

REINSURANCE MARKET OUTLOOK

Remarkable Recovery

January 2010

reDEFINING

Capital | Access | Advocacy | Innovation

Redefining Advocacy: Unique Forward Looking Insights

Aon Benfield continues to redefine the role of a reinsurance intermediary and capital advisor by providing and publishing, where appropriate, forward-looking expectations months in advance of key renewal dates. Our size and unmatched level of investment on behalf of our clients allows us to provide this type of advocacy and advice, not found anywhere else within our industry. We believe our insight on risk, foresight, and understanding of the market creates better outcomes for clients of our firm.

We work with each of our clients to help them understand how global market factors will affect their property catastrophe reinsurance renewal. With our Reinsurance Market Outlook, Aon Benfield provides the most detailed projections for our industry. This level of advocacy has helped Aon Benfield work with clients to develop placement strategies to maximize the capital benefit for their reinsurance spend.

Table of Contents

| | |
|--|----------------|
| Executive Summary – Remarkable Recovery | Page 4 |
| Expectations for Upcoming Property Catastrophe Renewals | Page 7 |
| Resurgent Supply | Page 8 |
| Catastrophe Bond Market Rebounds | Page 10 |
| Relatively Stable Demand | Page 12 |
| Rating Agency Perspective | Page 15 |
| Enterprise Risk Management | Page 20 |
| Solvency II | Page 22 |
| Florida Market Capacity Update | Page 25 |
| Financial Markets Update | Page 28 |
| January 2010 Renewal Highlights | Page 31 |
| Asia and Pacific Rim | Page 31 |
| Europe | Page 33 |
| International Specialty | Page 37 |
| United States | Page 39 |
| Rest of World | Page 46 |
| Global Facultative | Page 47 |
| Recap of January 2010 Renewal Expectations | Page 50 |

Executive Summary – Remarkable Recovery

The remarkable recovery of both insurer and reinsurer capital translated into a catastrophe reinsurance renewal market for January 2010 that was focused on rate decreases in all peak zones of the market. Rate on line (ROL) decreases were in line with Aon Benfield's light catastrophe season scenarios published in September 2009. Rate decreases, adjusted for changes in exposure, for the peak zones of U.S. hurricane and U.S. earthquake ranged from minus 5 to minus 15 percent. At the mean, the ROL decreases taken on January 2010 renewals were very similar in magnitude to the rate increases taken on January 2009 business.

Global reinsurer capacity is driven by capital. Capital increased by 16.6 percent through September 2009, likely fully recovering from the 16.9 percent capital decrease in 2008 by the end of 2009. As a result, capacity for the global catastrophe reinsurance market has been restored to near its all time December 2007 peak and it is meaningfully higher than witnessed throughout the January 2009 renewal season. Reinsurers showed markedly less anxiety than last year and were more focused on gaining the largest possible signings on their program authorizations rather than on rate. The market is again price competitive as capacity growth outpaced demand growth.

Other major reinsurer catastrophe zone exposures such as European windstorm, flood and earthquake are reinsured for substantially lower ROLs at similar expected loss than United States peak zone exposures. They tend to reflect experience, exposure and model changes rather than being tied more clearly to changes in reinsurer capital. Layers impacted by European windstorm Klaus generally saw experience based ROL increases while unaffected layers generally held ROLs stable or were reduced by as much as 6 percent.

The global catastrophe reinsurance market softened; however, the market is not soft. Renewal rates reflect a disciplined view by reinsurers on the balance of risk and return on capital deployed. Aon Benfield believes that reinsurers will not be able to deploy all their capital and, as a result, we project \$10 to 15 billion in significant reinsurer share repurchases during the year. The growth of government-sponsored insurers and reinsurance-like entities continues to erode the opportunities for private reinsurers to deploy capacity. Reinsurers have the capacity or could maintain higher levels of capital if reasonable demand were present.

Casualty and specialty insurers continue to benefit from an abundance of reinsurance capacity. Experience-based rates drive most of the renewal pricing and continual decreases in loss frequency paired with reasonable increases in loss severity mean that insurance and reinsurance rates per unit of exposure continue to decrease. In some lines, such as directors and officers liability, there have been historical differences of opinion between insurers and reinsurers over original rate sufficiency. Reinsurers have substantially erred on the side of safety and priced or structured themselves out of a material segment of casualty business. Insurers have benefited greatly from the higher retentions taken in response to what have proven to be unreasonable reinsurer price and structure proposals over the years. The business that insurers retained has been very profitable for the underwriting years from 2003 to 2007. Reinsurers will need to rethink their value proposition to casualty and specialty insurers as those insurers face an even more competitive marketplace.

