



November 2010

The state of the market after the financial crisis

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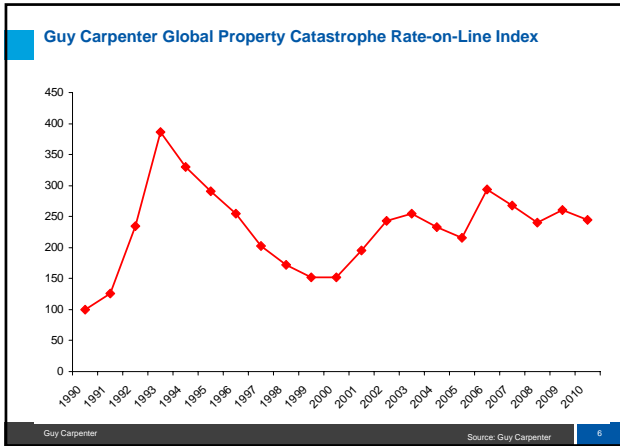
The state of the market after the financial crisis

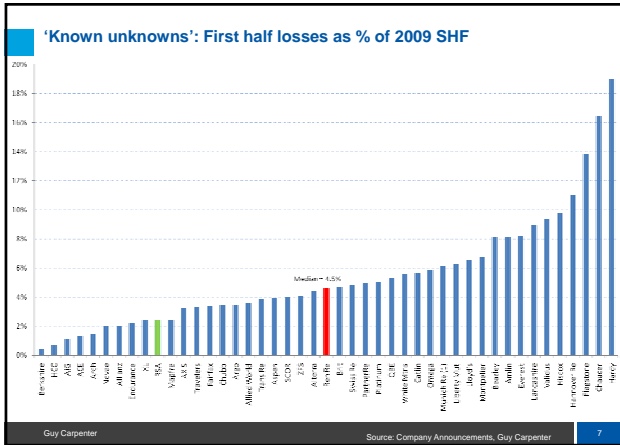
Overview

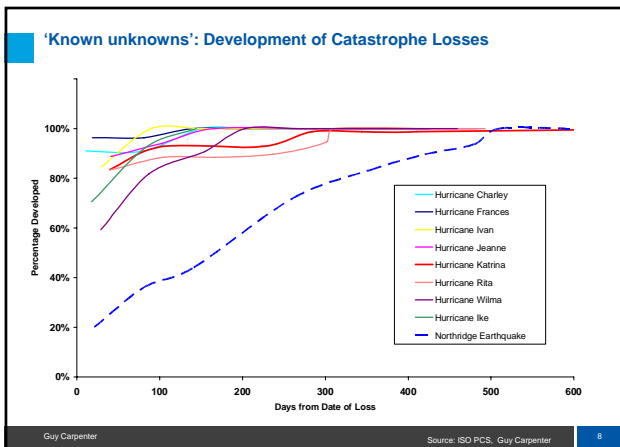
- Capital development before, during, and after the crisis
- Price reaction to the crisis and subsequent shocks
- Market indicators and rating agency actions during the crisis
- Post-crisis investment returns and other pressures
- Outlook and the 'new normal'



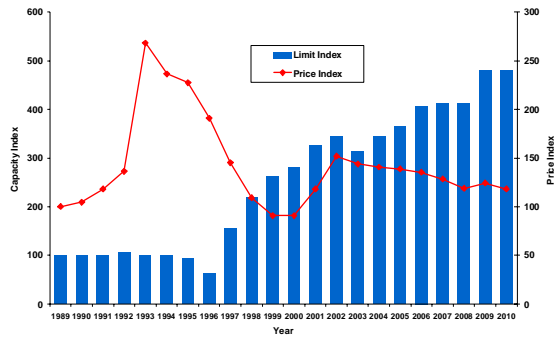
Capital development before, during, and after the crisis







Japanese Earthquake Catastrophe Excess of Loss at 1 April
Market Capacity and Pricing - Non Life Companies

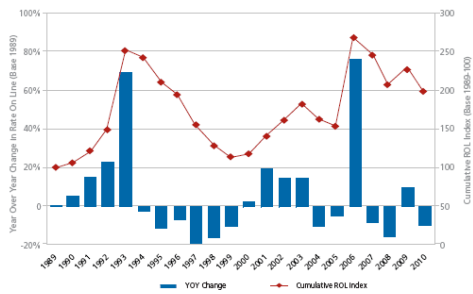


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Source: Guy Carpenter

9

Cumulative property catastrophe reinsurance pricing to 1 July



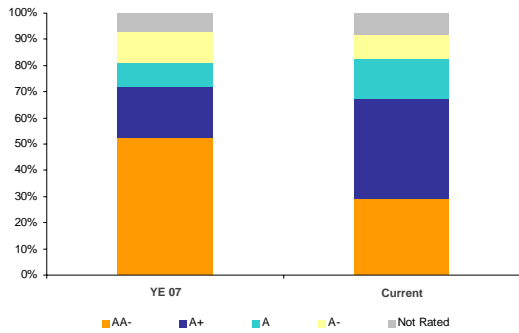
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10

