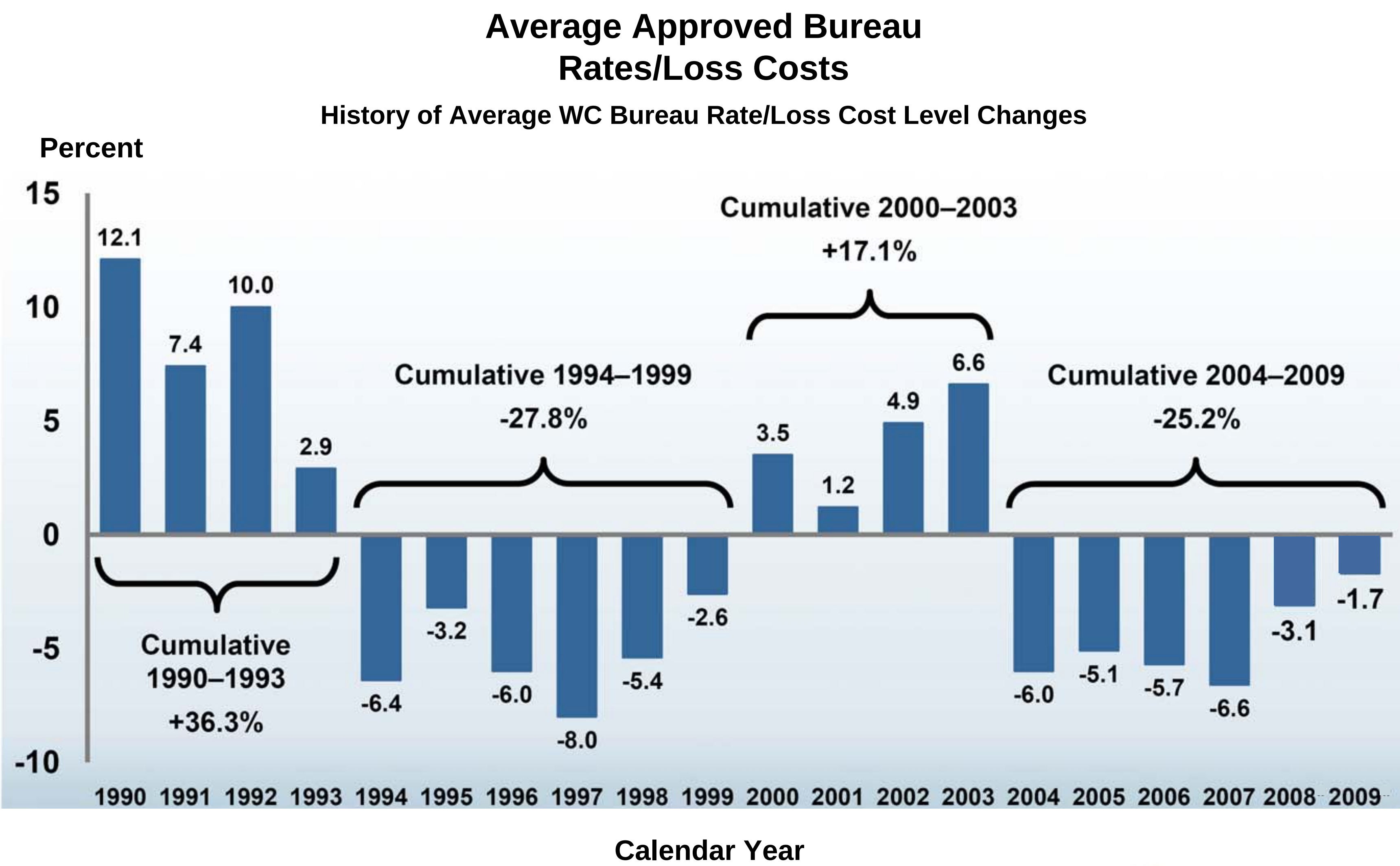
Workers Compensation Premium
Continued to Decline in 2008 (Source - NCCI)

