



State of the Insurance Market and Future Outlook



The global reinsurance market

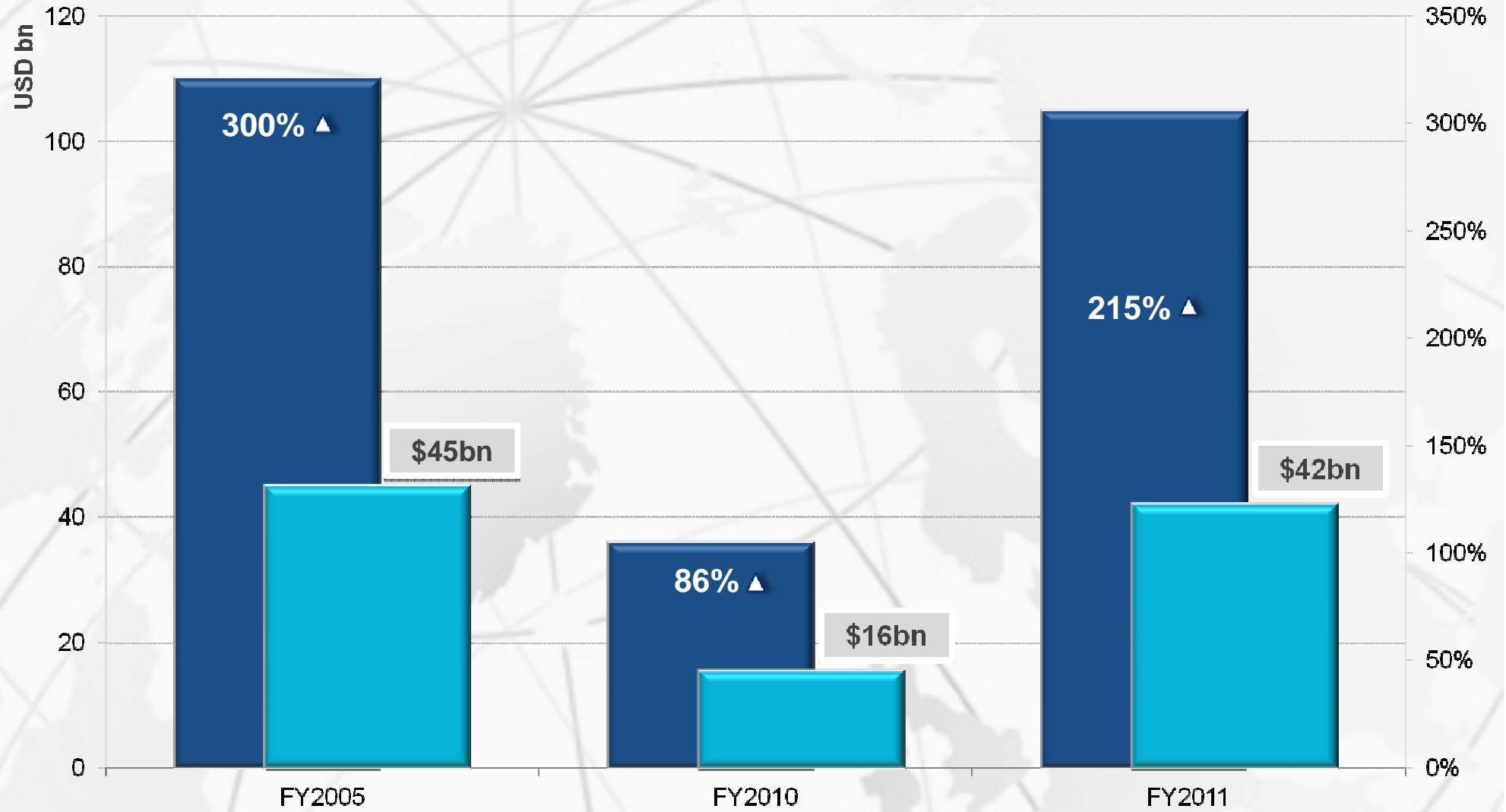
Catastrophes, cold spots and capital



Loss Activity

Significant Catastrophic Loss for 2011, Reinsured Losses

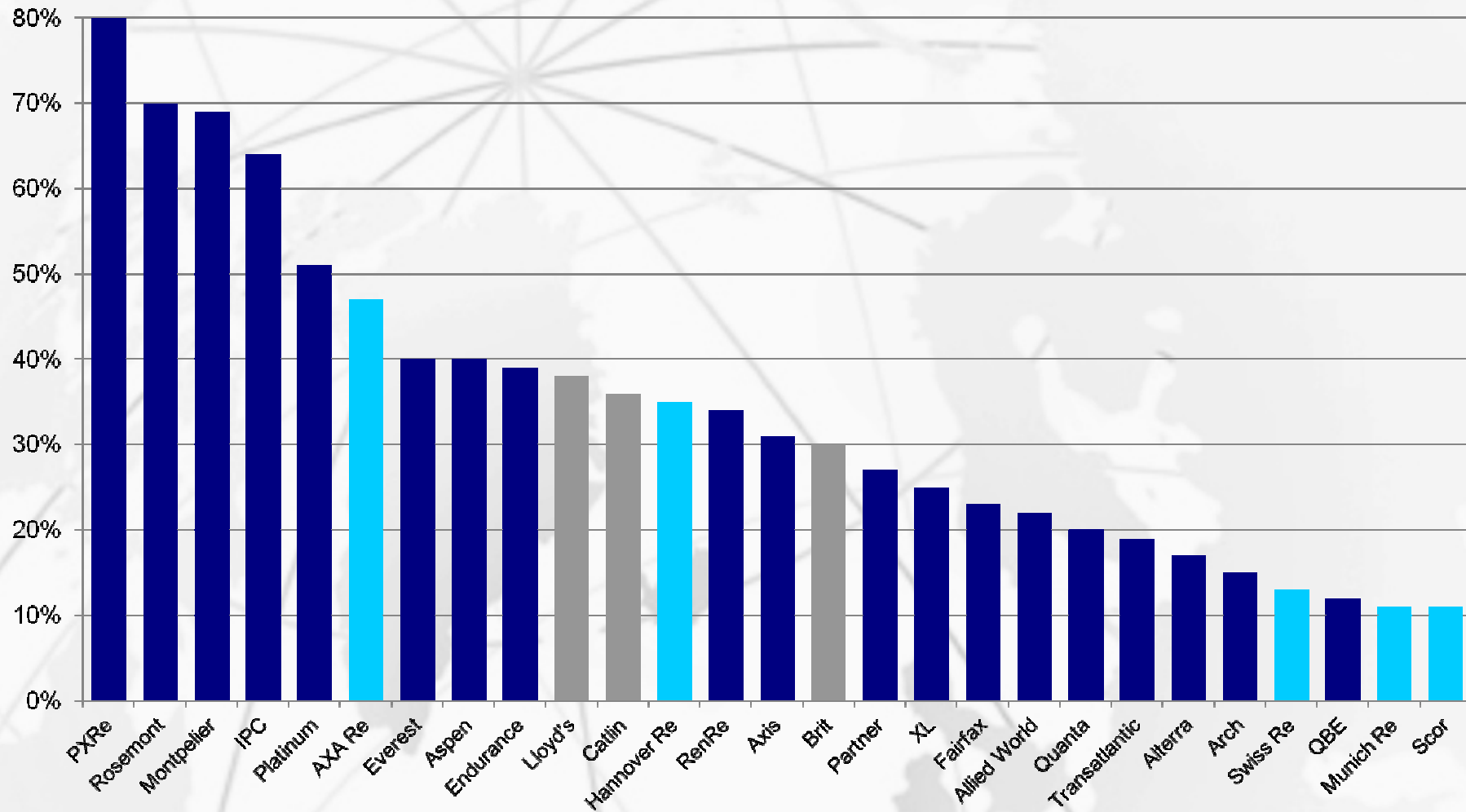
■ Insured Cat Loss ■ Reinsured Cat Loss ▲ Est. Reinsured Cat Loss Ratio



Loss activity

Catastrophe losses as % of prior year-end shareholders' funds

FY2005

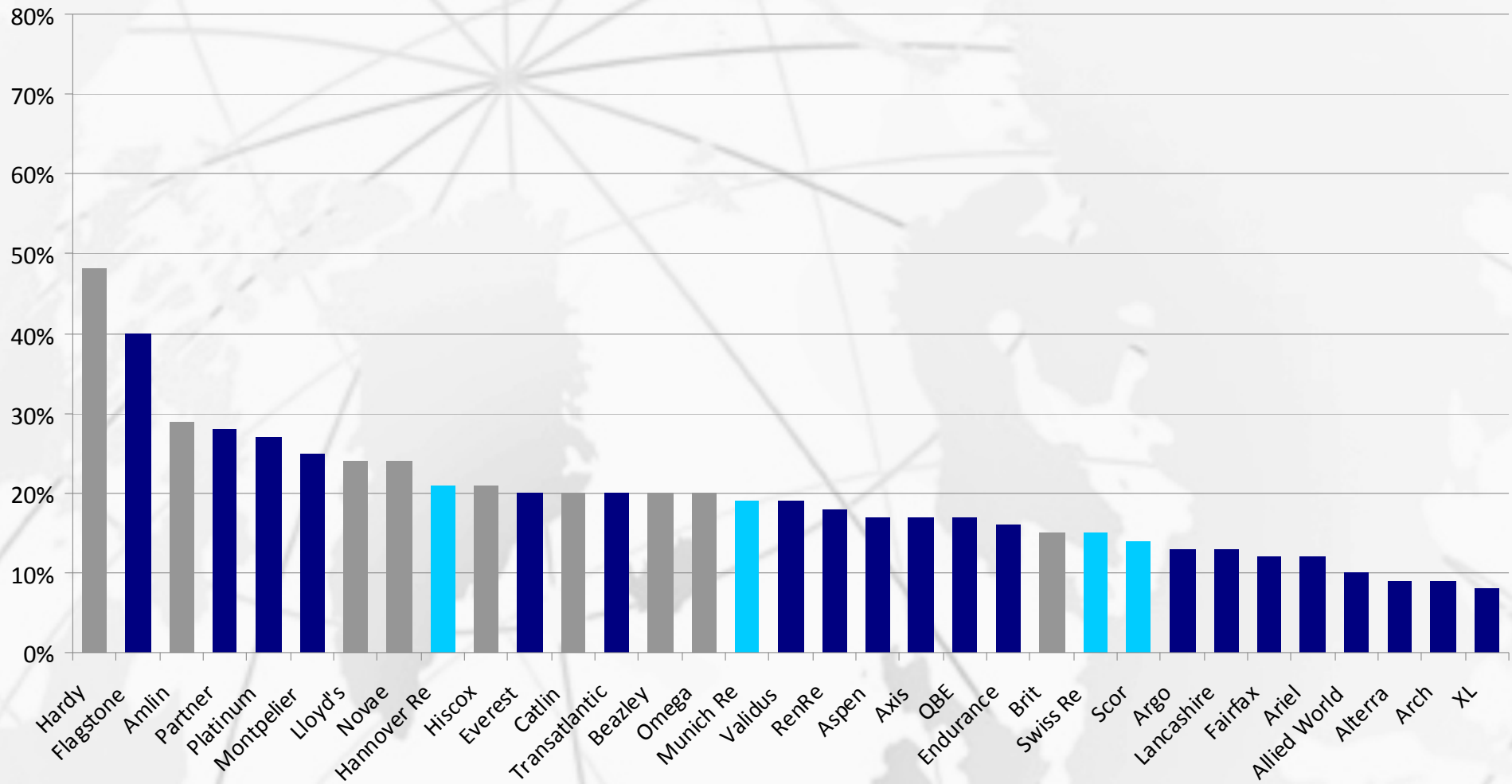


Source: company disclosure, Guy Carpenter

Loss activity

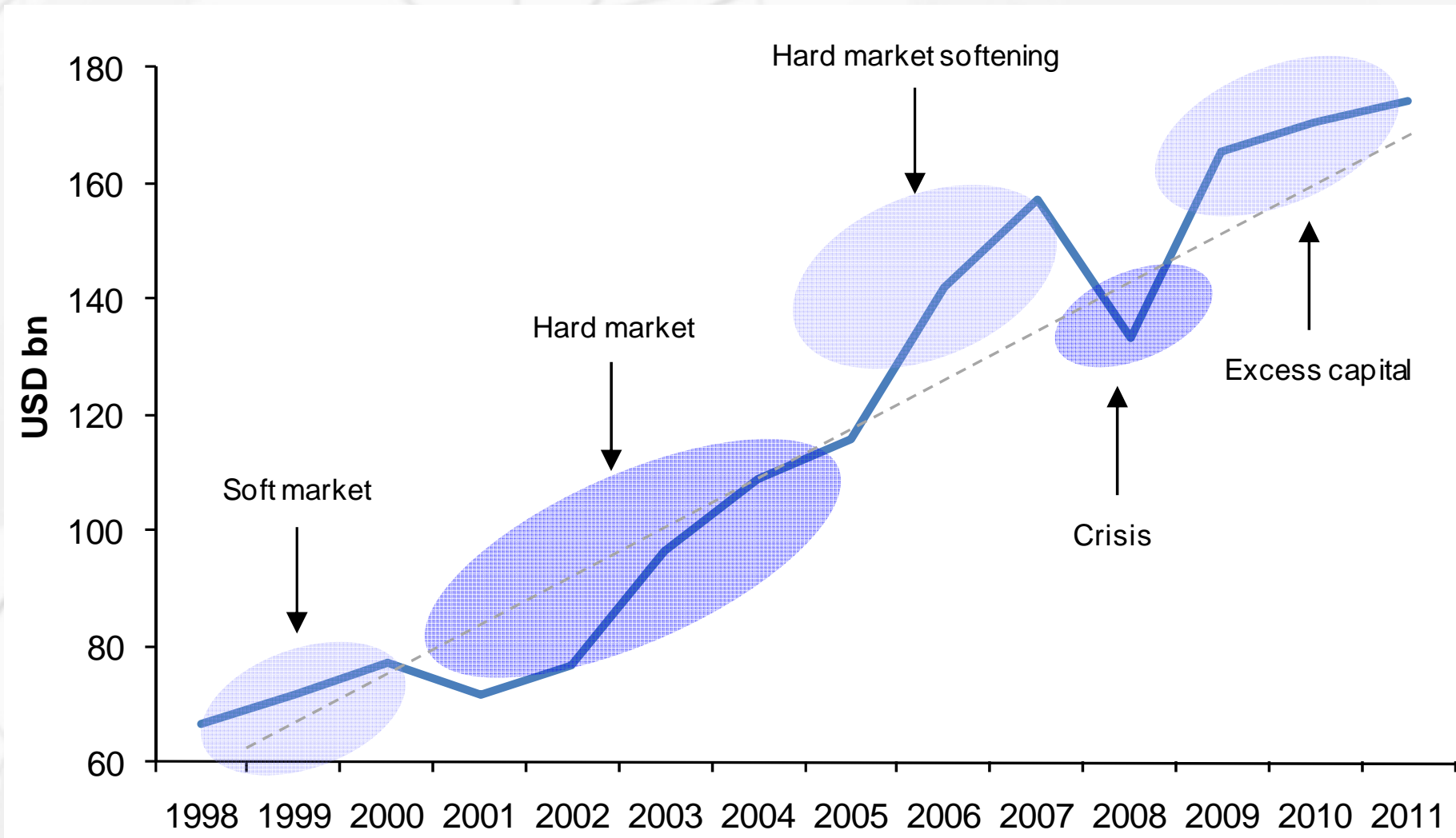
Catastrophe losses as % of prior year-end shareholders' funds

