CAS Annual Conference

State of the Reinsurance Market

November 12-13, 2012

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2012/13 Reinsurance Market Update

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2012 Catastrophe renewal summary

- Buyers presented modeling results that displayed the average of two models and presented deterministic scenarios as well
  - Many companies chose not to buy additional cover in response to RMS v11
- Exposure change and actual losses drove pricing to a greater degree than the impact of RMS v11
  - Reinsurers used blended results and proprietary PML approaches
  - Quotes based off last year's quotes and in many cases exceeded 20% increases
- Significant amount of turnover on placements with international reinsurers providing more capacity than in prior years
- There was more interest in aggregate covers and reinsurers are selectively offering capacity
- The release of Best's SRQ changes pressure some buyers to reconsider their approach to cat risk management and reinsurance buying habits in 2012

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Best’s SRQ Changes

- Management’s view of cat loss exposures
  - Insurers are now requested to provide their view of their cat risk relative to that of the model output, regardless of the type or number of models used
- Increased level of transparency
  - Respondents are being asked to provide loss estimates on both an aggregate and an occurrence basis
  - If a sensitivity analysis was performed, respondents are asked to provide the three assumptions that produced the greatest variations in loss amounts for the 100-year and 250-year return periods
    - Example: storm surge
  - If multiple models are used, A.M. Best has requested output from each model separately
  - If a deterministic loss scenario analysis was performed, respondents are asked to provide loss estimates for those events

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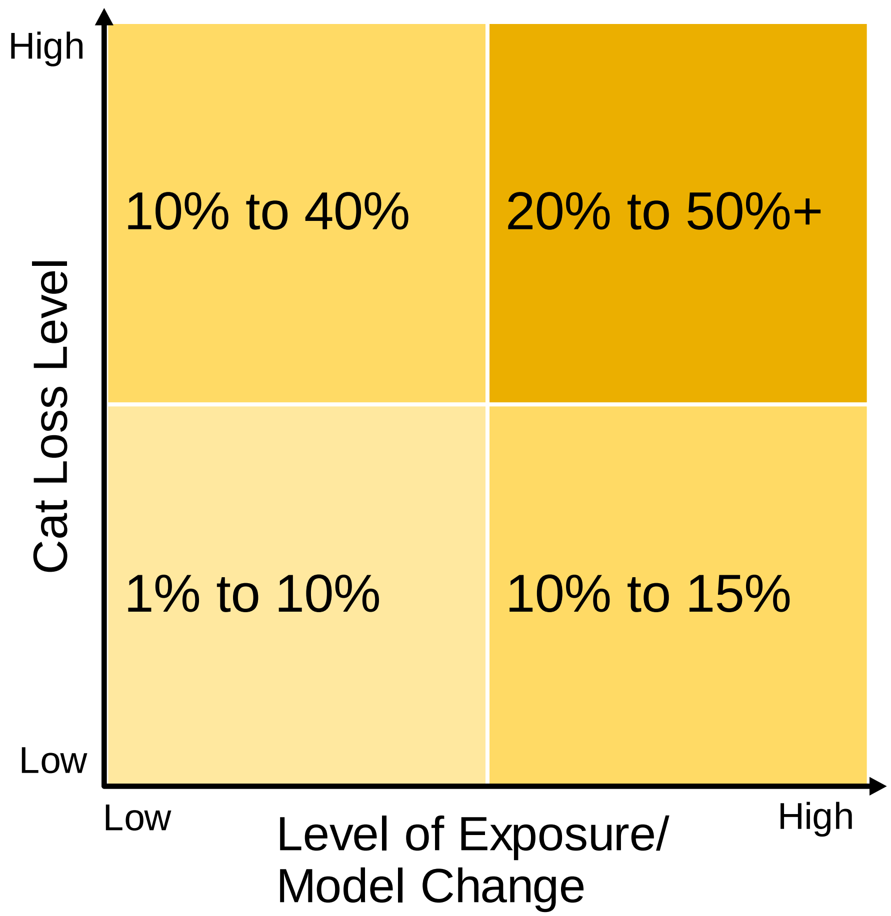
U.S. property cat pricing at January 1, 2012



Property Cat Pricing Contributing Factors

- Severity of loss and layers impacted
- Frequency of events
- Region of exposures
- RMS model change magnitude
- Competitiveness of expiring pricing
- Size of catastrophe limit
- Level of catastrophe attachment