Private Carriers

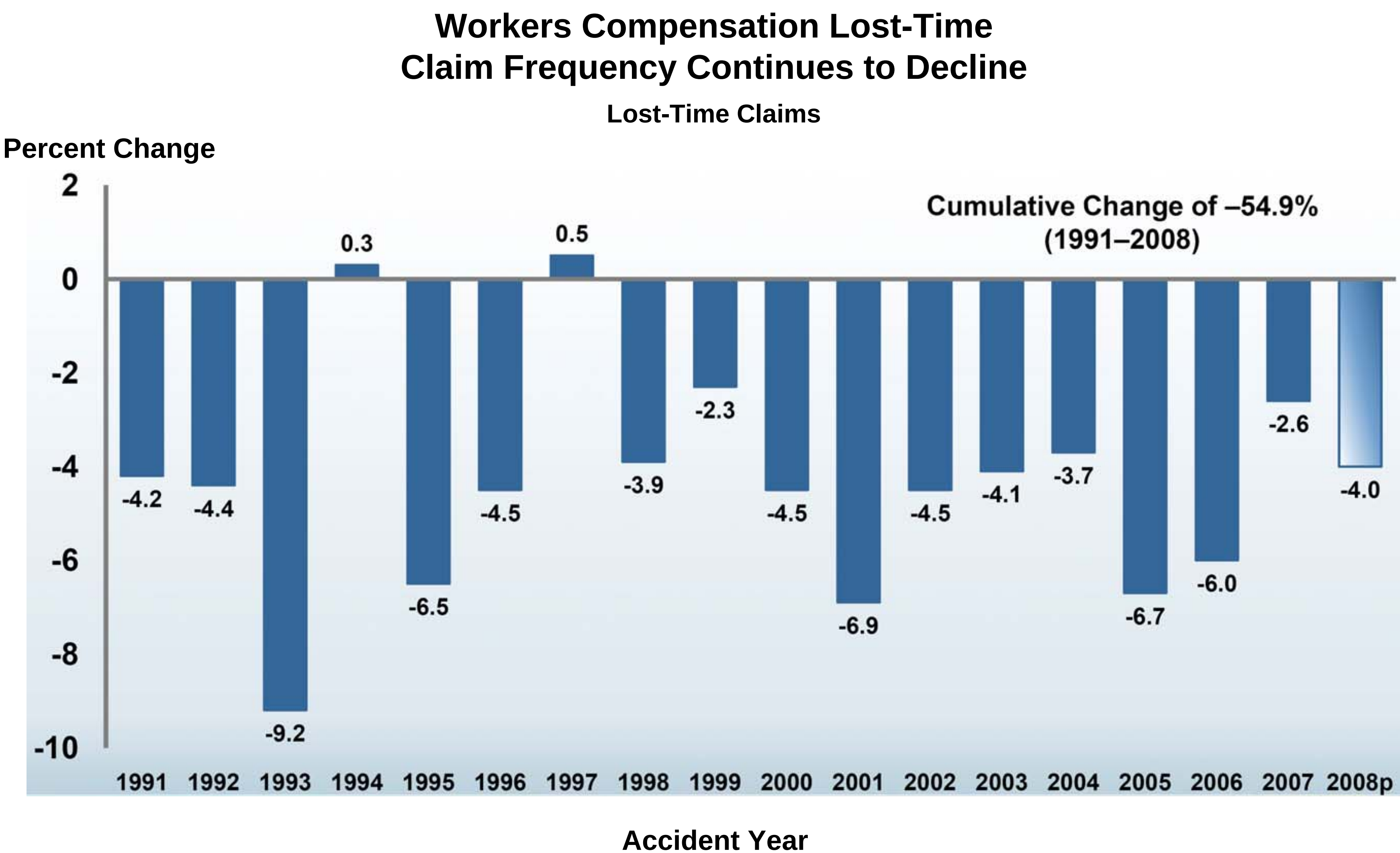


Calendar Year