FY2011



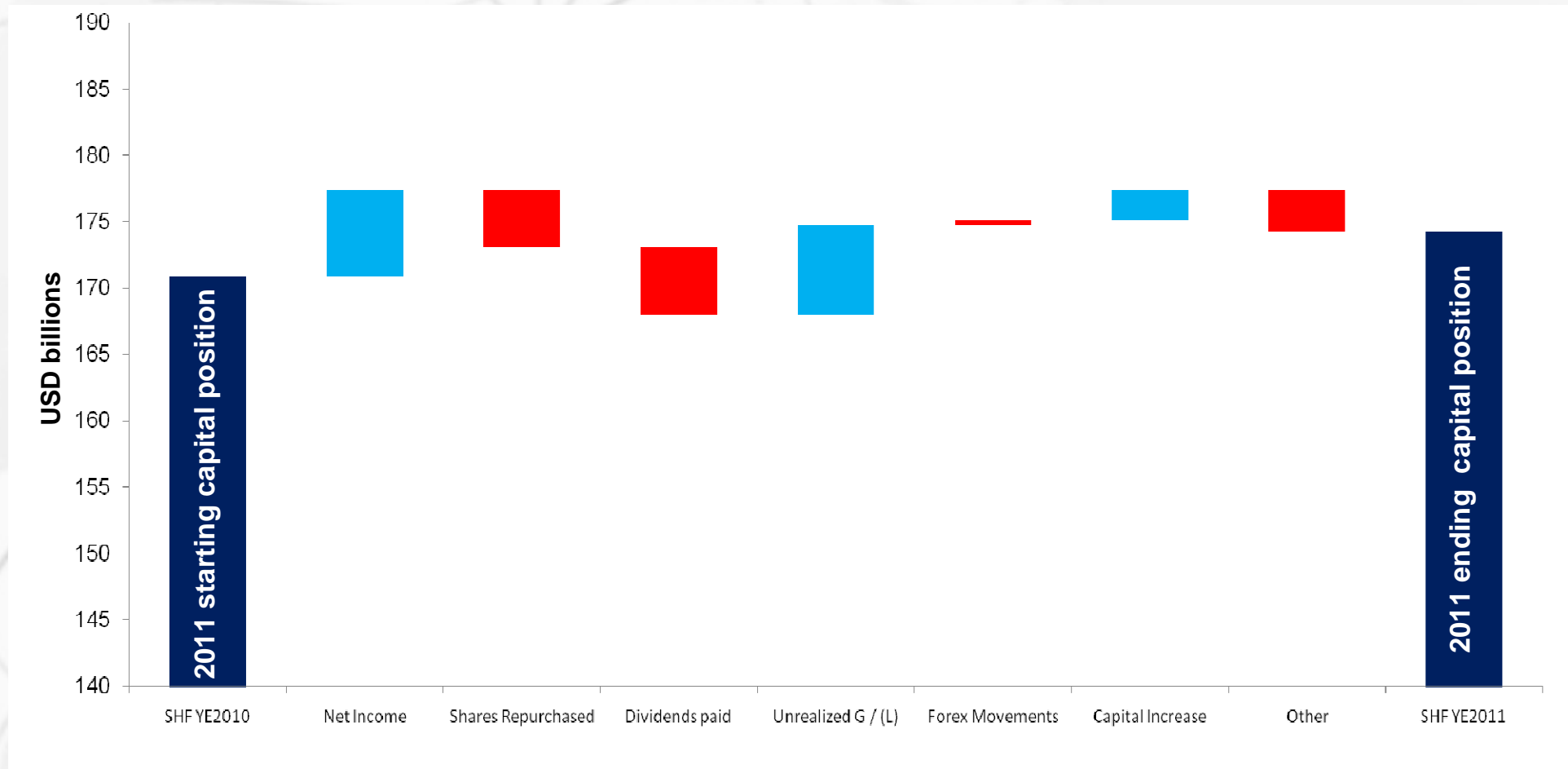
Long-term evolution of GC Reinsurance Composite shareholders' funds

Still in excess of historical trends

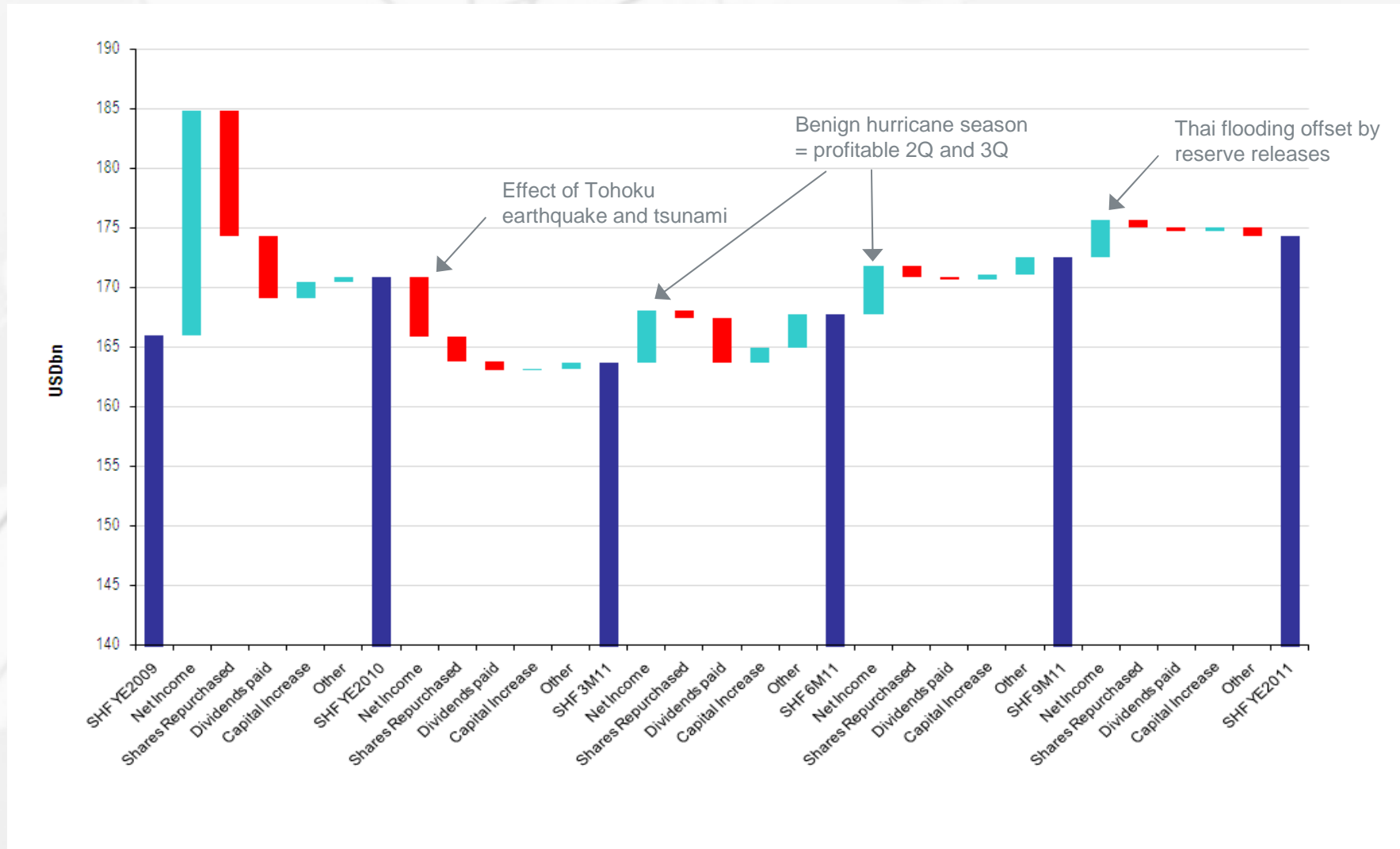


GC Composite capital: one year only Industry remains well-capitalised

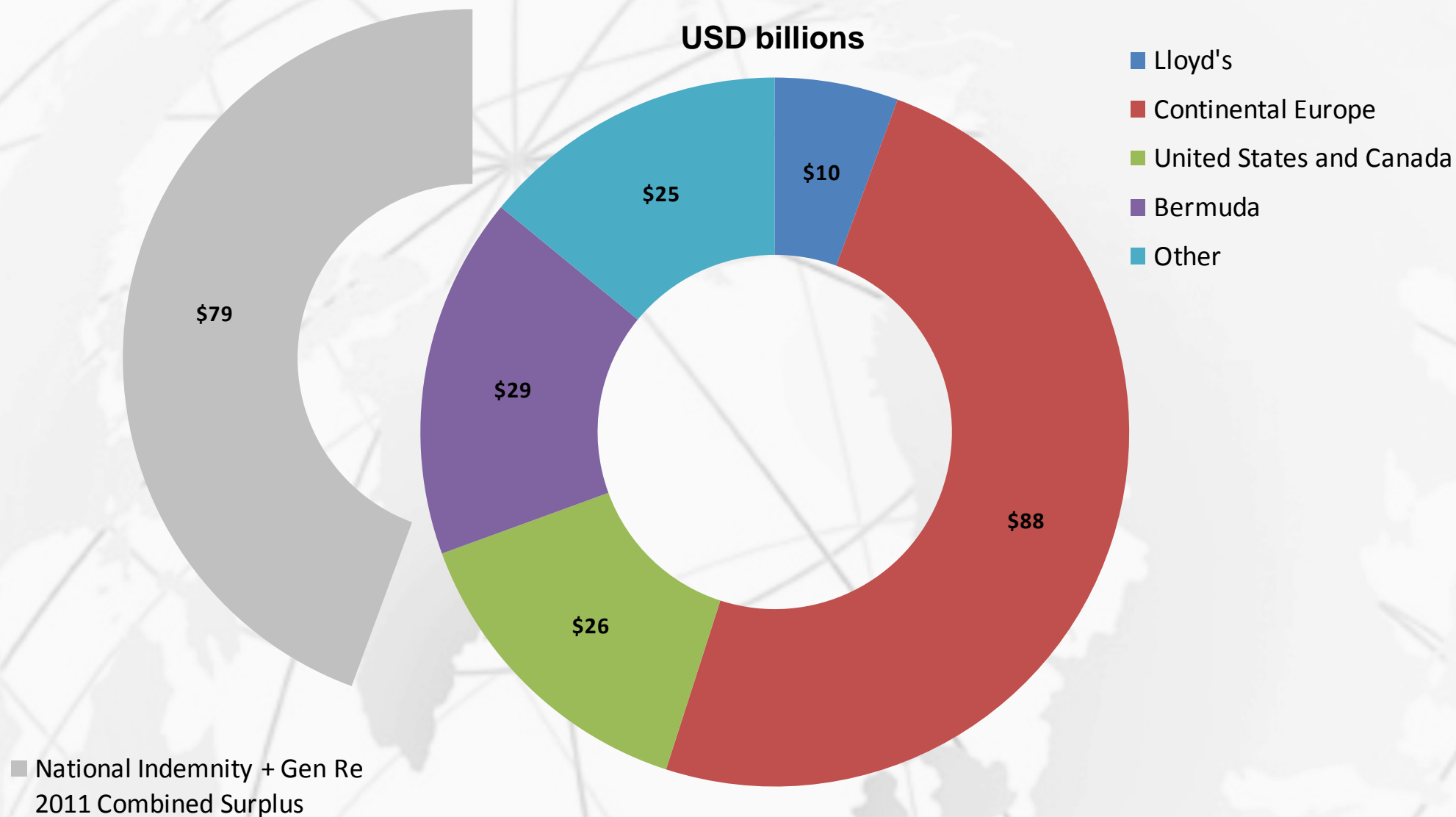
- ***Even after an estimated \$108 billion of catastrophe losses, equity is roughly unchanged from year end 2010!***



Evolution of shareholders' funds for the GC Reinsurance Composite: 2009 to 2011



YE 2011 global reinsurance dedicated sector capital by platform / region



Source: Guy Carpenter estimates, National Indemnity Co, General Reinsurance Co Annual Statements

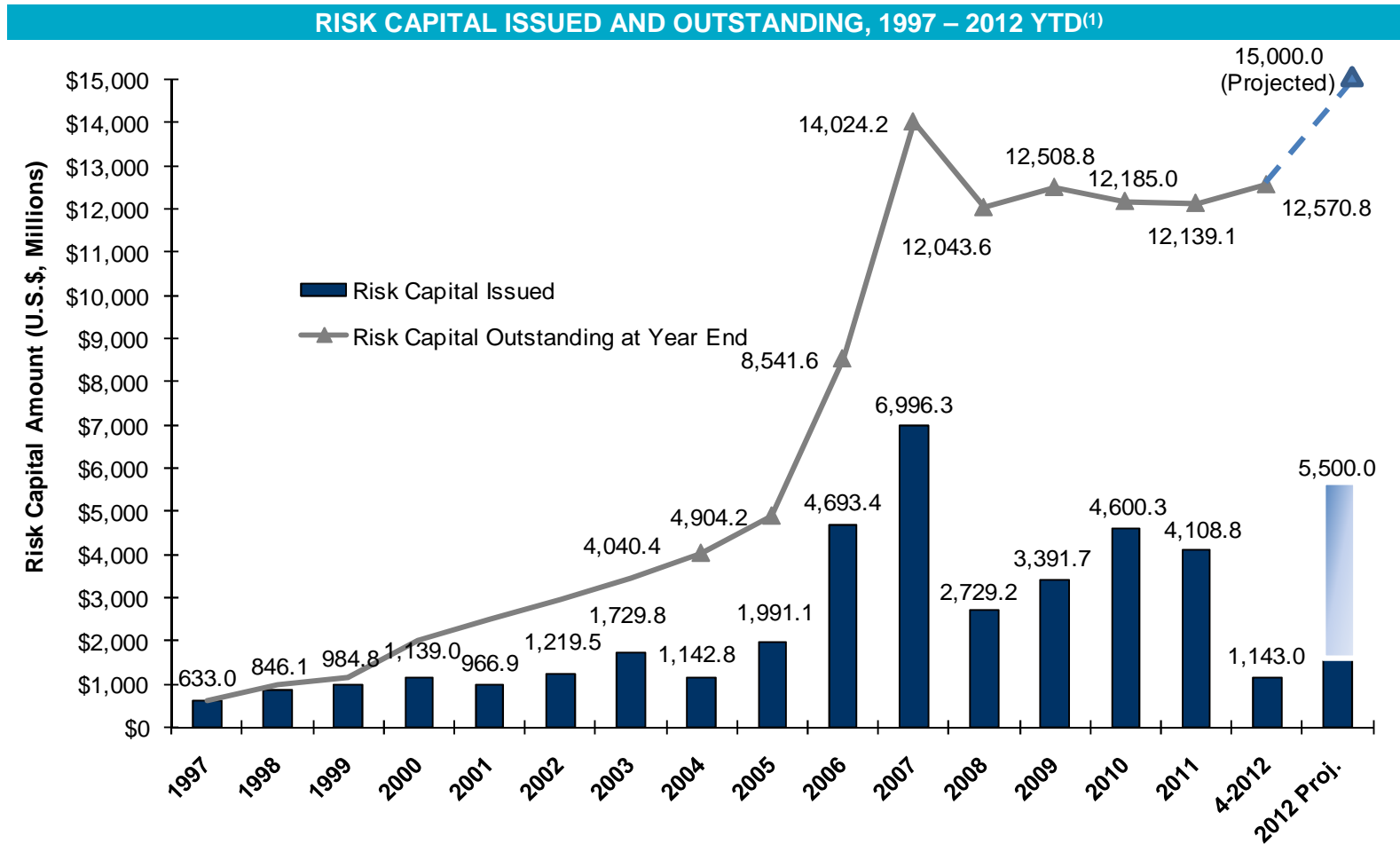
Overview of new alternative (re)insurance markets