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U.S. property per risk reinsurance renewals

- Quotes based on individual program characteristics
  - Recent loss experience
  - Exposed values
  - Primary rate changes
- Pricing generally +/-5% over expiring
  - Increased frequency of fire losses weighing on experience
  - Reinsurers taking a shorter historical view for experience rating
  - Primary rate increases helping to keep reinsurance rate increases muted
- Increased cat pricing not a significant factor for per risk pricing

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Casualty General overview

- During 2012, Towers Watson observed a U.S. casualty market that was treading water
  - Reinsurance pricing overall was flat
  - Some casualty programs saw some low single-digit price increases
    - Original rates were moderately down or flattening for most casualty lines
    - Disparity between insurance and reinsurance pricing continues to narrow
- Primary pricing still concerning
  - Sluggish economic activity continued to erode casualty rating bases
  - Increased frequency and medical inflation (WC)
  - Exposure to systemic loss events and large ECO losses
  - Concerns about reserve adequacy/adverse development
  - Poor investment returns mean much higher scrutiny on underwriting
- Reinsurance supply was flat with some differentiation based on attachment
  - Working Layers – ample capacity, rate changes of -5% to +5%
  - Cat/Clash – capacity more than adequate, rates flat (some inc in ROL)
- Terms and conditions were largely as expiring
  - One reinsurer's "under priced" account often became another reinsurer's "new" account

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Casualty General overview — market observations

- Cedants and reinsurers shared similar concerns (much the same as last year)

Casualty Pricing — Contributing Factors
• Rate adequacy at the primary level • Sluggish economic activity continued to erode/hold back casualty rating bases • Increased frequency and medical inflation (WC) • Exposure to systemic loss events and large ECOs • Concerns about reserve adequacy/adverse development • Poor investment returns mean much higher scrutiny on underwriting

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Workers' compensation reinsurance renewals

- Reinsurers and cedants alike express concern with the workers compensation line, but few exit
- WC varies widely by state and class so commentary is "general"
- Top line revenue has begun to stabilize for many cedants
- Original pricing moderately positive — adequacy remains a major concern in relation to loss cost
- Actuarial analysis rather than market forces is key pricing determinant for reinsurers
- Many reinsurers have or plan to alter their required underwriting profit margin to reflect a lower investment return environment
- Reinsurance rates were flat to +2.5% for per-person exposed layers

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Workers' compensation reinsurance renewals

- Reinsurance price drivers are: Lack of investment income, frequency and severity trends (which are up), perception of case reserve adequacy/adverse development
- Reduced reinsurer appetite for WC exposure within the first $1m
- Cedants continued a trend of retaining more risk
- Most buy for large single person losses xs $1m, and/or for multi claimant cat events
- WC cat ROL's flat to slightly down — many major cedants dropped limits purchased
- Capacity plentiful — reinsurers keen to utilize budgeted WC aggregate
- Little placed below 2 ROL with California quake exposed accounts higher
- Trend to increase Maximum Any One Life (MAOL) limitations above $5m, often up to $10m

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Professional liability summary

- Core long-term group of reinsurers remains stable with just a few new entrants
- “Disciplined” reinsurance softening — rates flat to down
- Expanded coverage often given to avoid reinsurance price reductions
- Cedants retained more risk given strong surplus growth, particularly in Med Mal
- M&A continues in the Medical Malpractice arena, which has led to a reduction in reinsurance transactions/premiums
- Early signs of original price increases in Lawyers/Accountants E&O
- In general, market remains very competitive for all PL lines