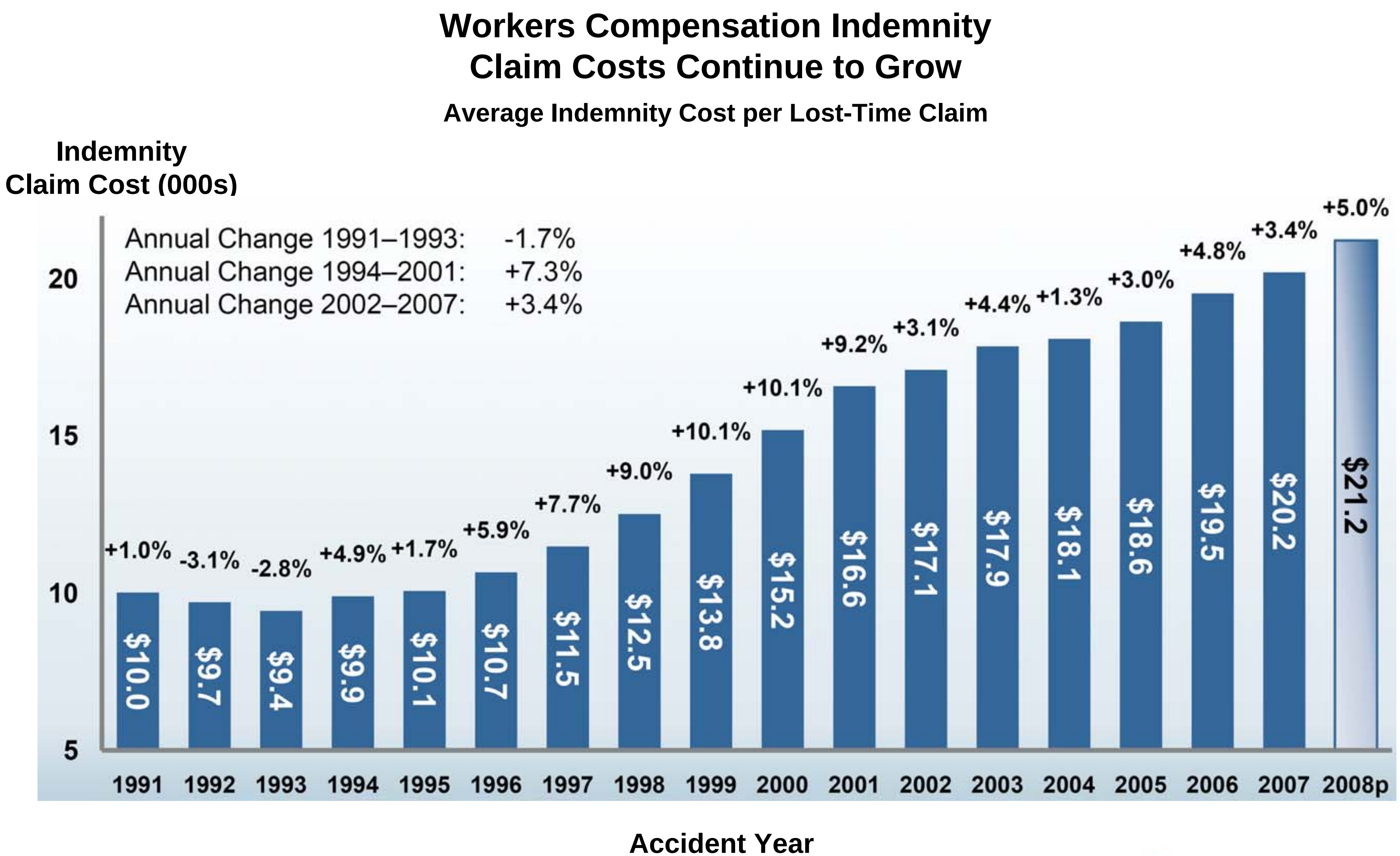
US Trends (Source - NCCI)