Entity	Backer / Investor	Target Capital	Management Team
Accordion	Lancashire Holdings	\$325M	Lancashire side car vehicle
AlphaCat Re 2011	Validus, Serengteti Asset Mgmt, et al	~\$250M	Validus side car vehicle
Atropos	Scor Alternative Investments	\$100M	E.Durousseau, V.Pradis, O.Nolland
AQR Re	AQR	\$250M	A.Sterge, R.Montgomerie, C.Vaughan
CATCo-Re Ltd.	Public-LON:CATC	\$1B-\$1.2B	T.Belisle, J.Bibb, G.Wood
Financial Company	N/A	250M	–
Hedge Fund Company	N/A	250M	–
ILS Capital Management	Don Kramer	TBC	D.Kramer, A.Krutov, J.Faure
New Point IV	Alterra, Stone Point Capital	~200M	Alterra side car vehicle
SAC Re	SAC	\$500M	S.Burton
Third Point Re	Third Point, Kelso, Pine Brook, et al	\$780M-\$1B	J.Berger
Upsilon Re	RenaissanceRe Holdings	TBC	RenaissanceRe side car vehicle

≈ \$4 – 4.5 billion?

ILS market update

State of the P&C catastrophe bond market



As of Mar 14, 2012

(1) Excludes private transactions

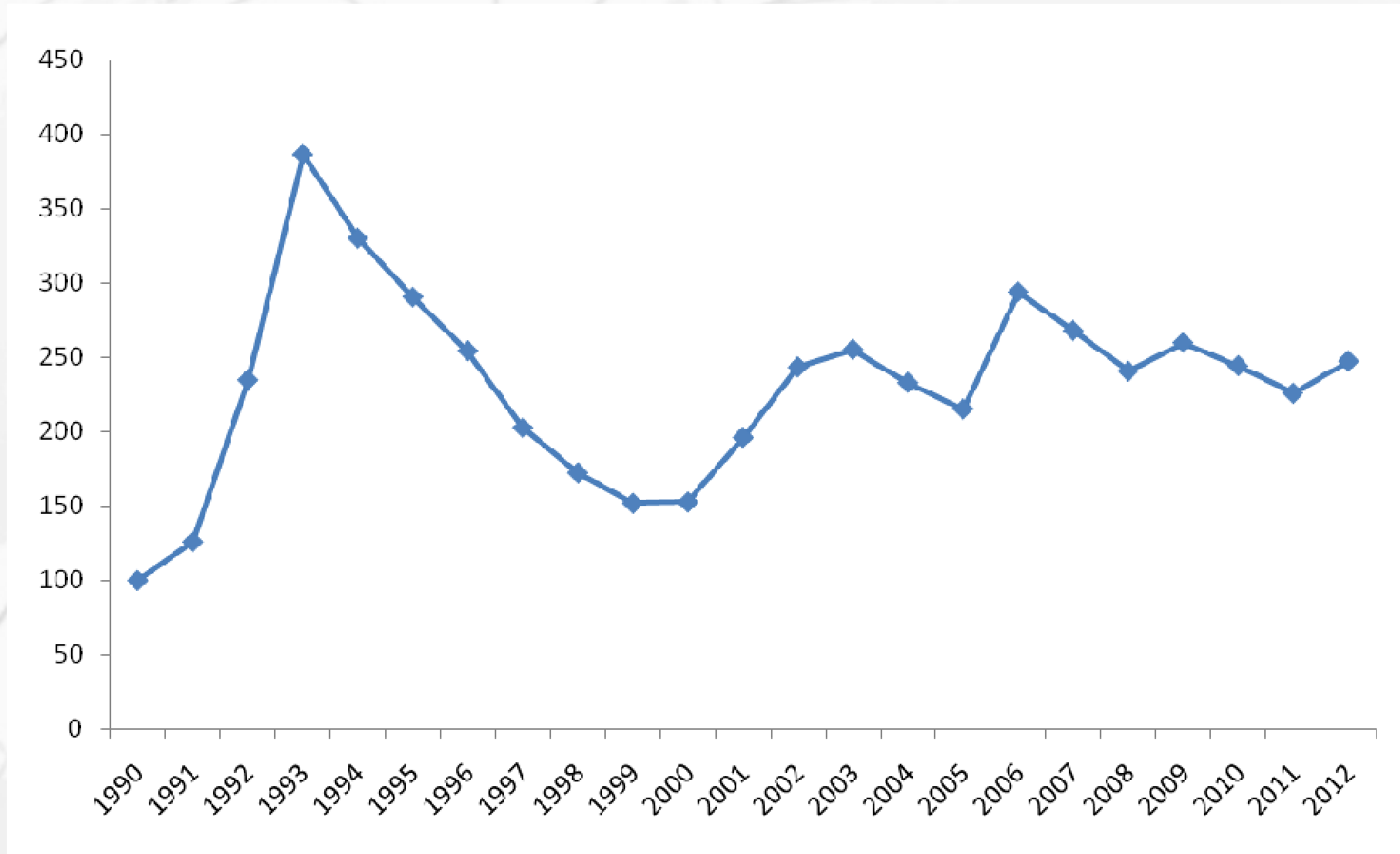
(2) 4Q11 includes \$200M of two Mariah tranches that fully paid out as a result of loss events

The global reinsurance market

Renewal rates-on-line and premium trends

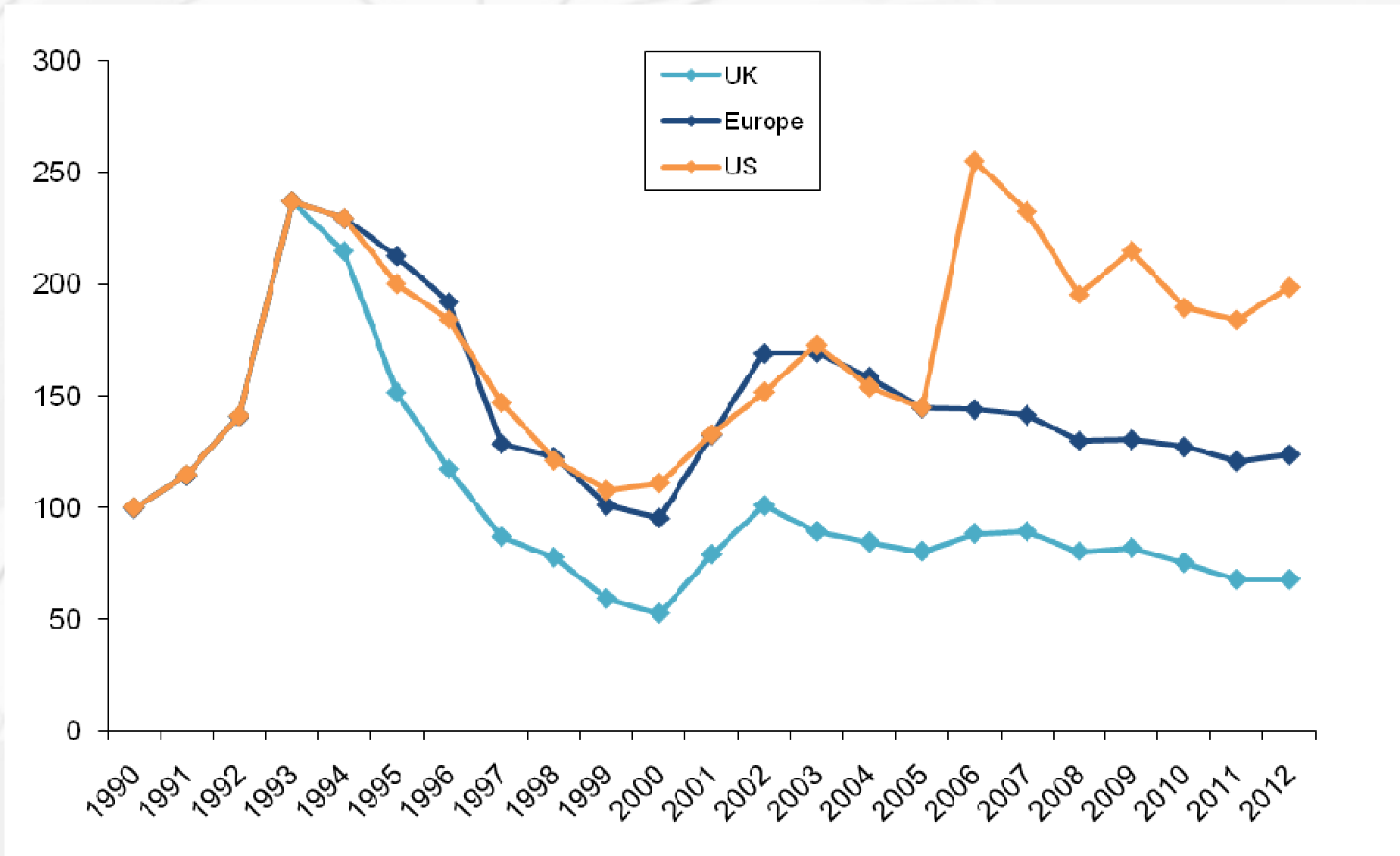


Guy Carpenter Global Property Catastrophe Rate-on-Line (ROL) Index

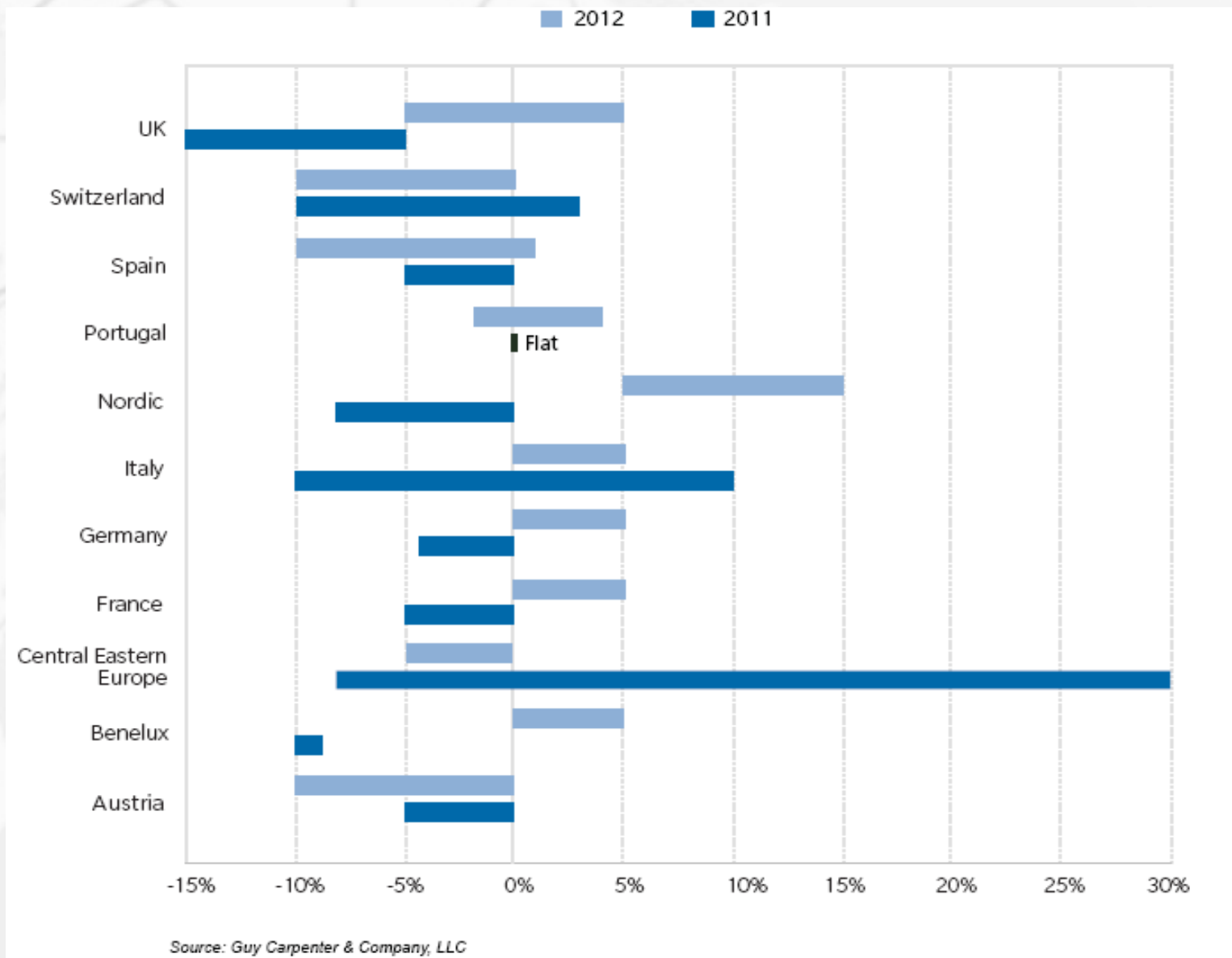


Regional property catastrophe RoL indices

Yanks panic; Brits 'keep calm, carry on'