January 2010 Renewal Highlights

The table below provides risk adjusted rate change information for key U.S. business segments renewing at January 2010. Additional commentary regarding these renewals as well as broader commentary on placements in other territories renewing reinsurance placements can be found later in the document.

Figure 1: Risk Adjusted Rate Changes

| Business Segment | Price Change |
|----------------------------------|------------------------|
| Property Catastrophe | Down 5% to 15% |
| Property Per Risk | Flat to down 5% |
| General Casualty | Flat |
| Medical Professional Liability | Flat |
| Lawyers Professional Liability | Flat |
| Directors and Officers Liability | Flat to down 5% to 10% |
| Workers' Compensation | Flat to down 5% |
| Health | Flat |
| Surety | Flat to down 10% |
| Multiline | Flat to down 5% |

Source: Aon Benfield Analytics

Global Factors Influencing Reinsurance Supply and Demand

The figure below highlights the key impacts on supply and demand for the January 2010 renewal season.

Figure 2: Global Factors Influencing Reinsurance Supply and Demand

| Global Factors Influencing Reinsurance Supply | |
|---|---|
| + | Near peak reinsurer capital position |
| + | Reasonable profitability and returns on capital |
| - | Less redundant reserves |
| - | More conservative investment management strategies |
| + | Little uncertainty on capital requirements |
| - | Significant share repurchases |
| = | Reinsurer capital is likely to grow at a lower rate than observed in 2007 and 2009 |

| Global Factors Influencing Reinsurance Demand | |
|---|---|
| - | Reasonably high, but not peak capital position |
| + | Increased focus on enterprise risk management |
| - | Declining profitability on original business due to highly competitive global markets: <ul style="list-style-type: none"> • Tends to drive higher retentions as even accretive reinsurance capital can be dilutive to low gross returns on equity • Risk tolerance should decrease as earnings decline on 2010 accident year business but that will require action based on the prioritization of ERM over current earnings goals |
| + | Low investment yields and more conservative investment strategies |
| + | Reasonable uncertainty on capital requirements as new post-crisis rules are enacted |
| - | Catastrophe model changes in key perils |
| - | Low price to book multiples |
| = | Reinsurance demand is unlikely to grow at a rate that is higher than low single digits |

Source: Aon Benfield Analytics

Expectations for Upcoming Property Catastrophe Renewals

Our outlook for the April, June and July renewal seasons reflects our expectation that the pace of reinsurer capital growth will decrease, due to share repurchases and more stable investment prices. The reduced pace of reinsurer capital growth is still likely to outpace the growth in insurer demand for reinsurance. Therefore we expect continued softening over these upcoming renewal periods. Because the United States continues to represent the reinsurance industry's peak aggregation for both hurricanes and earthquakes, we provide our views on how the reinsurance market is likely to continue throughout 2010 renewals.

Figure 3: United States: Property Catastrophe Spring/Summer 2010 Expectations

| | ROL CHANGES | CAPACITY CHANGES | RETENTION CHANGES |
|---------------------------|--------------|------------------|-------------------|
| Personal lines national | -15% to -5% | +5% to +15% | +5% to +15% |
| Personal lines regional | -15% to -5% | +10% to +20% | +5% to +10% |
| Florida HO specialists | -10% to -5% | +5% to +10% | -10% to +5% |
| Standard commercial lines | -15% to -5% | +10% to +15% | +5% to +10% |
| Complex commercial lines | -20% to -10% | +10% to +15% | Flat to +15% |

Assumptions: No changes in insured catastrophe exposures. Rate of change measured from the expiring Spring/Summer 2009 terms. The information provided above assumes no material ceded reinsurance catastrophe event prior to Spring/Summer renewals.