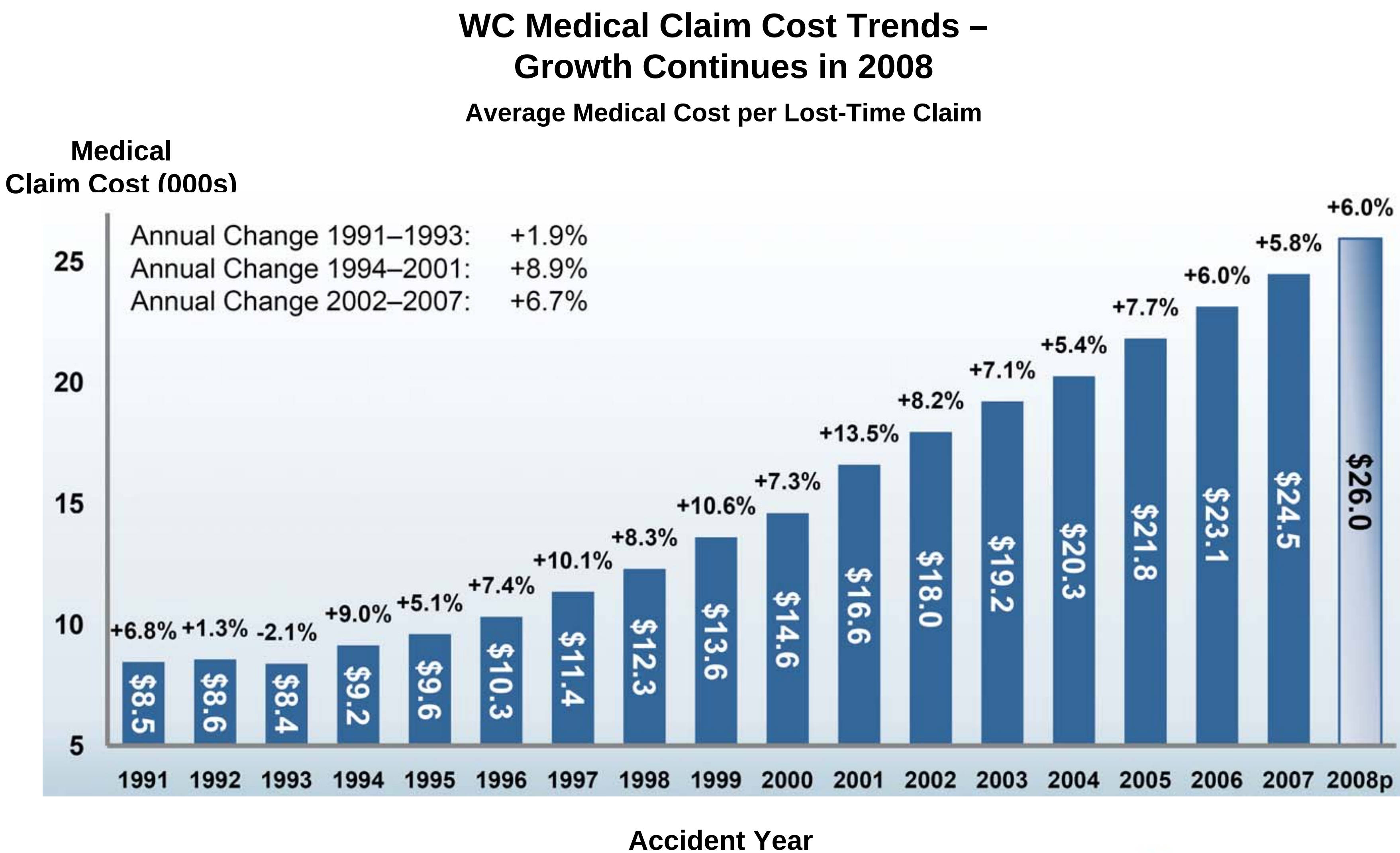
US Trends (Source - NCCI)