Average property catastrophe RoL changes by region

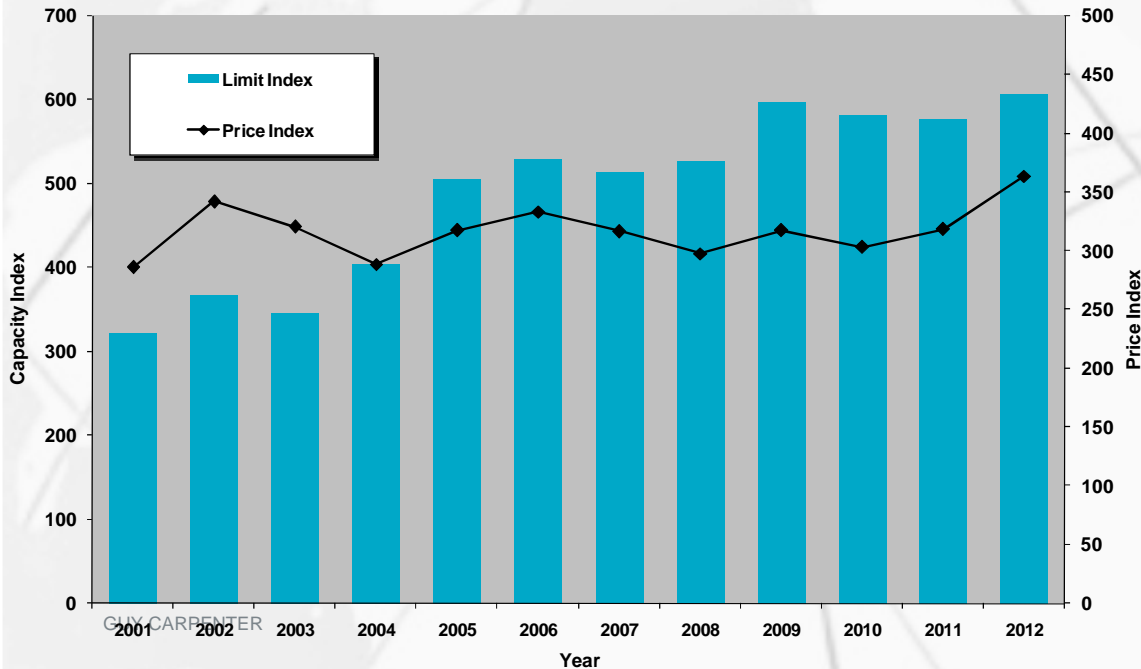
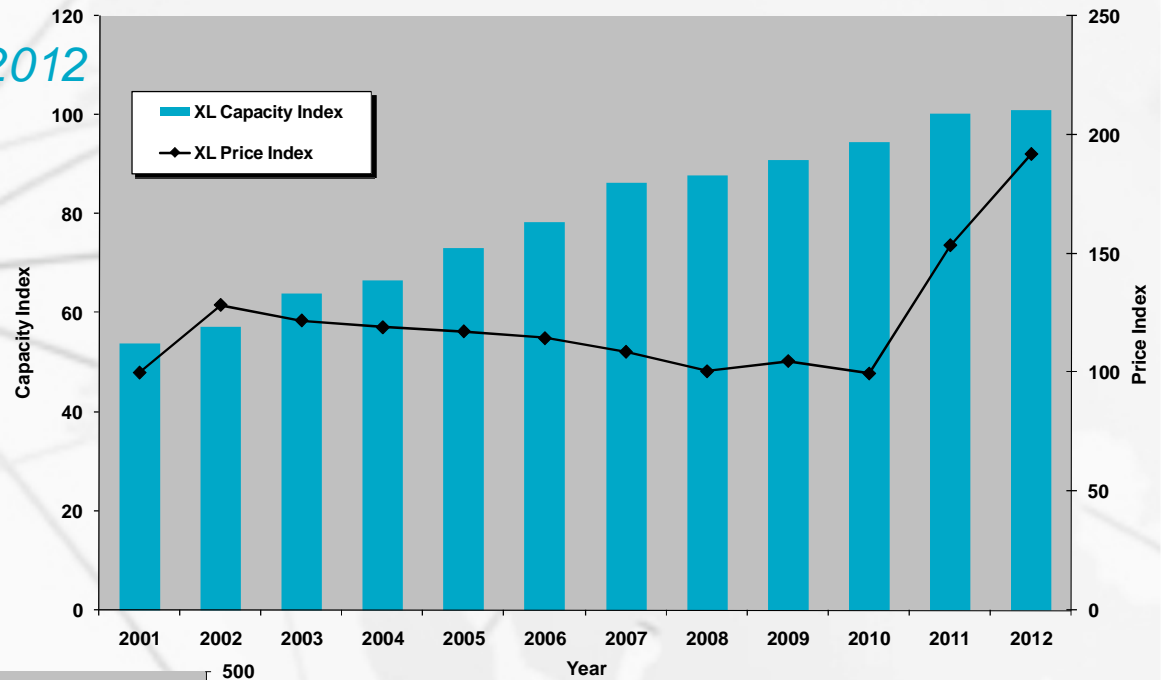


Impact on Regional Pricing

Japan – Property Cat XL at 1 April 2012

EQ XL Price and Capacity

Total loss: +10% to 60%
 Partial loss: +25% to 50%
 Loss free: +10% to 60%



Windstorm XL Price and Capacity (Loss free)

Low layers: +10%
 Mid to high: +13% to 20%

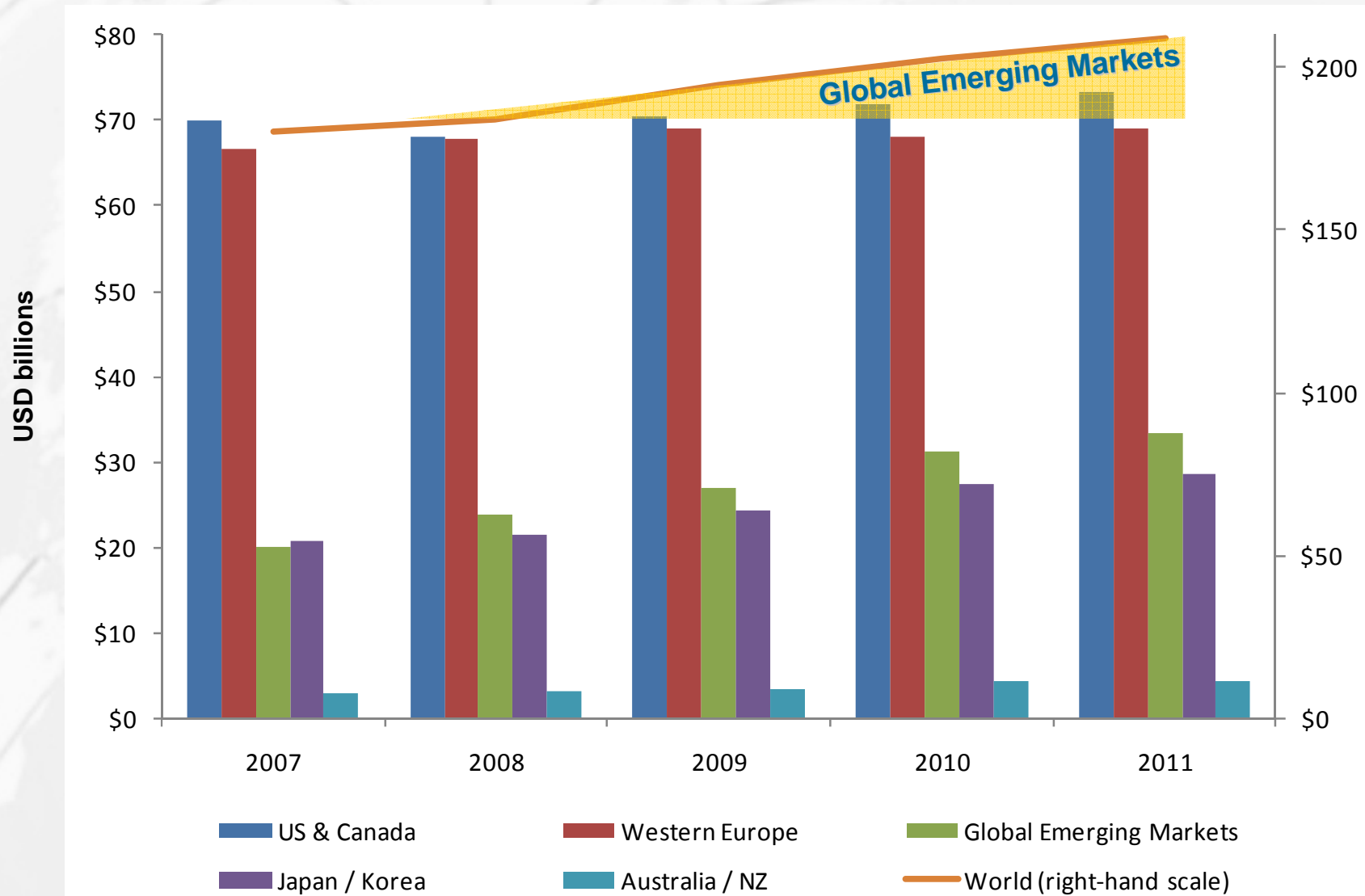
Impact on Regional Pricing

Korea

- **Cat XL** +10 to 30%
- **Risk** Stable
- **Proportional** Stable commissions
- **Summary**
 - Many changes of leaders
 - Restrictions in overseas exposure
 - CBI placement challenging

Estimated reinsurance premium (incl life) growth by region to 2011

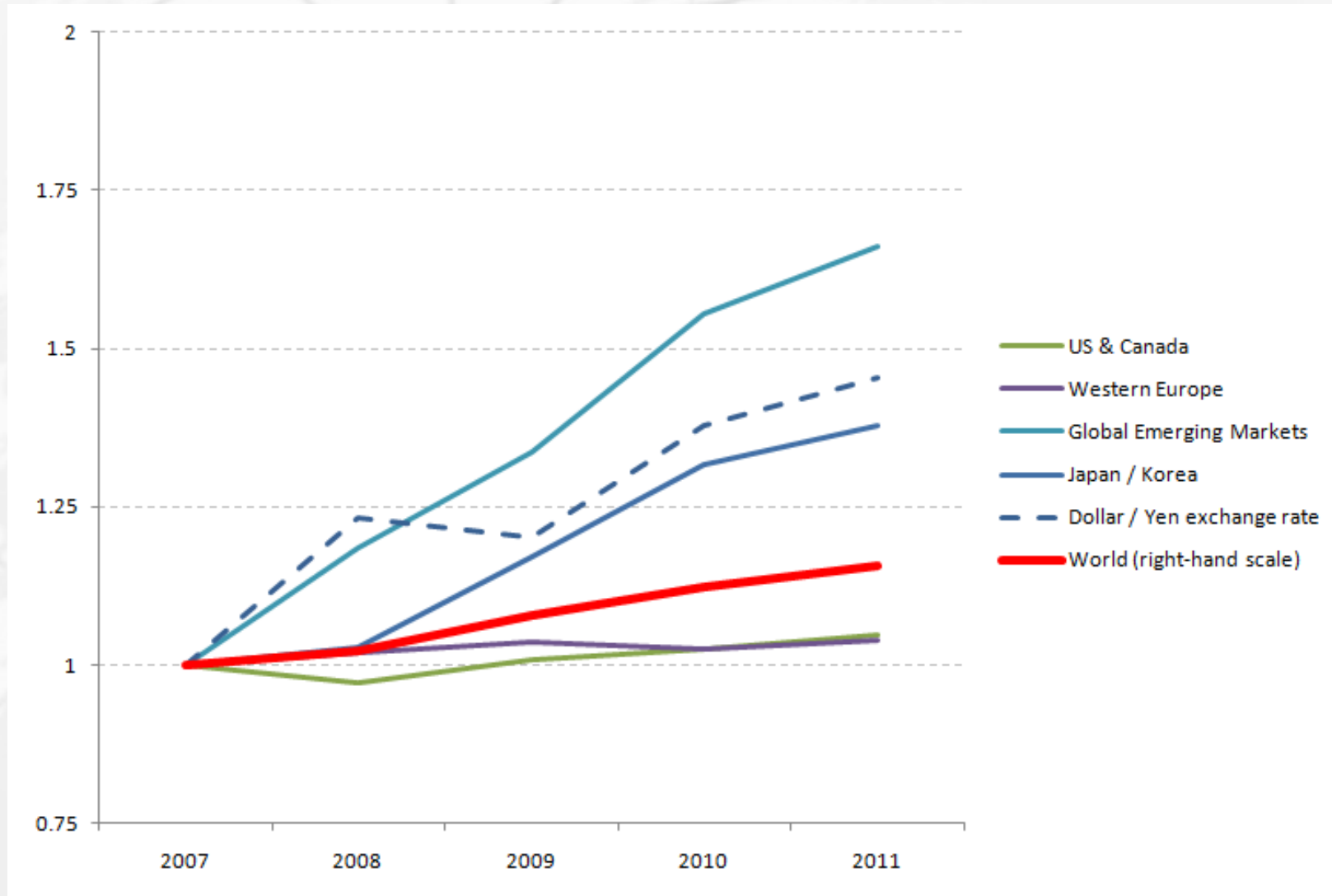
Most growth has come from global emerging markets, particularly China, India, SE Asia



Source: Swiss Re Sigma, OECD, Bloomberg consensus 2011 GDP forecasts, Conning, Standard & Poor's, Guy Carpenter estimates
 Note: Currencies not normalised. Most Japan and ANZ growth driven by currency changes.

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The global reinsurance market

Why are earnings and valuations so subdued?