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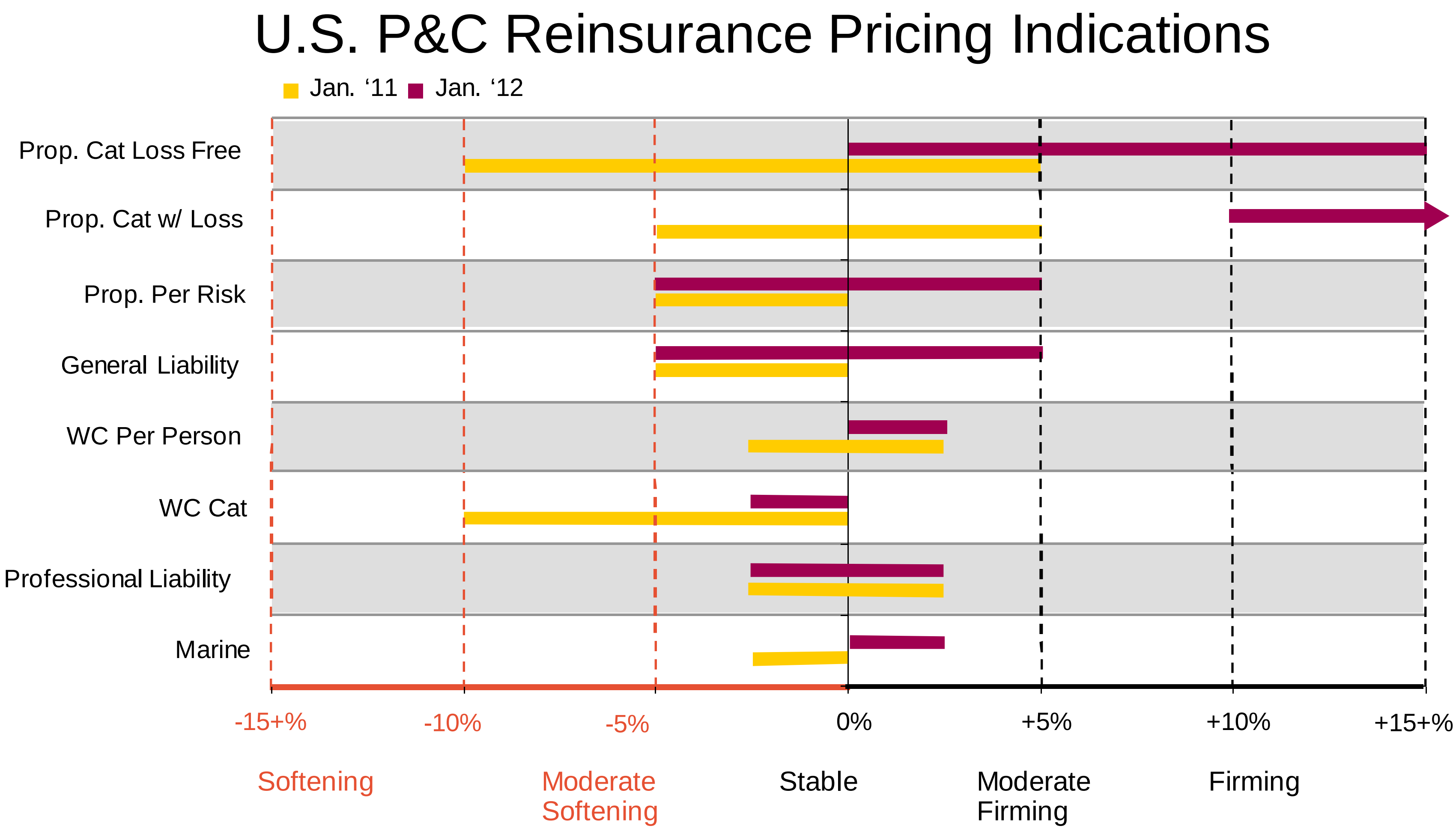
January 1, 2012, North American reinsurance update

- We are observing measurable changes in reinsurance pricing trends



Source: Towers Watson.

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We expect supply and demand factors will support a moderate shift in 2013 U.S. reinsurance renewal pricing trends…

Reinsurer Supply Factors	Supply Effect
• Record global cat losses; cat budgets spent; higher wind PMLs from RMS v11	-
• Weaker accident-year returns; redundant reserves decline; low investment yields	-
• Strong reinsurer capital, with moderate reductions in cat capacity/appetite	+/-
• Contingent sidecar/ ILW capital, but expensive retro capacity	+/-
• Favorable prospective operating results expected from property rate firming	+
Overall Supply: Ample capacity, but will be constrained for cat-exposed business; significant capacity on the sidelines	**Flat to Up**