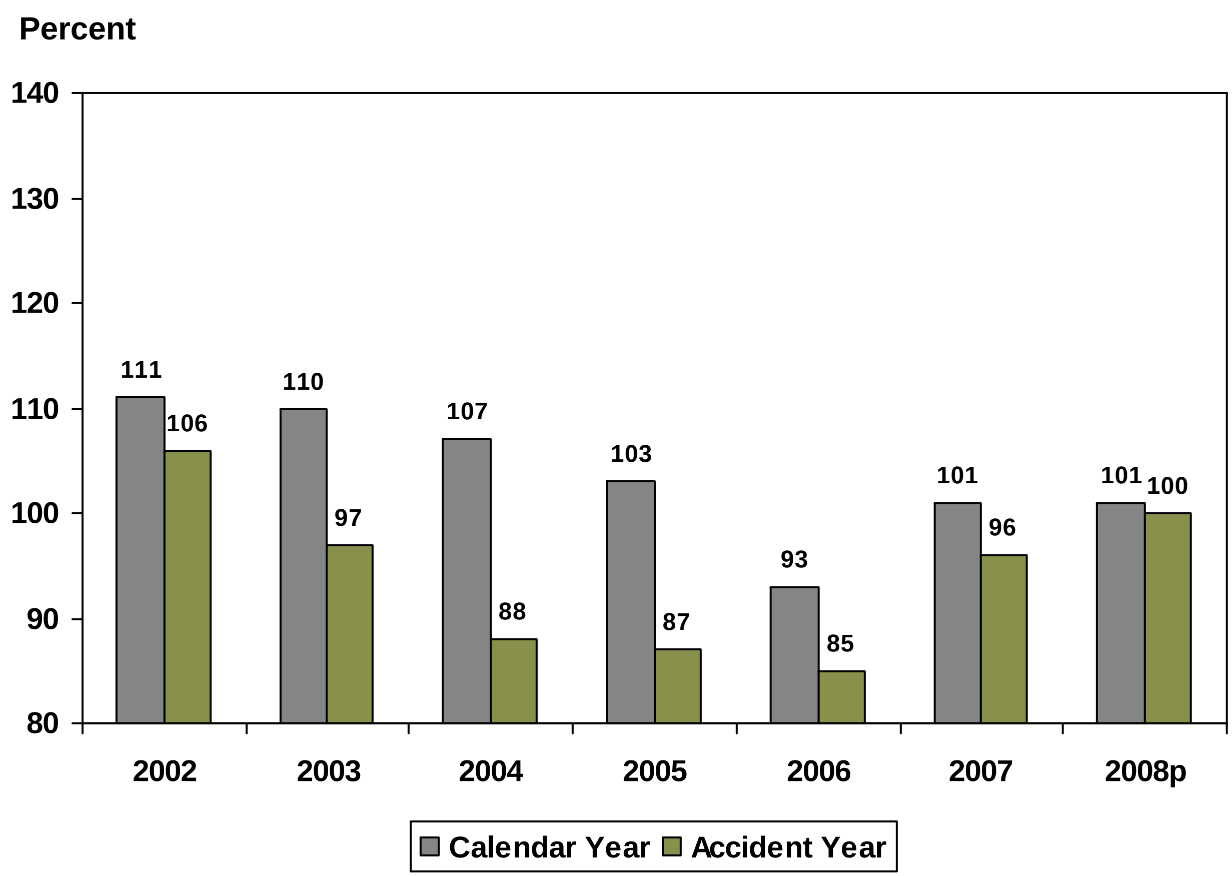
US Trends (Source - NCCI)



US Trends (Source - NCCI)



US 2008 Accident/Calendar Year Combined Ratio – Private Carriers (Source - NCCI)



Workers' Compensation

- **Reinsurance market remains stable**
- **Ample capacity for both working layer and cat**

Workers' Compensation – Working Layer

- Working layer pricing pressed by reinsurers with 5% to 10% rate increases sought as a result of lower investment yields and view that primary pricing inadequate
  - Rate increases successful where account loss ratio demonstrates need
- Reinsurers feel they are near technical minimum rate levels
- Continued focus on loss frequency (down) and severity (up)
- Expansion of medical inflation and utilization
- Increased pandemic concerns for certain business segments
  - Pandemic Exposure (H1N1) – will it be covered?
- The shrinking economy and the influences on cash wages instead of payroll and misclassification of workers = is underlying premium base correct?
- California EN BANC Decisions
  - 2/3/09 – Expansion of Permanent Partial Disability and Loss of Earnings Capacity Awards