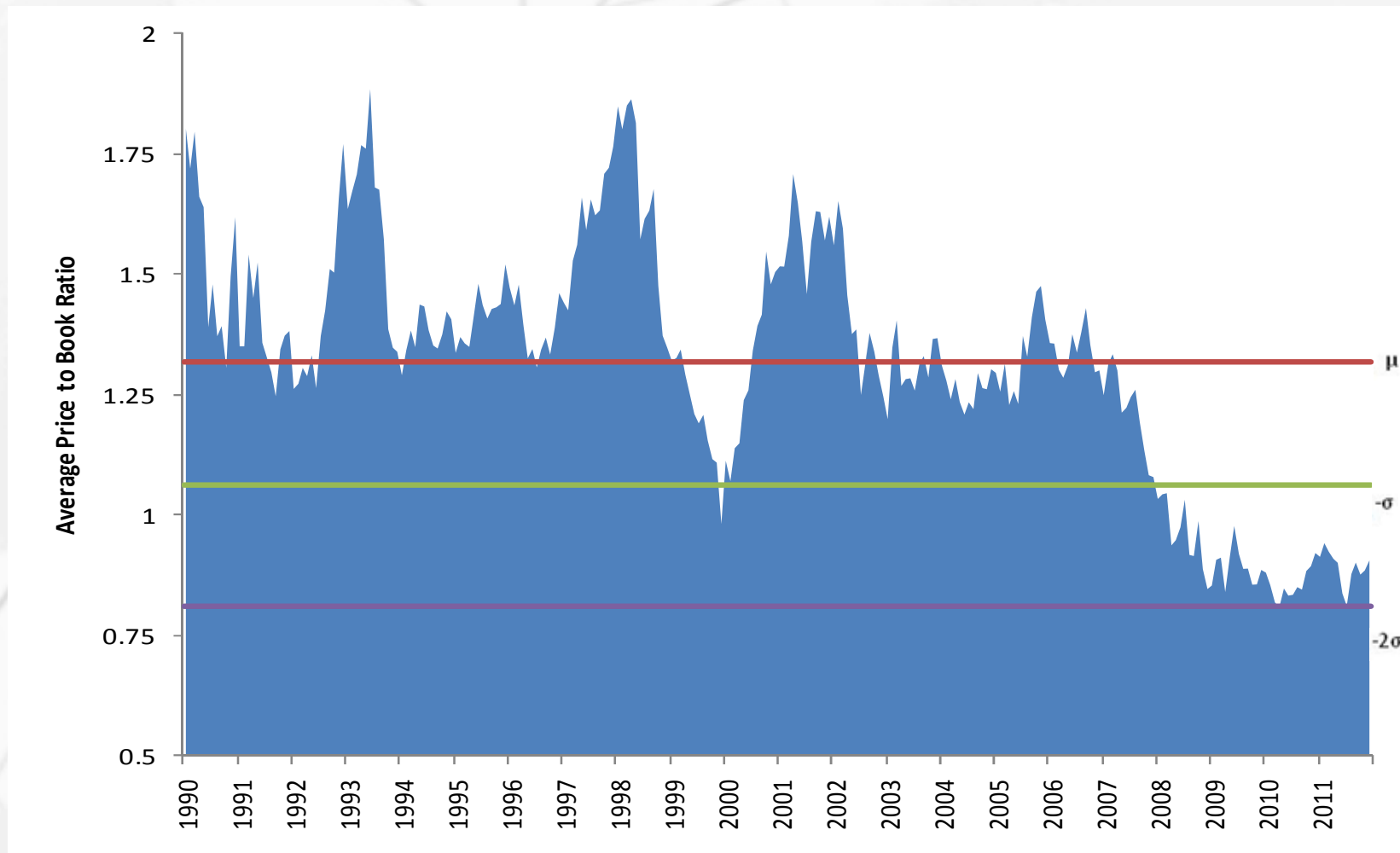
Issues facing the reinsurance sector

Our key areas of focus

- Underwriting: Catastrophes and 'cold spots'
- Investment margin: 60-year low yields
- Asset leverage: Sovereign debt crisis
- Premium volume: Growth areas shifting
- Reserving: 'Cheating phase'?
- Capital still in excess of trend

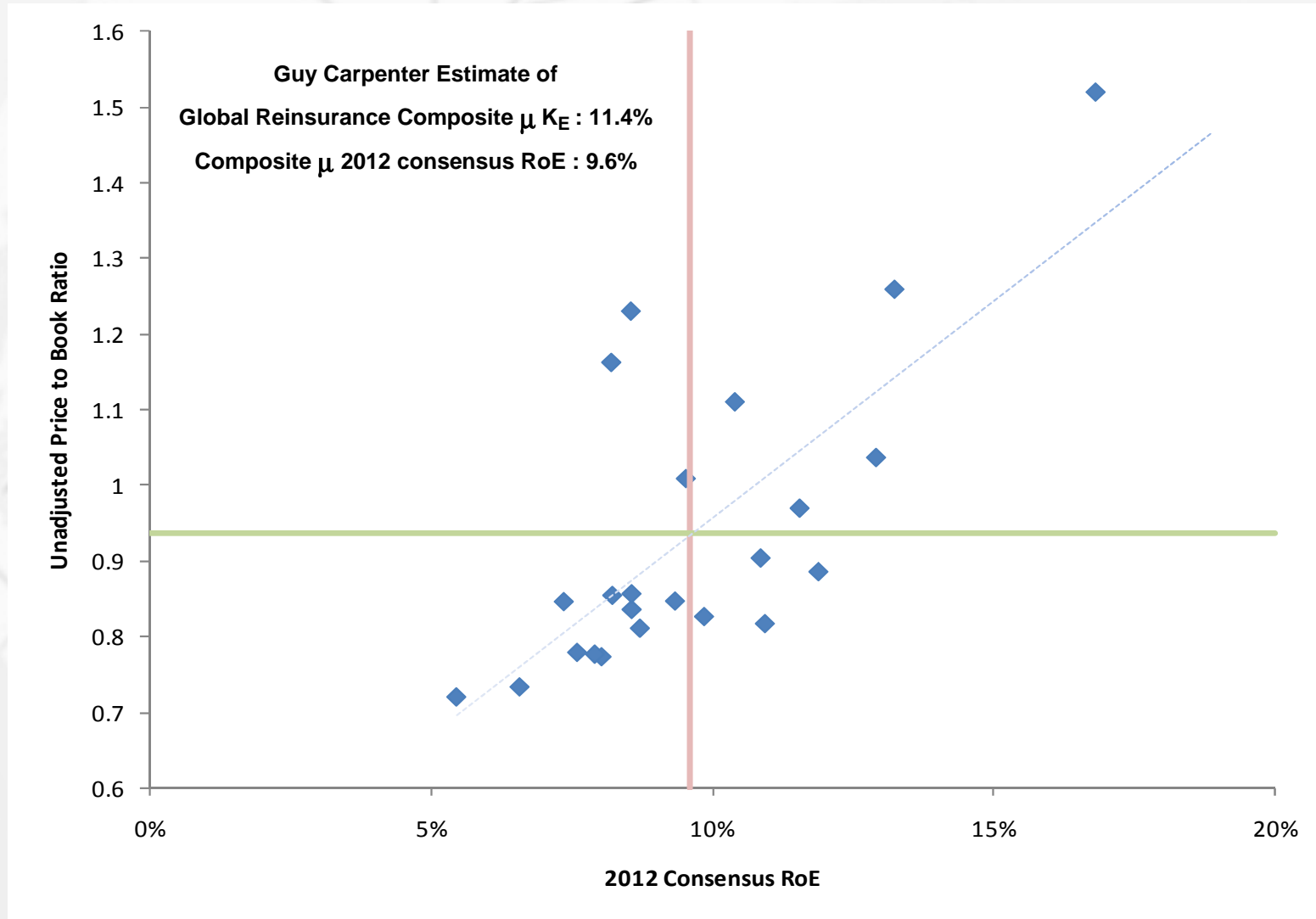
Reinsurance average price to book ratios near historic lows

Nearly two standard deviations below the 22-year mean



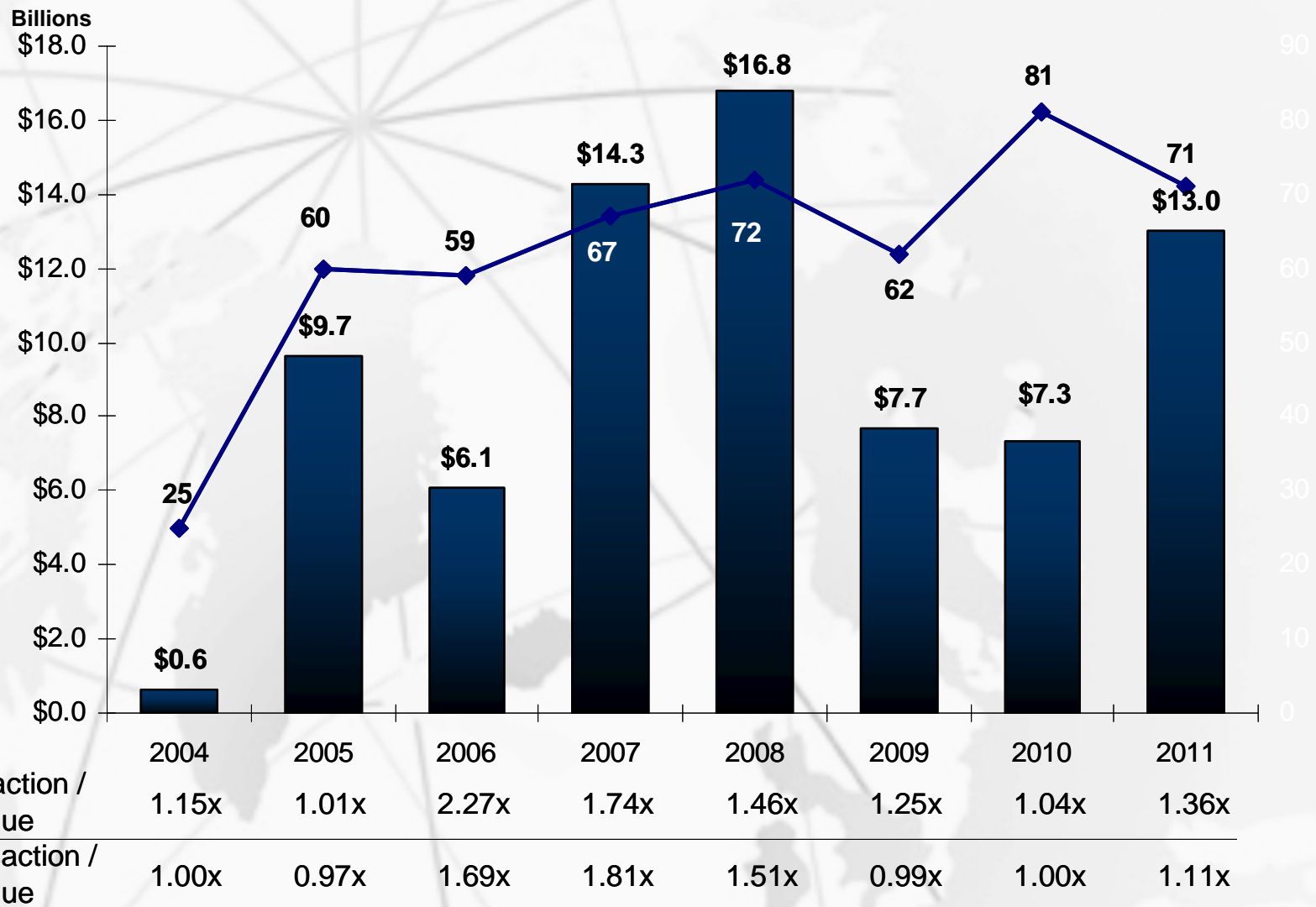
What is driving low valuations?

Guy Carpenter Reinsurance Composite may not earn its cost of equity in 2012



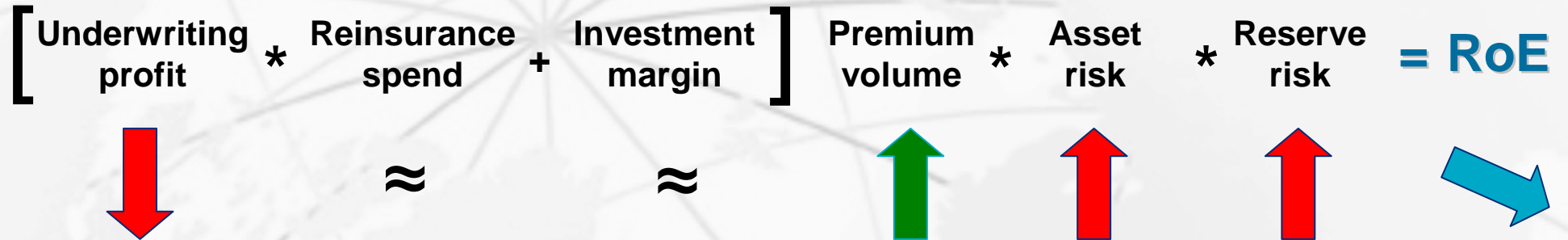
Capital management

Global P&C mergers & acquisitions overview



Source: Guy Carpenter, SNL Financial

Why are forward returns on equity relatively low?



Guy Carpenter RoEInsight was developed in conjunction with Wharton to enable effective, in-depth and rapid assessments and comparisons of P&C carriers' profitability.



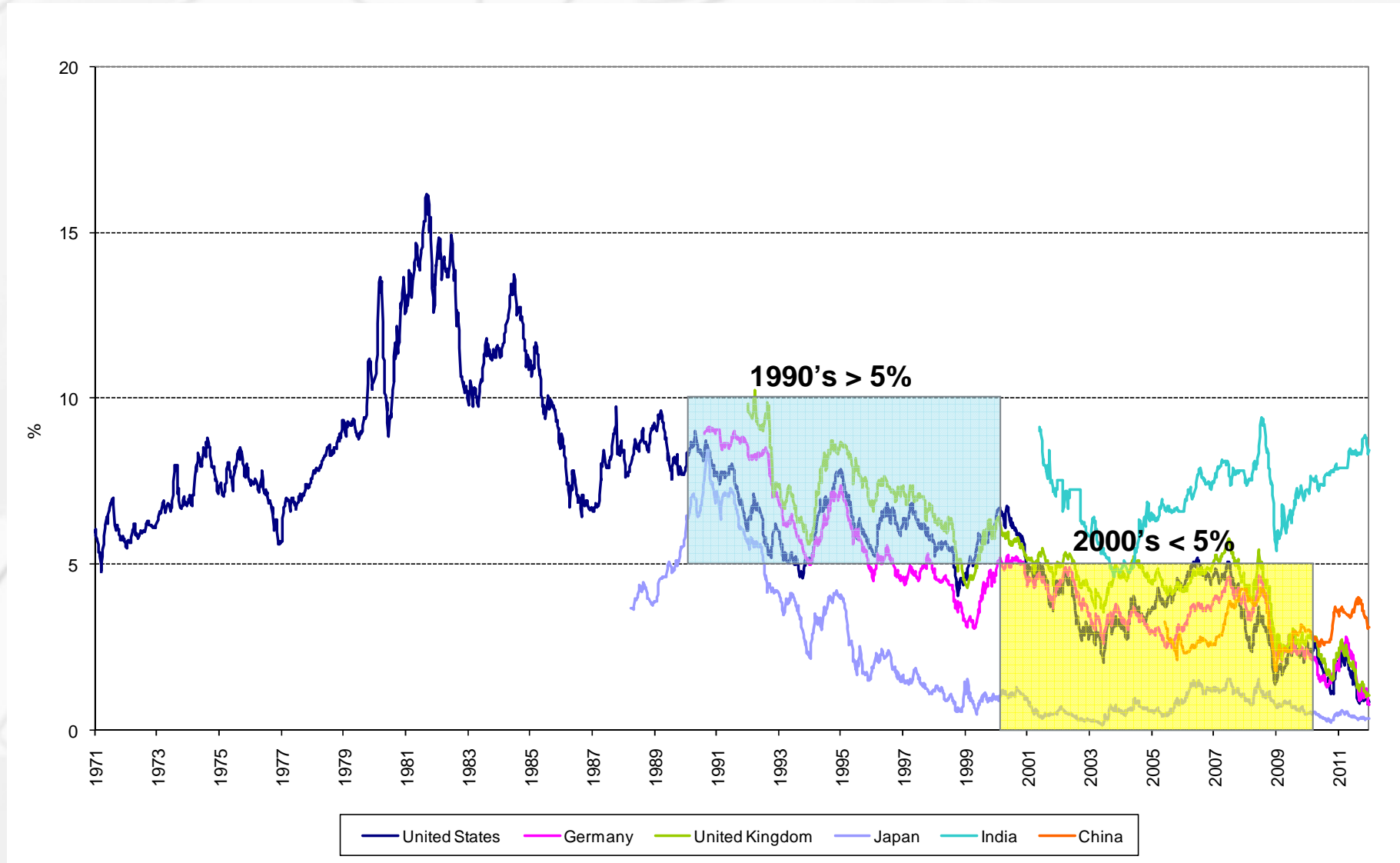
$$(1-t) \left[\left(\frac{TR}{NPE} * \frac{NPE}{GPE} + \frac{NTI}{GPE} \right) * \frac{GPE}{A} * \frac{A}{NTR} * \frac{NTR}{E} \right] = \text{RoE}$$