Insurer Demand Factors	Demand Effect
• Severe convective storm & Hurricane Sandy losses; higher wind PMLs RMS V11	+
• Weak accident-year results; redundant reserves “dry-up”; low investment yields	+
• Fear of medical inflation	+
• Budget pressure from weak top-line growth, offset by stabilizing rates	+/-
• Strong insurer capital; higher retentions	-
Overall Demand: Flat demand for traditional cover except high-end cat limit; strong interest in managing net volatility	**Flat to Up**

U.S. Reinsurance Segment	2013 Pricing Outlook
Casualty	**Stable**
Property	**Stable**
Cat-Exposed Property	**Moderate Firming**

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Despite being well capitalized, the P&C (Re)Insurance Industry faces ongoing pressures, particularly the commercial lines sector

- Pricing accuracy / discipline (cycle management)
- Catastrophe risk management
- Reserve adequacy
- Record-low (re)investment returns
- Enterprise risk management

Rating Outlooks by Agency

Sector	S&P	A.M. Best	Moody's	Fitch
U.S. Personal Lines	Stable	Stable	Stable	Stable
U.S. Commercial Lines	Negative	Negative	Stable	Stable
Global Reinsurance	Stable	Stable	Stable	Stable

Sources: Standard & Poor's, A.M. Best, Moody's and Fitch publications.

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Going forward, several factors could accelerate hardening market conditions in property and begin hardening casualty lines

- Event-driven
  - Significant and/or unexpected wind, quake and convective storm losses
  - Significant and/or unexpected regulatory and/or legislative changes
  - European Sovereign Debt crisis and reigniting of global financial crisis (“Round 2”)
  - Increased rating agency downgrades for underperforming and volatile insurers

- Financial-driven
  - Redundant reserves are exhausted
  - Negative cash flows become more prevalent
  - Increasing inflation

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Florida Property Reinsurance Update

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Florida today – 2012 by the numbers

- More than 18.8 million people call Florida home
  - 4th most populous State
  - 7.4 million households need insurance coverage totaling $2.3 trillion TIV
- Key Statistics
  - More hurricanes have made landfall in Florida than any other region since 1851
  - Total Residential Homeowners premium: $9.2 billion
  - Total Florida Reinsurance premium ceded: $3.8 billion or 41% of total premium
  - RMS v11 100 year Residential PML is currently estimated at $89 billion – greater than all other coastal states combined making it by far the largest "peak wind zone" in the world
  - RMS v11 Residential AAL estimated at $7.5 billion (4.5 times greater than Texas – the 2nd highest state) and represents 59% of the entire east coast's AAL of $13.4 billion
  - Total Florida AAL (Residential and Commercial) of $12.5 billion
- **The Big One!** $215 Billion 1:250Event
  - Who is going to pay when this happens?