Workers' Compensation - Cat

- Cat market competitive both in terms of price and conditions
  - Quiet loss year has seen ROL decreases on most business
  - Maximum any one life limits have increased
  - Capacity for terrorism including NBCR has increased
- Economic impact – payroll declines = Subject premiums down, often below 80% contractual minimum premiums
- New WC model changes released in August may place downward pressure on cat rates for 1/1
  - RMS Risklink v9.0 – approximately 25% decrease in 250yr ground up CA industry loss results
  - That said, many program top layers at or approaching min ROL of ~2.0%

General Liability/Umbrella/Excess

- At July 1, 2009 Casualty Reinsurers remained disciplined and focused on rate movements in the Primary insurance market. We anticipate this to continue into 2010
- Reinsurers continue to allocate capacity to existing clients, although some reinsurers have reduced their involvement
- Start-up capacity is very difficult to obtain, especially if managing personnel do not have strong reinsurance relationships
  - Reinsurers' view is there is too much capacity
  - LR caps and loss corridors are common
  - Ceding commissions typically cost plus not to exceed ~27.5% or less
- Reinsurance terms have firmed for specialty casualty placements where experience has deteriorated, with reductions in ceding commissions and the return of loss corridors and caps
- Low fixed income investment environment on long tail line results in pressure for underwriting margin to drive bottom line results
  - Reinsurer industry default loss ratio pick for Umbrella in the mid 70's%

General Liability/Umbrella/Excess

- More stringent underwriting guidelines and exclusions sought by reinsurers within a few key segments, including trucking, construction, and pharmaceuticals
  - Concerns include:
    - Toxic/tainted drywall
    - “Green” building - LEED Certification – failure to meet
    - Extended project durations
    - New York construction – Third-Party-Over Actions
    - Long haul trucking – severity potential – frequency of loss to lead Umbrella
    - Auto exposure/fleets – loss inflation creeping into lead Umbrella
    - Products Liability – current economic environment resulting in reduced revenue base but not necessarily reduced exposure
    - Stacking across reinsureds on single original risk (mainly Fortune 2000)
- Potential for high inflation problematic for long duration liabilities
  - At least one reinsurer referencing index clauses
- Expect continued Reinsurance market hardening into 2010

D&O and Non-Medical Professional Liability

- **Demand is outpacing supply**
  - **Noticeable interest from cedants with regards to increasing placements**
  - **Interest from non-buyers in coming back to the market**
  - **Recent new entrants/start-ups adding to demand needs**

- **Reinsurance markets currently playing across broad types of accounts are reaching, or are at, full aggregate capacity**
  - **Reinsurers still tracking their own aggregate exposures and support is dependant on a particular portfolio mix**

- **Players on the sidelines are not willing to re-enter until rates show broader strengthening**
  - **Reinsurers attempting to assess credit crisis impact and if it will be contained in 2007/2008 treaty years.**

- **Clear difference in terms/conditions for more established players versus new entrants**
  - **New entrants clearly facing tougher barrier to entry hurdles**
    - **Exclusions**
    - **Sublimits**
    - **Lower Ceding Commission**
    - **Tight Loss Caps**
  - **More established players essentially renewing terms at flat to slightly down depending on program characteristics**
  - **Overwhelming majority of programs remain quota share with cedes from mid 20% to 30% range**
  - **dependent upon portfolio mix some but not all contain loss ratio caps.**

Medical Professional Liability

- **Pricing**
  - **HPL remains most competitive sector of healthcare market**
  - **Decreases on profitable programs**
    - **Driven by profitable period of 2003-06**
  - **Increased ceding commission on quota share programs**
  - **Decrease of frequency and severity is noted by reinsurers**
    - **Frequency has decreased nationally**
    - **Severity is stable in the 4-6% range**

- **Capacity**
  - **Stable to increasing**
  - **Newer entrants to HC – White Mountain Re, Signet Star, American Safety**

Medical Professional Liability

- **Terms and Conditions**
  - **Hospitals**
    - **Typically QS structures**
    - **Flat ceding commissions being implemented rather than cost-plus on QS**
      - **Focus on acquisition costs**
  - **Physicians**
    - **With profits from 2003-2006, deficit carry forwards are being erased and profit commissions are now meaningful to some companies**
    - **Some companies taking lower retentions**
    - **Shared limits for a physician group are now separated. In addition, caps are being removed**