↓ ↓ ↓ ↓ ↓ ↓
 UW margin Retention rate Non-UW margin Asset turnover Asset leverage Reserves gearing

TR = Technical result NTI = Non-technical Income E = Equity
 NPE = Net premiums earned A = Assets (1-t) = One minus the tax rate
 GPE = Gross premiums earned NTR = Net technical reserves

Investment return decline pressuring returns on equity

5-year government bond yields



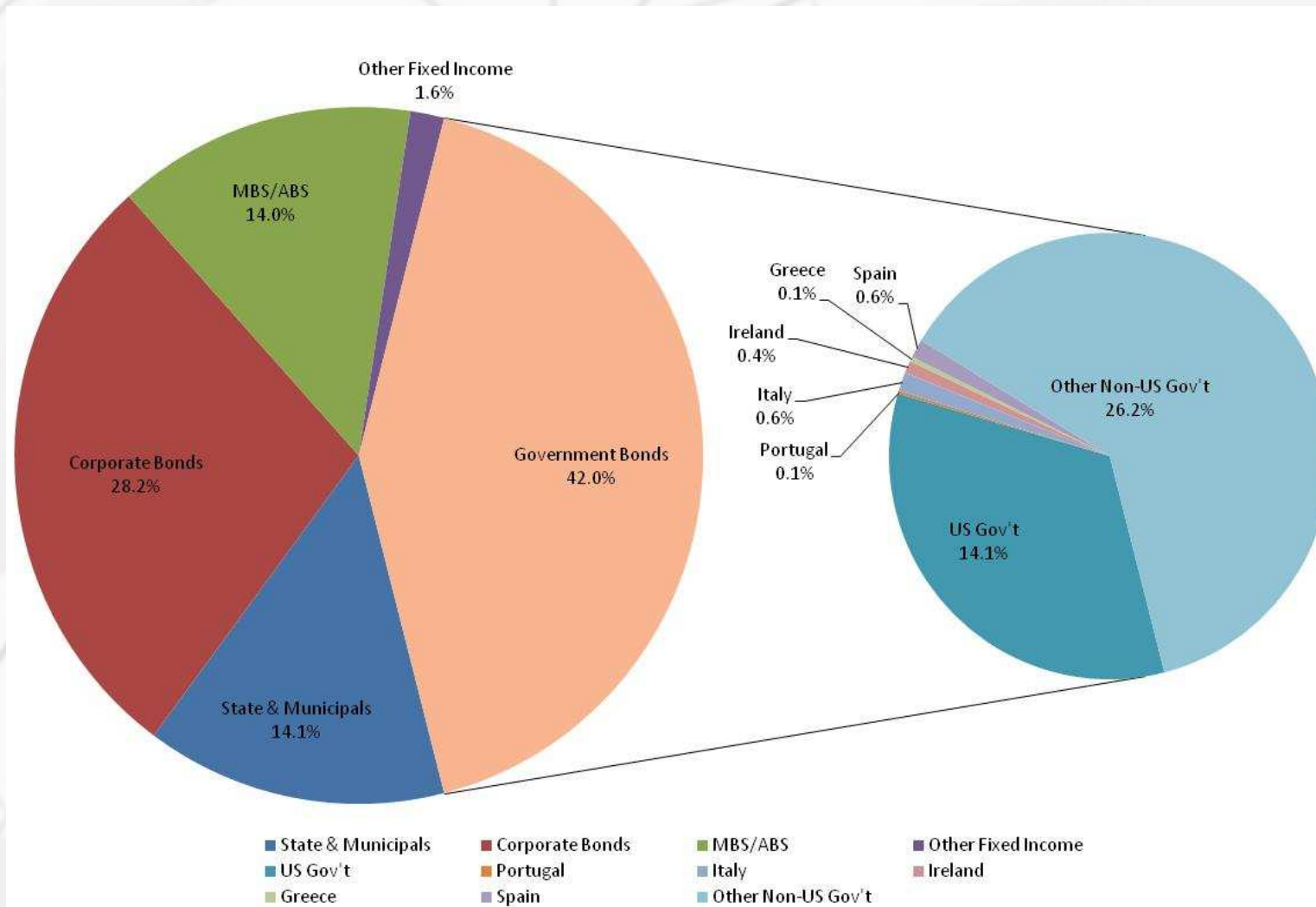
Eurozone poses a challenge for the reinsurance sector

- Lingering sovereign credit issues within the EU
- Eurozone GDP growth estimates 2012: -0.4%; 2013: 0.9%*
- Reinsurers' balance sheets have low allocations to equities and minimal direct Eurozone debt exposure
- Furthermore, most (re)insurers de-risked their investment portfolios after the 2008 financial crisis and entered 2011 in defensive positions.



Sector exposure to 'PIIGS' sovereign debt now low

GC Global Reinsurance Composite fixed income exposure year-end 2011



**More detail,
please! ...**

Cash exposures

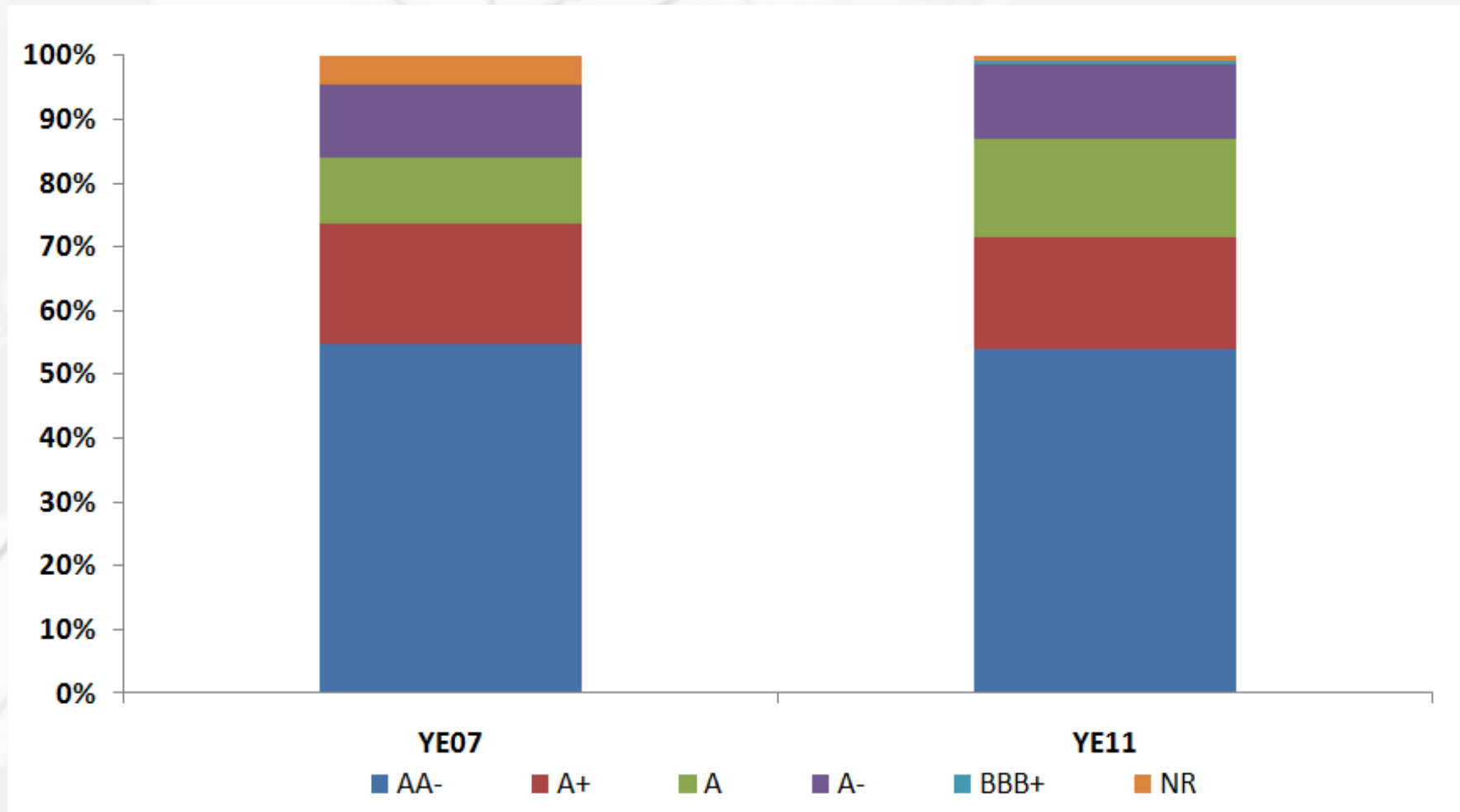
LoC exposures

Unspecified
corporate debt
exposures

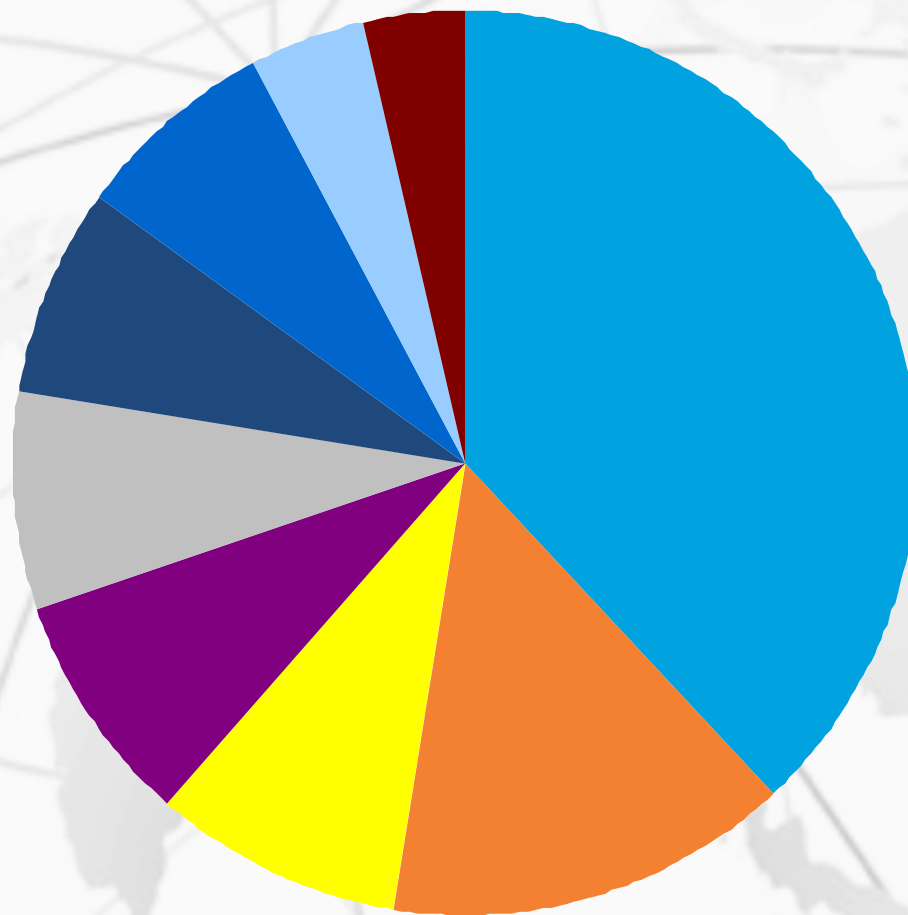
Undisclosed equity
exposures

Rating Agencies: Can they tell you anything you don't already know?

