Reinsurance Market Update - July 1, 2009

While July 1 remains a significant renewal date in the United States, the hardening expected based upon the experience of earlier 2009 renewal dates caused many U.S. programs to be marketed and placed in advance of July 1. The U.S. pricing changed for July 1 renewals at a level consistent with June 1 renewals, increasing 10 to 15 percent. Outside the U.S., pricing experience was mixed at July 1 but overall trends suggested a tendency toward holding rates firm where technical levels are at the low end of reinsurers' expectations. Loss experience in Australia in 2008 and early 2009 influenced the renewals of the local programs. In Asia, excluding Japan and China, there were no major changes in coverage, exclusions and conditions. Some countries in this region saw price decreases due to excess capacity in these markets. Price increases of up to 5 percent were recorded in the U.K. for property catastrophe business. U.K. property per risk excess of loss business remained very competitive. Aon Benfield's expectations for global catastrophe reinsurance markets for January 1, 2010 will be released in early September 2009.

Market Dynamics for July Renewals

July renewals bring a global diversity that is more like January renewals. The U.S. placements continued to see the most significant increases while renewals occurring in non-peak areas continued firm and were less affected by reinsurers' capital decreases. Loss experience was the most significant factor in price changes outside the U.S. and regional business within the U.S. A good example of the influence of experience is the Australian market where recent catastrophe losses influenced individual program renewals.

Australia and New Zealand

Property catastrophe pricing increased by an average of 10 to 15 percent, with a rise of 5 to 10 percent on loss free layers. Lower layers have seen losses, with some bottom layers dropped and/or retentions increased. In Australia there have been a number of large losses, most notably the Queensland storms and the Victorian bush fires (industry insured loss: AUD1.12bn). In addition, rising frequency of losses has been a feature of both the Australian and New Zealand markets. Overall, market premium is up 15 percent on a risk adjusted basis, reflecting not only increased pricing but also more cover being bought where it was previously wholly retained or purchased from affiliated companies.

Pricing on property per risk business rose by up to 5 percent. There is some evidence that treaty terms and conditions are being tightened, with considerable pressure placed on commission terms for under-performing proportional property business. There has been some rationing of catastrophe capacity, reflecting reinsurers' views that the existing technical levels are near minimum levels.

Motor and liability rates have risen by 5 to 10 percent, albeit slightly lower original premium income estimates are resulting in flat ceded premiums, while more modest increases of up to 5 percent have been experienced in marine. Liability terms are beginning to tighten and there is some disparity evident in liability terms between the major local reinsurers and the London market, especially regarding experience and exposure rating. In addition, there is a trend towards using APRA authorized reinsurers on liability programs which may have driven increased pricing.

In the direct market, premium growth in property and marine has increased up to 5 percent, while motor and liability volumes remain stable. On casualty, the effects of the economic downturn are reducing insured's revenues, with a consequent impact on original insurance premiums. In liability lines, this has offset marginal rate increases to leave renewal premiums flat. There has been no noticeable hardening of rates in professional indemnity and directors' and officers' liability, other than for professions and/or risks deemed to be highly exposed. There have been increases in personal lines and small and medium enterprises business, but larger scale businesses, including corporate accounts have been relatively flat.

Malaysia and Philippines

Malaysian property excess of loss pricing fell 5 percent to 15 percent reflecting both abundant capacity and competition. Casualty excess of loss pricing in the region decreased 10 percent, largely due to new competitors. Pro rata terms and capacity demonstrated a generally flat to modest improvement. In the Philippines, property risk and property catastrophe pricing was flat, while levels of capacity and market interest were stable. Property pro rata terms were also flat with absence of new capacity and little new interest noted.

India and Pakistan

India saw little renewal activity, while in Pakistan, property excess of loss pricing increased by around 5 percent, again with stable capacity and market interest.

South Africa

Catastrophe rates were flat on a risk adjusted basis and there were no significant cat losses. However, the property risk market has seen a number of losses. This contributed to increases in risk layer pricing at renewal. On pro rata, there was pressure on commissions at July 1. This is largely due to the deteriorating underlying loss experience. Conditions in casualty reinsurance programs remain unchanged. In general, capacity remains abundant and clients are tending to buy consistent capacity and hold retentions steady.

United Kingdom

For U.K. property catastrophe placements, the market has overall been stable to plus 5 percent. Per risk excess of loss pricing remains very competitive producing mild decreases in pricing.

Latin America and the Caribbean

Property catastrophe price increases were generally less than 5 percent in Latin America, but ranged between 5 to 10 percent in the Caribbean. Terms and conditions were broadly stable, with increasing retentions noted in some cases. Overall, volumes in the region rose by less than 5 percent. The impact of investment markets was frequently mentioned as the primary driver of pricing behavior.

United States

In general, pricing and terms for property catastrophe reinsurance were similar to those experienced at June 1. Capacity for hurricane risk continued to be tight through the July 1 renewals, although capacity demand eased as the Texas and Florida state controlled insurers decided not to purchase reinsurance for the 2009 hurricane season.

Property per risk pricing continues to firm. While there were no major changes in terms and conditions, underwriting discipline around experience and exposure remains along with a continued focus on the catastrophe exposure provided by these covers compared to the fire risk. Minimal benefit was given for catastrophe related loss mitigation initiatives and more weight given to historical catastrophe experience with reinsurers ultimately sensitive to utilizing catastrophe aggregate for per risk protections unless the coverage was priced to provide strong returns. There continues to be limited markets / capacity for large commercial and multi-national writers.

Reinsurers for casualty excess and umbrella placements remained disciplined and highly focused on the pricing movements in the original insurance markets. Reinsurers have continued to allocate capacity to disciplined underwriters that are also long-term cedents. Terms have firmed or even hardened over last year with reductions in ceding commissions and the reemergence of loss corridors, especially in classes where the original insurance rates continue to decline. Tougher underwriting guidelines/exclusions are also being sought by reinsurers within a few key segments including trucking, construction and pharmaceuticals.

Predicted Catastrophe Pricing: Second Half 2009

As described above, catastrophe price movements seen at the July 1 renewal were broadly consistent with our predictions made earlier this year. Few significant programs renew during the balance of the year and we expect the pricing of these programs to be similar to the market conditions witnessed at July 1. Clearly we assume no additional major turbulence in the financial markets and no major catastrophe losses.

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