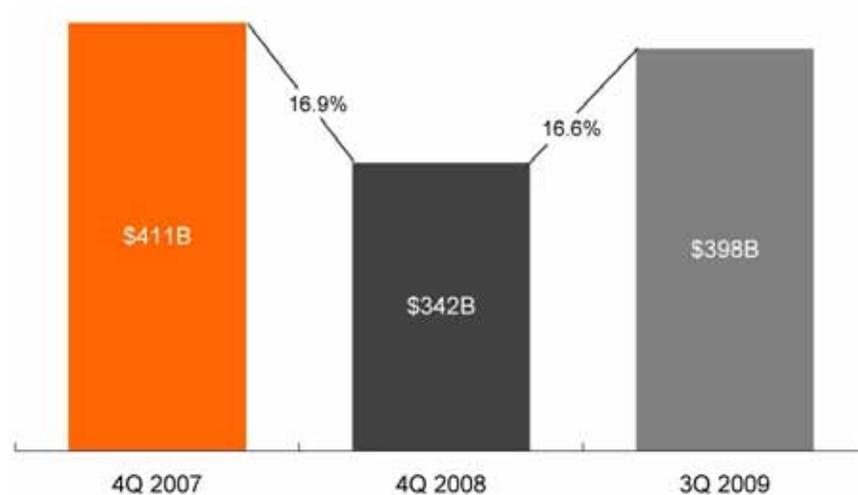
Source: Aon Benfield Analytics

These expectations represent our views of market trends. Individual client placements are represented by professionals from our firm who understand the unique underwriting processes, class choices, original exposures, data quality, aggregations of catastrophe exposures, loss history, program structure, capacity needs, and security requirements of each client. Our professionals work closely with clients to properly differentiate their individual placements within the dynamic marketplace. Actual rate on line, capacity and retention changes are carefully considered and tailored to each client and can vary materially from the expectations for the broad market set forth above.

Resurgent Supply

Minimal hurricane activity and improving financial markets in 2009 led reinsurer capital to rebound quickly from its position at the end of 2008. Since last year end, reinsurer capital has grown 16.6 percent, with more than half of this improvement coming in the 3rd quarter. Overall, increased profitability and investment gains have nearly restored capital to the record levels of year end 2007.

Figure 4: Change in Reinsurer Capital



Source: Individual company reports, Aon Benfield Analytics

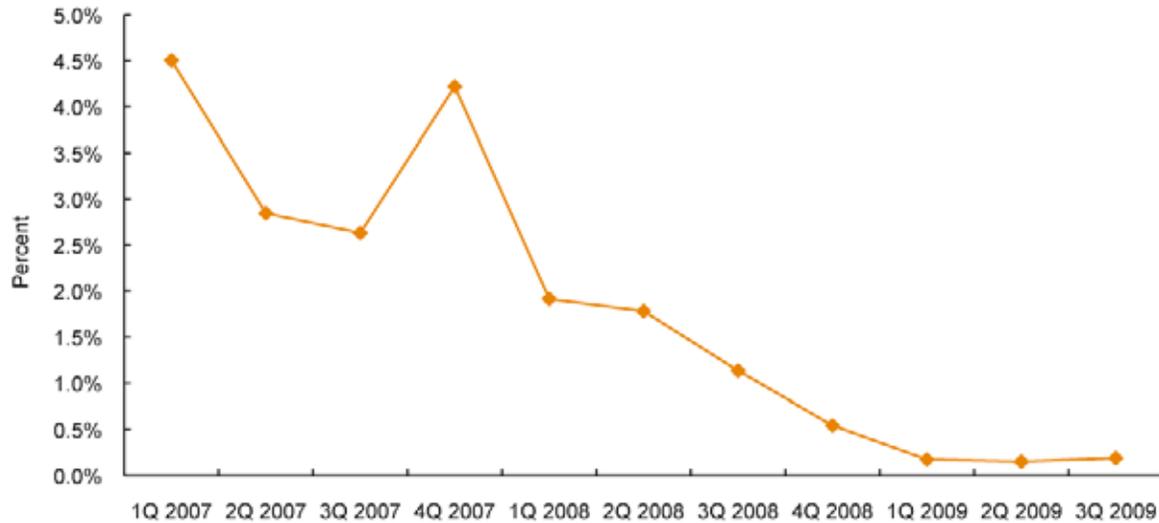
Note: These numbers have increased compared to our prior reports in order to account for a broader market representation as well as the incorporation of capital from catastrophe bonds, estimation for major internal reinsurance purchases, and the coverage provided by the Florida Hurricane Catastrophe Fund.

Reinsurer capital returning to near-peak levels is likely to drive significant share repurchases in 2010. We anticipate that without the occurrence of significant catastrophe events, reinsurers will repurchase between \$10 billion and \$15 billion of their shares. Consolidation will continue to be attempted and limited growth in demand for reinsurance may lead more deals to move from discussion stage to completion.

Reinsurer Share Repurchase and Special Dividend Announcements

While light compared to prior quarterly announcements, current high capital positions will likely result in increased repurchase activity throughout 2010. That said, A.M. Best recently suggested that reinsurers will likely be more conservative with cash due to continued economic uncertainty and the risks associated with taking on catastrophe exposed business.