GC Global Reins Composite S&P ratings distribution weighted by capital

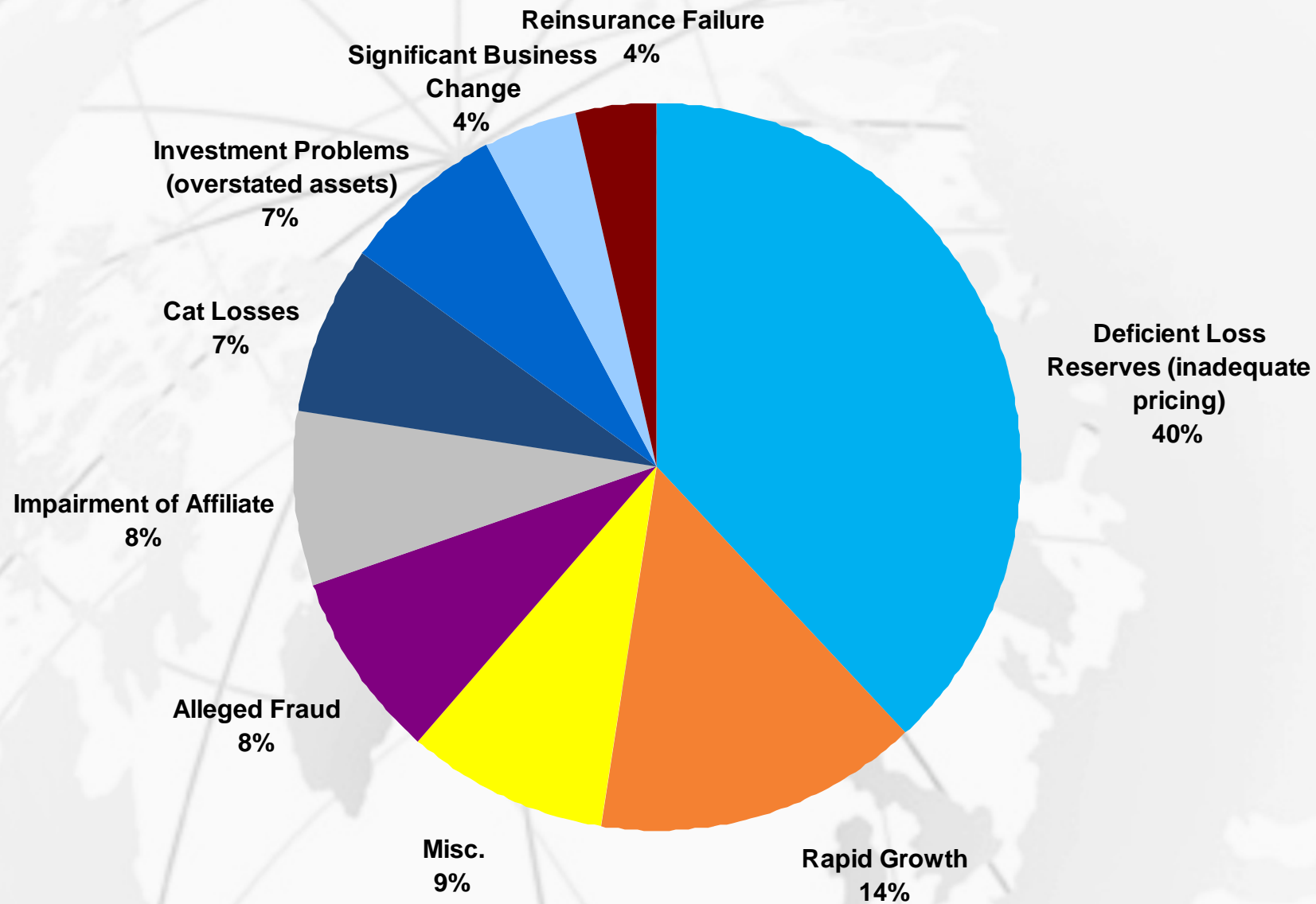


Primary causes of P&C insurer impairments 1969 – 2010

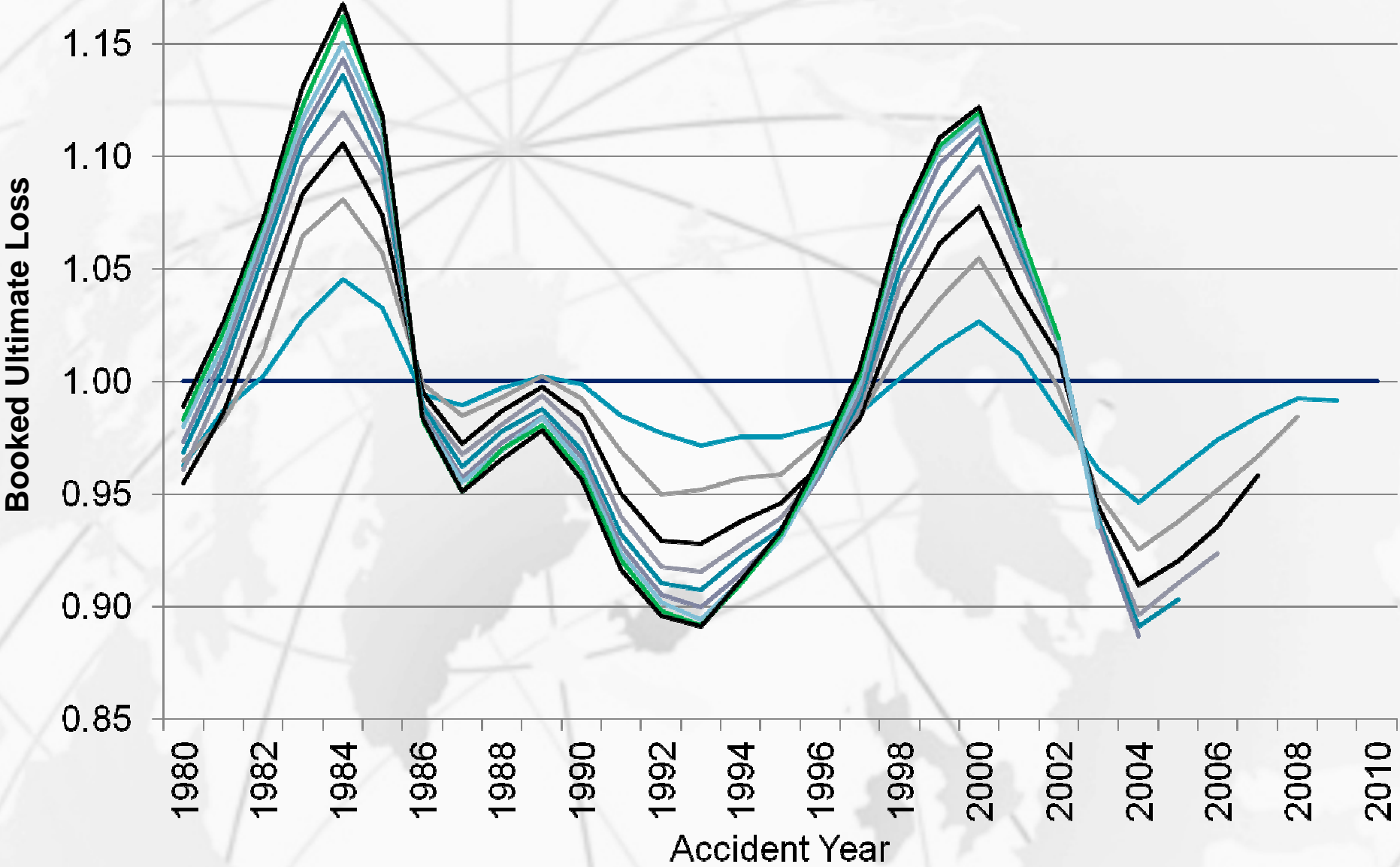


- Rapid Growth**
- Cat Losses**
- Alleged Fraud**
- Reinsurer Failure**
- Significant Change**
- Deficient Loss Reserves**
- Investment Problems**
- Impairment of Affiliate**
- Misc.**

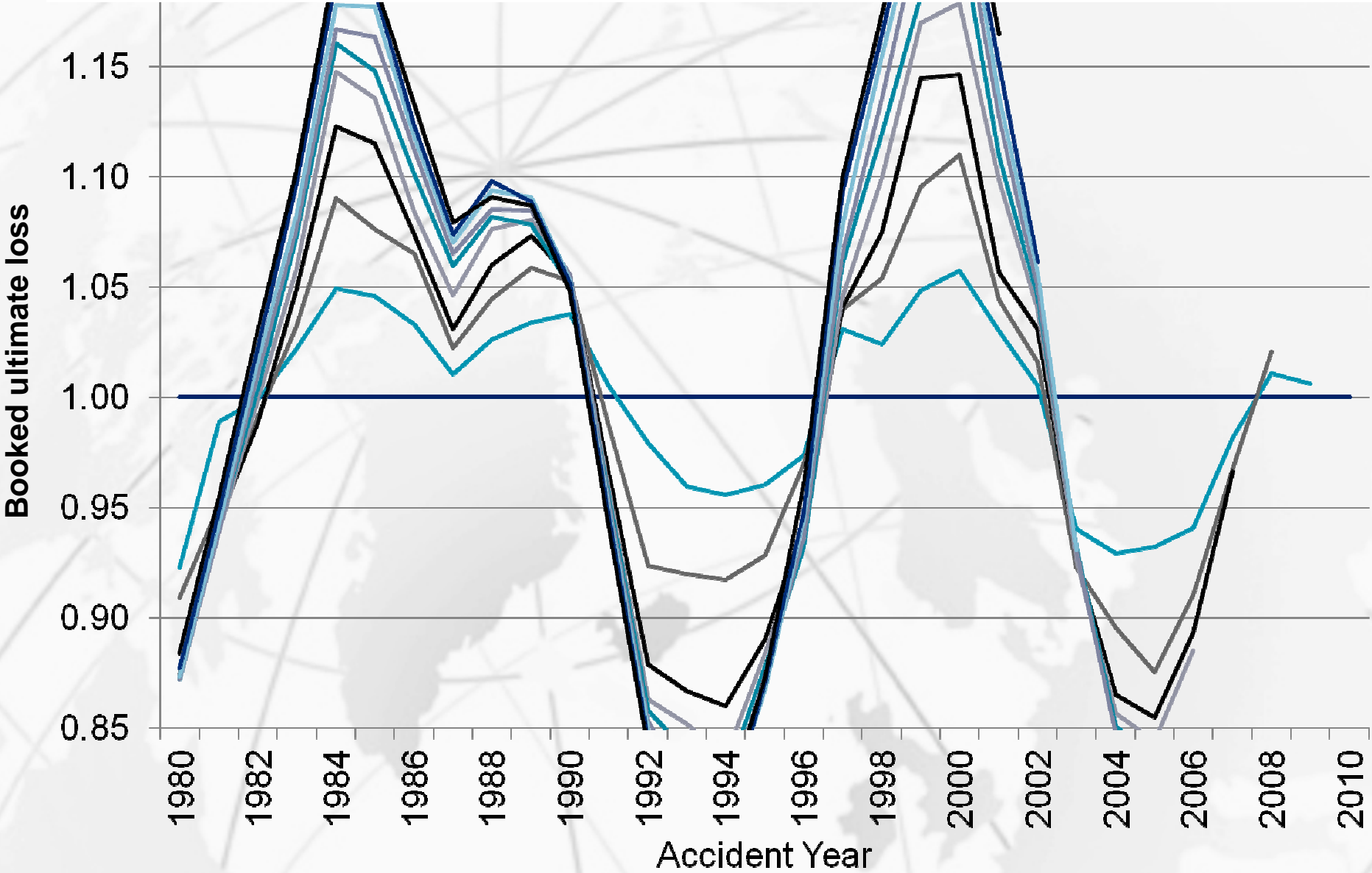
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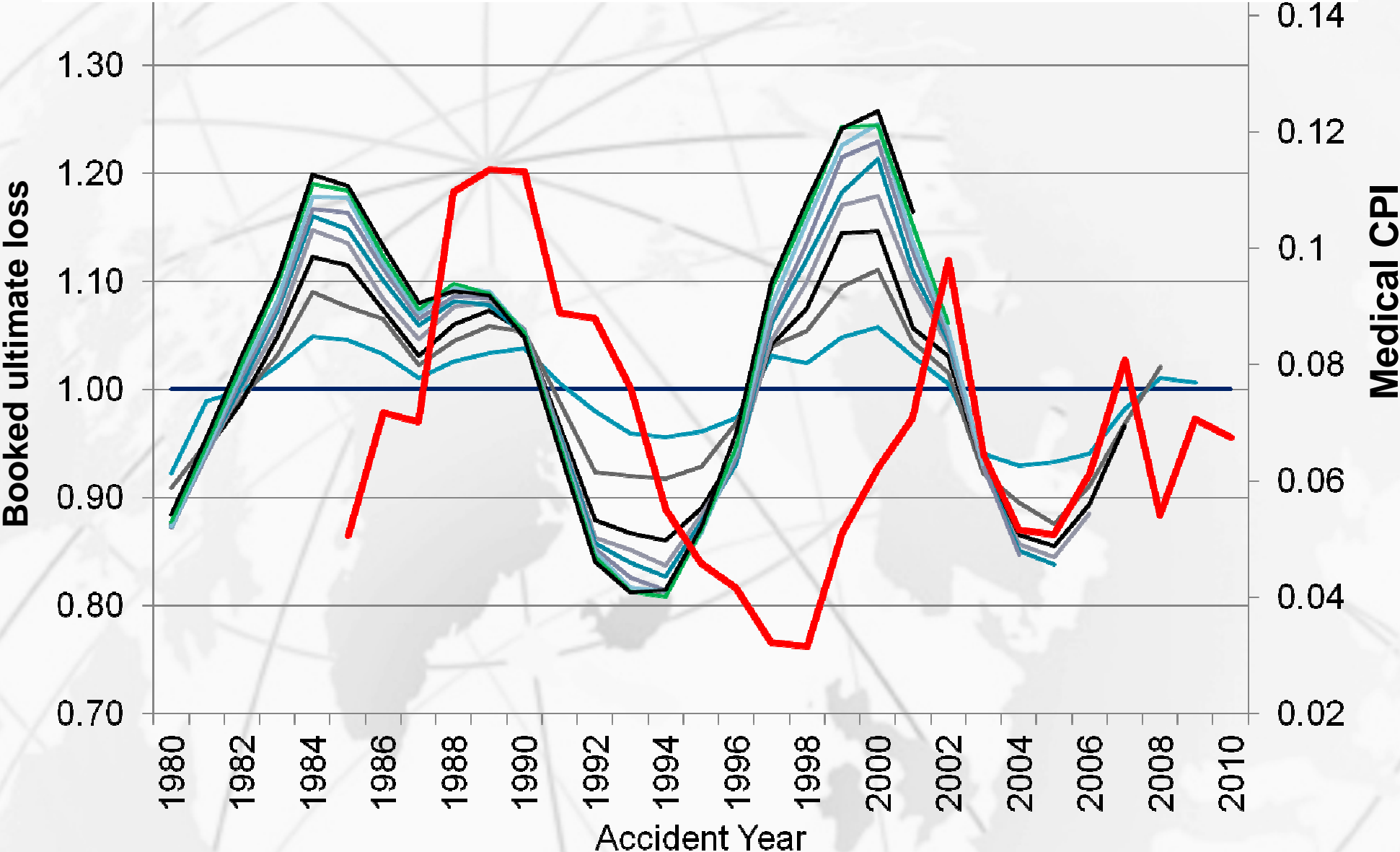
Reserve cycle