Market indicators and rating agency actions during and after the crisis



Reinsurance capital by S&P rating



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Source: Guy Carpenter, Standard & Poor's

15

Summary

- Balance sheet restoration
- Lower pricing
- Generic single "A" market
- Shareholders demanding return of capital
- *Clouds on the horizon: Yields, reserves, price stability, underwriting cycle, Solvency II, sovereign risk, catastrophe budget depletion*

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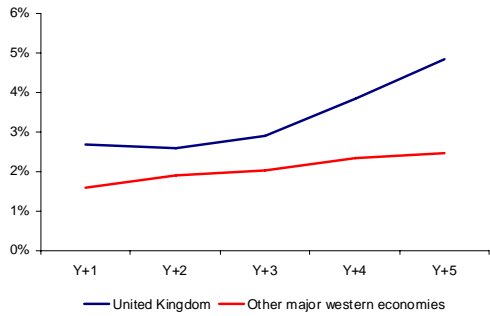
16

Post-crisis investment returns and other pressures



Expectations matter more

Derived forward rates of inflation

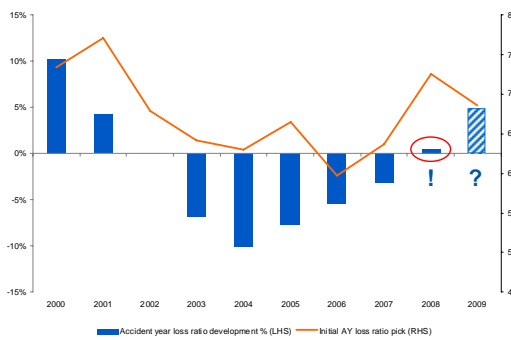


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Source: Guy Carpenter, Bloomberg Data

21

US P&C initial accident year loss ratios & subsequent development

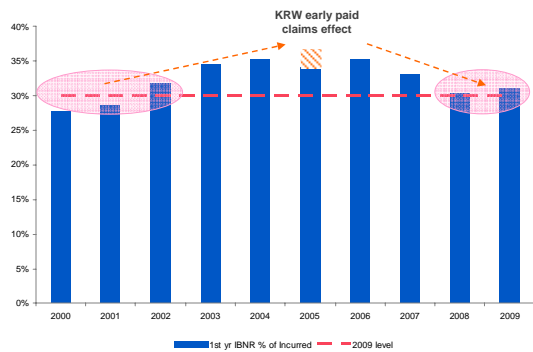


Source : Guy Carpenter, Highline Data

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22

US P&C first year % IBNR

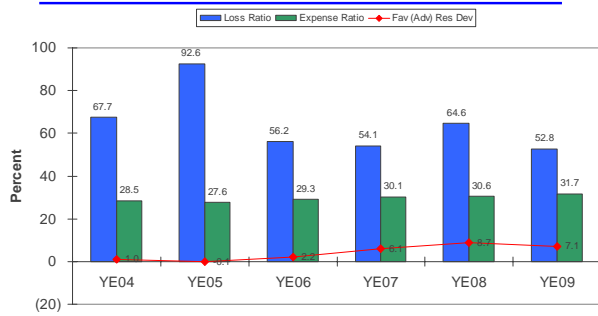


Source : Guy Carpenter, Highline Data

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23

Loss reserve development favourable impact diminishing
 Bermuda Composite weighted by premium

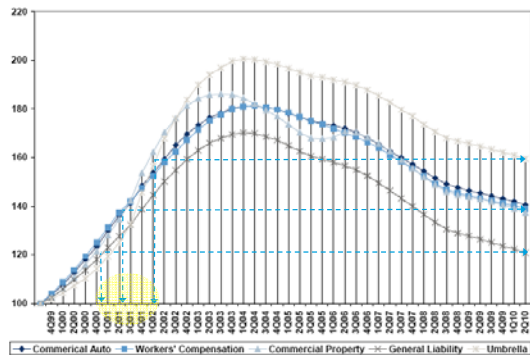


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34



US commercial pricing approaching 'soft market' levels of 2000 - 2001



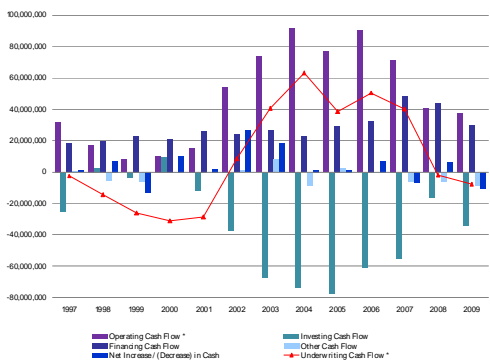
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Note: Timelines superimposed by Guy Carpenter