Environmental Reinsurance Market Update

- Capacity has been strong, especially for small-to-mid market CPL
  - Current environmental reinsurance market includes more than 25 participants
- A growing sense of unease with a crowded field
- Most established environmental carriers utilize Q.S. reinsurance; stand-alone or in conjunction with excess of loss (cessions or rated)
  - Few carriers keep environmental portfolios entirely net
- Retentions vary, though significant cedant participation in risk is viewed favorably
- Distinctive business plans and strong reinsurer relationships are vital
- Environmental reinsurers have varied risk appetites
  - Some reinsurers prefer low hazard/middle market sites and services business; however other reinsurers prefer balanced portfolios, including higher hazard multi-year sites and transactional portfolios and services business
- Facultative capacity limited, though improving (esp. on CPL)
- Maximum environmental treaty capacity is $50M
- Ceding Commissions generally in the 27% to 30% range. High end of the range - shorter limits, loss ratio caps, profitable experience and/or premium volume support

Surety

- Relatively Few Reinsurers
  - Less than 20 reinsurers makes up the entire market
  - Less than 10 recognized “lead” reinsurers
  - However, markets are well rated and financially secure
- Pricing
  - Discovery based loss reporting (claims made) allows for quick pricing changes (no tail) on experience
    - Strong actuarial involvement on all pricing
    - No consistency on exposure valuations produces wild swings in quotes
  - Current market is tight and opportunistic
    - 1/1/09 Rate increases were the rule; 15% or more with recent loss history
    - 1/1/10 Rate Increases are likely but subject premium will be down by 15% to 20% on average
  - Terms & Conditions are relatively hard and will stay that way
    - Reinstatements tend to be paid at 50 or 100 in most cases
    - Exclusion lists are long
    - Pressure on retention

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Surety

- **Primary Concerns Are Driving the Hard Market**
  - **Economic conditions may force many contractors into default**
    - **Tight municipal budgets mean less construction work**
    - **Banks are Restricting and sometimes Sweeping loans and/or credit line**
  - **Subdivision Developers have presented frequency and some severity losses**
    - **Housing market collapse took many developers down**
  - **Commercial Surety**
    - **Auto Dealers**
    - **Financial institutions**
  - **Cost of Capital increases puts more pressure on rates**

- **Capacity Is Adequate for all but the largest sureties**
  - **Domestic Market makes up the overwhelming majority of reinsurers**
  - **European Market is growing but are considered “following” players**

Trade Credit

- Cyclical business that produced excellent results 2003 - 2007

- Global economic crises resulted in losses in 2008 and probably 2009 as well
  - But reinsurers may fair better than insurers in 2009

- Insurers have taken significant corrective steps to reduce claims levels resulting in:
  - Lower exposure levels
  - Increased rates
  - Policy cancellations
  - Lower premium volume in some cases
  - Some profitable policies lost to self-insurance

- Reinsurance renewals in 2009 saw lower capacity and tighter terms
  - Swiss Re recently announced a dramatic reduction of its aggregate exposure

- 2010 should be a profitable year for the underlying business but reinsurance is likely to still be tight
  - easing of reinsurance terms unlikely, capacity availability an issue
    - Some new markets looking to enter
      - Ariel Re has announced they will
  - Barring unforeseen economic issues, 2010 very likely to be profitable for reinsurers

Marine & Energy

- 2008’s Hurricane Ike loss disproportionate to reinsurers causing:
  - Significant capacity reduction in 2009
    - Capacity redeployed to other areas to achieve better diversification
  - Price increases
  - Some offshore underwriters considerably reduced purchase of wind cover
- Looking at 2010, with benign season rates unlikely to harden
- Conditions expected to remain stable for non-energy-exposed business

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Summary

- 3rd quarter reinsurer results very good
- Ongoing soft market across most lines expected at 1/1/2010 with some line specific exceptions as noted
- Reserve releases likely nearing exhaustion
- M&A activity may take some capacity out of the market
- 2010 should be a telling year
  - Will the economy rebound?
  - Will unemployment go down?
  - Have we reached the bottom of the pricing trough?