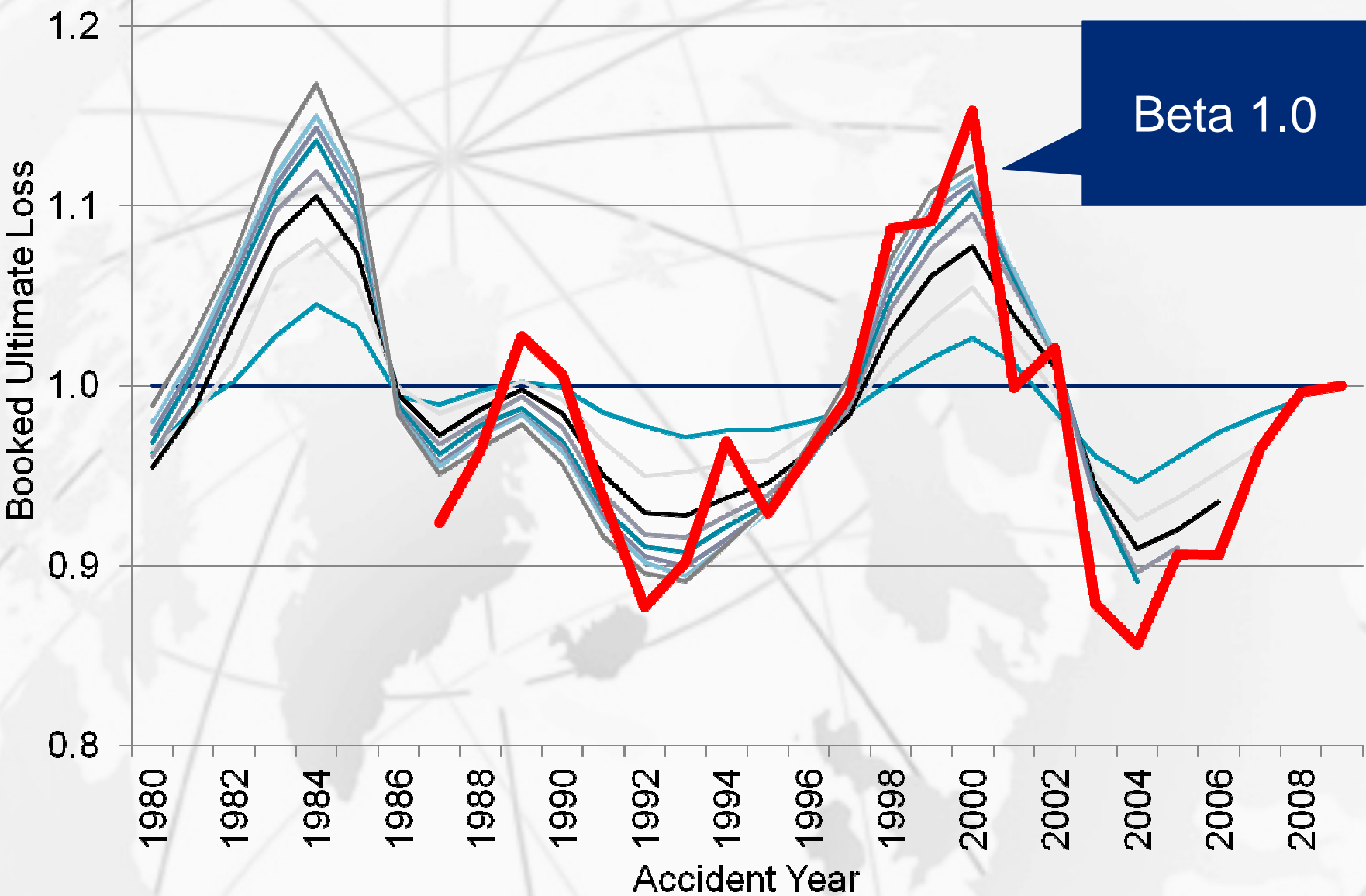
Reserve cycle – Workers Compensation



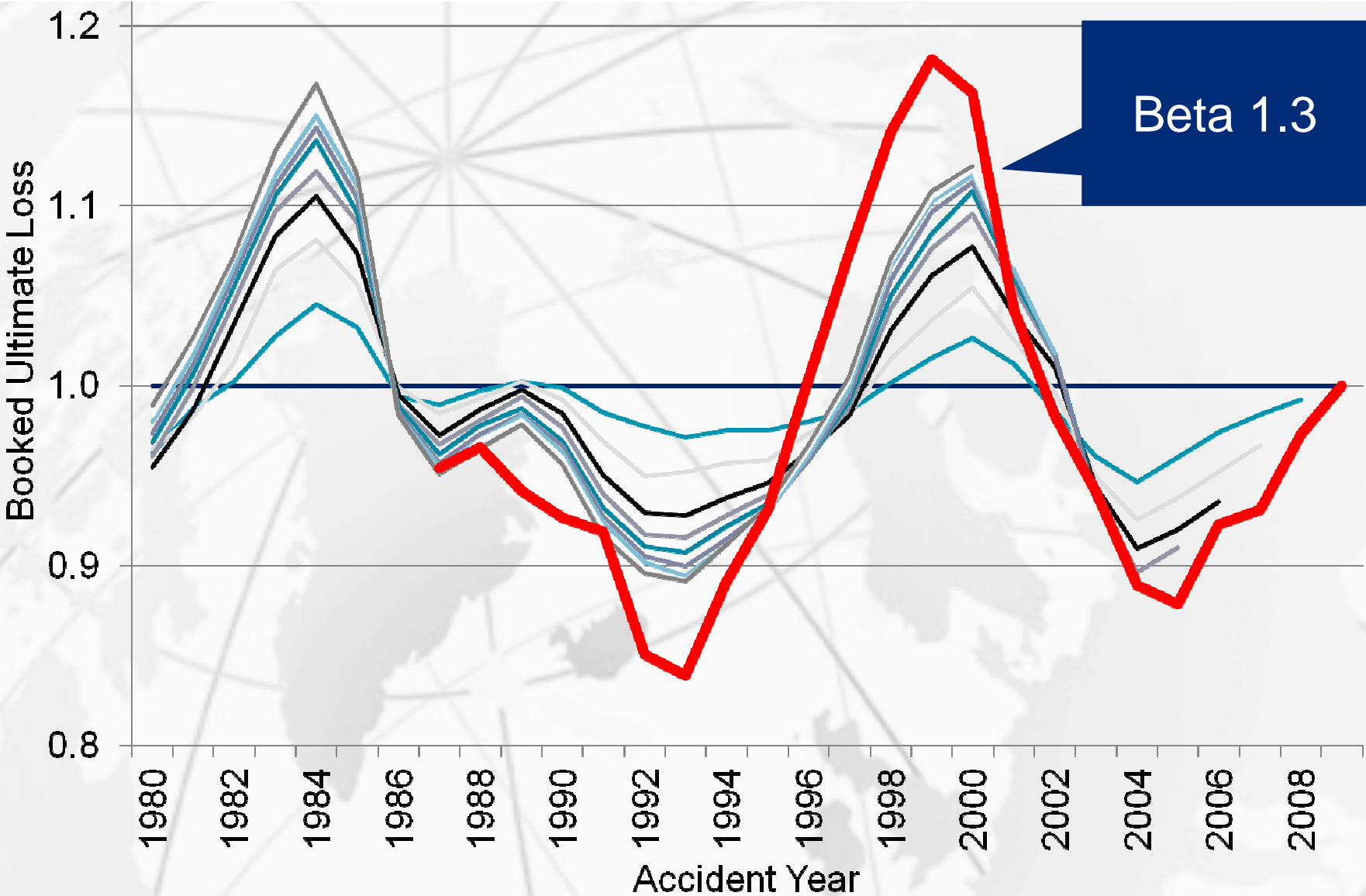
Reserve cycle – Workers Compensation



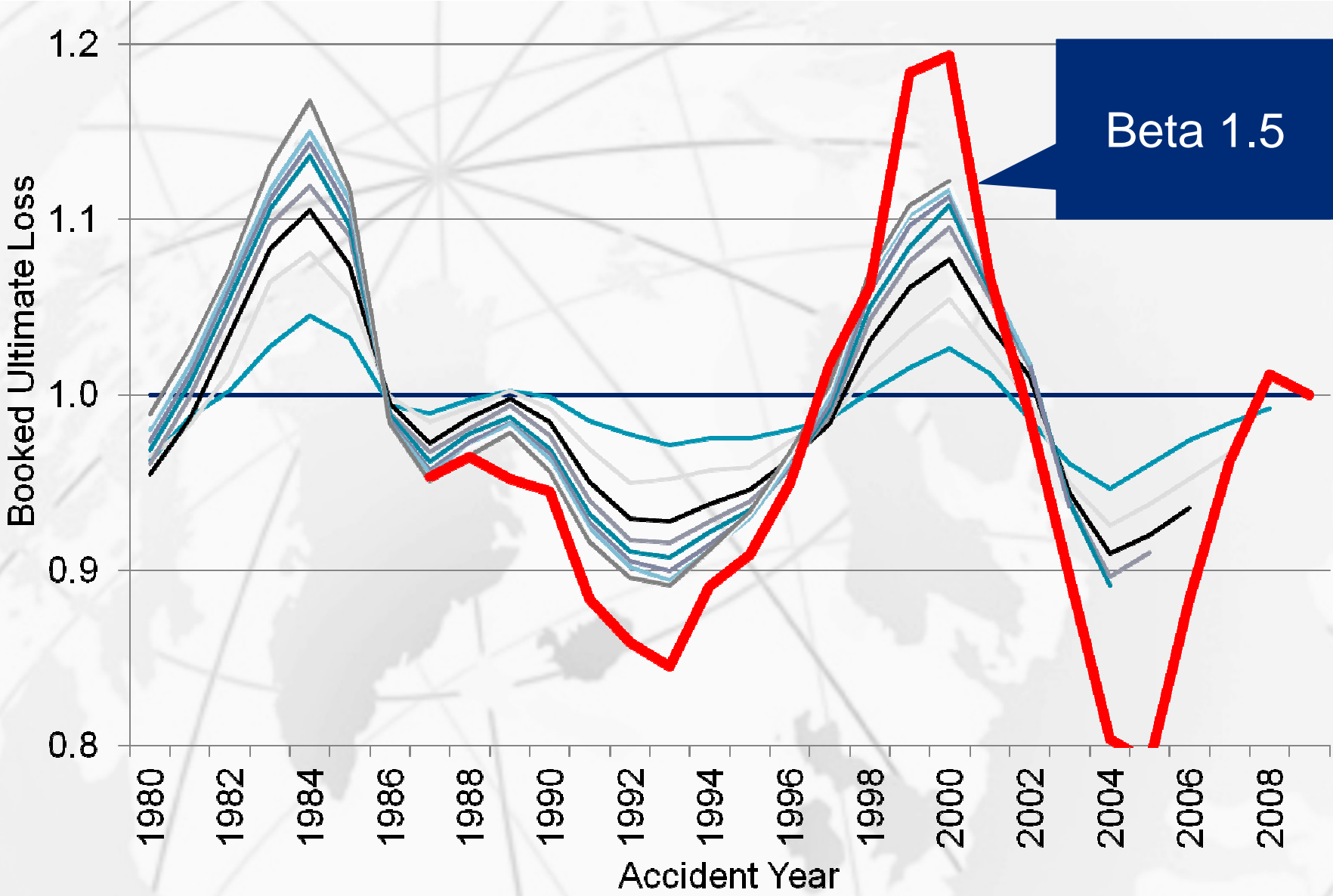
Reserve Cycle – Company A



Reserve Cycle – Company B



Reserve Cycle – Company C



Beta 1.5

Inflation: an overview

- “Economic medicine that was previously meted out by the cupful has recently been dispensed by the barrel. These once unthinkable dosages will almost certainly bring on unwelcome after-effects. Their precise nature is anyone's guess, though one likely consequence is an onslaught of inflation.”

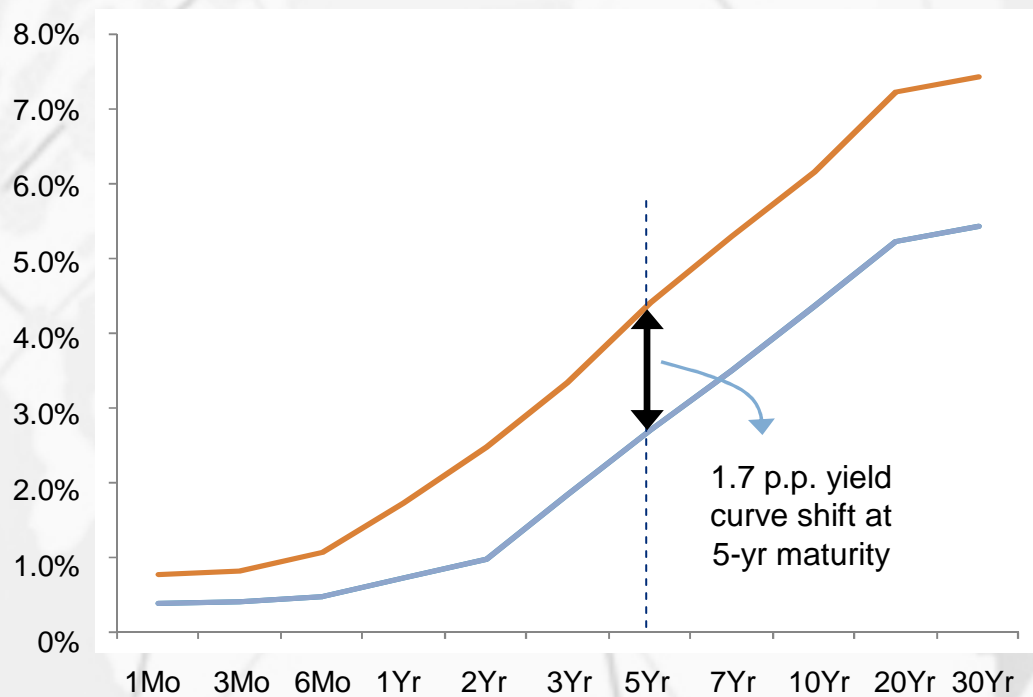
-- Warren Buffett

Inflation: balance sheet impact

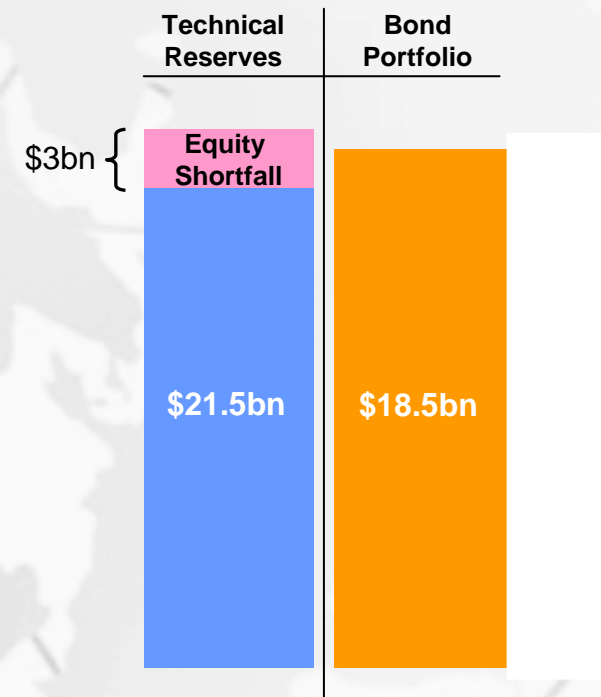
- Uncertainty around future purchasing power diminishes capital flows by lowering savings and investment and spurs an increase in forward interest rates
- Longer-duration fixed income assets diminish in value while reserves increase

What happens to a \$20bn, 5-year duration reserve position backed by a duration-matched AA-rated bond portfolio in the event of a rapid 1.5 percentage point increase in inflation expectations?

AA Yield Curve



Balance Sheet



Cycle – Where Are We Now?



Cycle Drivers

- Capital
- Economic Climate
- External Forces

Source: Dowling & Partners, Guy Carpenter

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