25



US P&C cash flows diminishing

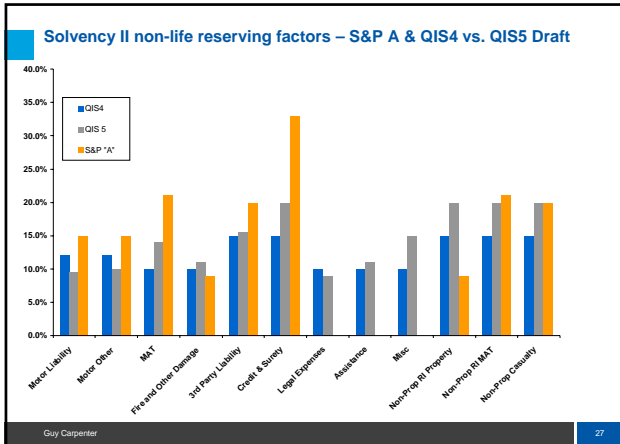


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Source: Guy Carpenter, US statutory data

26





Outlook and the 'new normal'

2011 post-crisis outlook – Returns under pressure


- **Bottom line pressures**
 - Weak investment yields
 - Reserve deterioration
 - Inflation
 - 1H accident year underwriting
- +

▪ **Top line pressures**

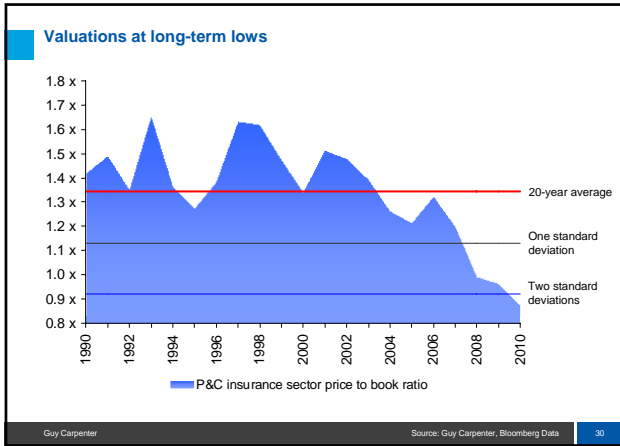
 - Lower premium volumes:
 - Recession overhang
 - Short-term price cutting
 - Regulation – more capital per risk
- =

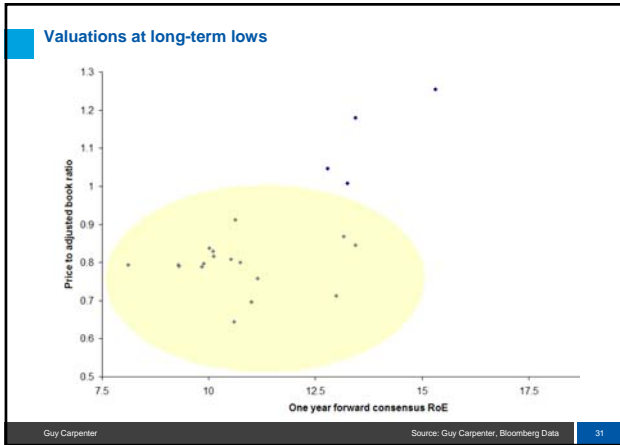
▪ **Pressure on returns:**

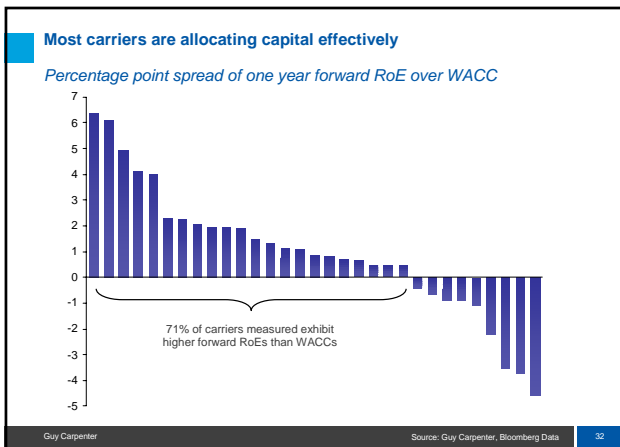
 - Lower valuations
 - Consolidation
 - Return of capital



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