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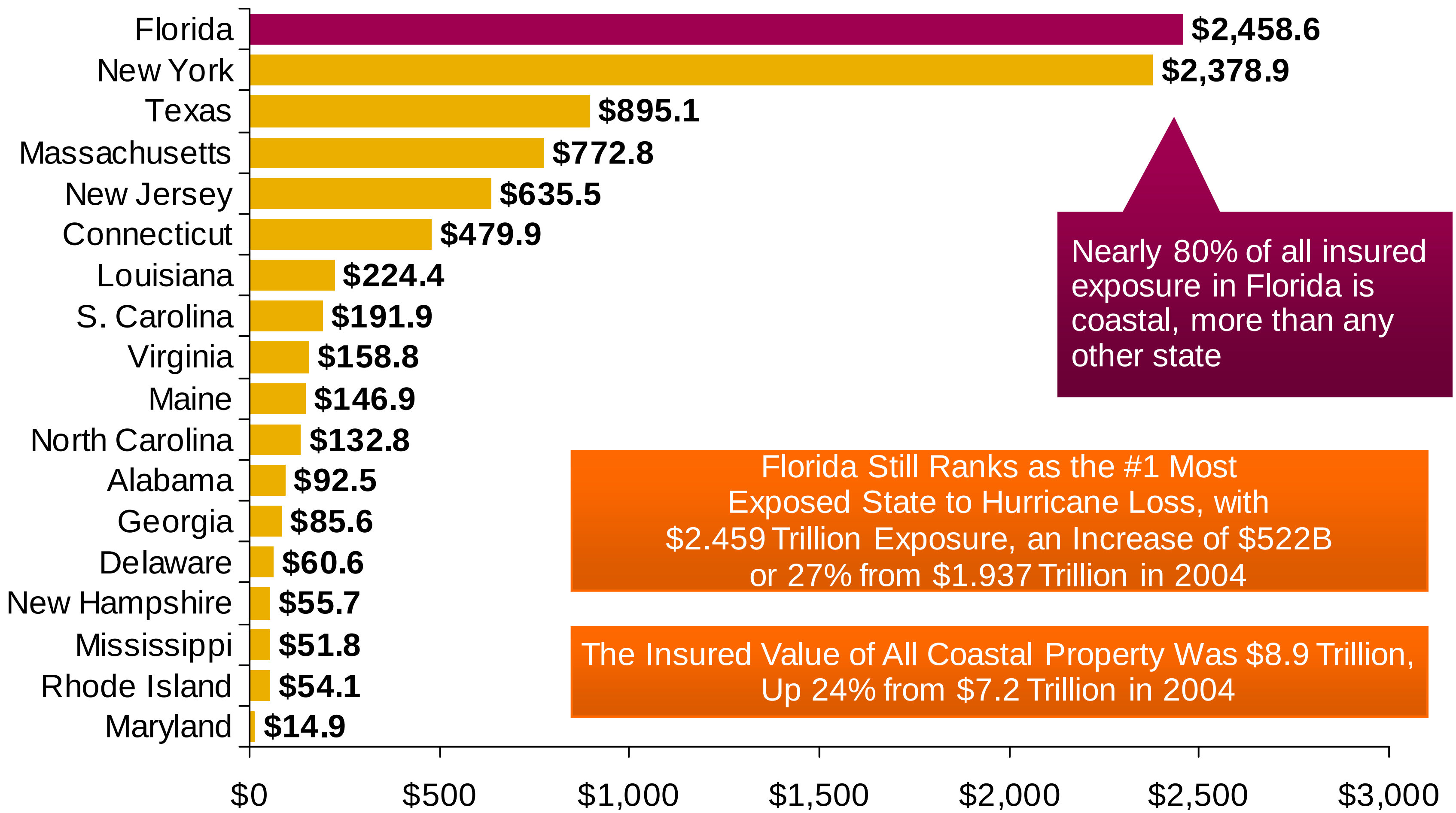
Total Value of Insured Coastal Exposure ($B)



*Latest available.
Source: AIR Worldwide

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June 1, 2012 Florida Reinsurance Renewals

- Large International catastrophe losses but no Florida Hurricanes in over 6 years

- Reduced coverage from the FHCF
  - Elimination of the $10M Limited Apportionment Layer - $400m
  - Reduction in the TICL Layer from $6B to $4B – (Only $964m of which was purchased in 2011)
  - Increased Cost of TICL Layer 500% Rating Factor for 2012/13

- Citizens Property Insurance Company
  - $750M Catastrophe Bond – Everglades Re
  - $750M Open Market Reinsurance
  - $1.5B Pre-Event Bonding Note

- New Sidecar / Collateralized Market Capacity
  - Added $4.94 billion in additional capacity in 2011
  - Added $2.58 billion in additional capacity in 2012

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June 1, 2012 renewals — A Florida update

- During the 2012 renewal period, Towers Watson's Florida Practice Group has met with 25 reinsurers in Bermuda and 27 reinsurers in London
- Out of the 25 Bermuda markets, 12 have indicated having additional capacity for Florida clients, and only 3 reduced in Florida capacity. The rest have cited flat capacity for 2012, with the potential of adding extra for the right program or for existing clients
- Out of the 27 London markets, 18 maintained renewal capacity, often with the possibility of additional capacity for select players. Similarly, 8 London reinsurers increased their Florida exposure, with only 1 reducing Florida capacity
- Markets are increasingly looking to promote differentiation between companies on the basis of quality, which is being reflected in pricing. With flat capacity, many reinsurers are reducing the number of programs they participate on, but writing larger lines

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June 1, 2012 renewals — A Florida update

- Traditional placements were between +5% and +10% of the prior Firm Order Terms
- Increase in capacity in the layers in and around the Florida Hurricane Catastrophe Fund (London)
- Increase in program capacity
- Companies issued Firm Order Terms at a discount to the average quote of approximately 7%. All of the programs were successfully completed with ample authorizations and capacity
- In summary, for the risk-adjusted returns the 2012 year was relatively flat.

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