Figure 5: Share Buy-backs as % of SHF



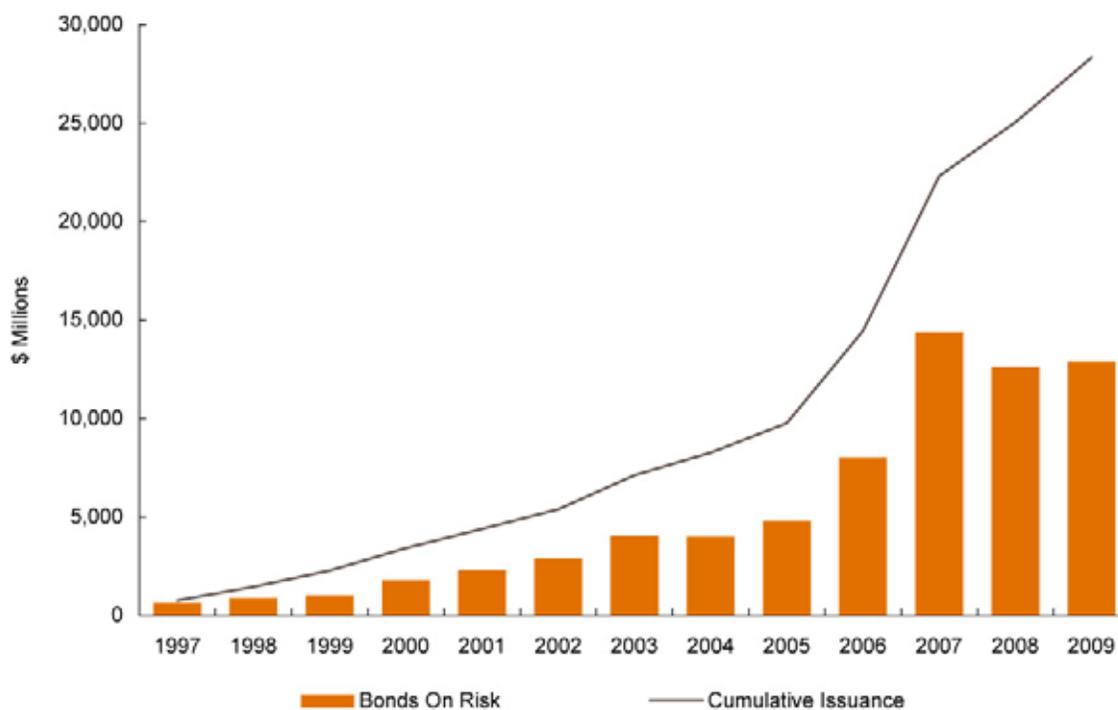
Source: Aon Benfield Analytics

Catastrophe Bond Market Rebounds

Catastrophe bond issuance resumed after the first quarter of 2009. Total catastrophe bond capacity on risk at year end of 2009 is \$13.0 billion due in large part to the significant issuances in Q4 2009. The Insurance-Linked Securities (ILS) sector continues to gain momentum with fixed income investors and with new sponsors issuing in 2010 despite the financial market disruption. We expect the capacity on risk to continue to grow through 2010.

Developing analytics, a growing investor base, and structural innovation all play a role in further developing ILS as a seasoned alternative asset class. ILS returns have demonstrated a lack of volatility in contrast to the correlation that high yield bonds exhibited with broader financial markets. Combined with consistent economic benefits for portfolio managers, this lack of correlation will compel them to consider adding to their ILS holdings. In addition, changes to collateral standards following the bankruptcy of Lehman Brothers have reduced investor's reliance on counterparties. These factors all bode well for the market in 2010 as more than \$2 billion of currently outstanding bonds are expected to mature in the second quarter of 2010 alone.

Figure 6: Total Catastrophe Bonds on Risk



Source: Aon Benfield Securities

Catastrophe Bonds vs. Traditional Reinsurance

With \$13.0 billion of capacity on risk at year end, the ILS market represents almost 10 percent of the total capacity provided to cedents for property catastrophe reinsurance protection. While the index basis of some bonds presents hurdles to certain sponsors, pricing of occurrence based U.S. bonds at various expected loss levels compared to traditional reinsurance continues to suggest catastrophe bonds can be an effective and complementary method of securing reinsurance capacity. Sponsors of catastrophe bond transactions tend to be among the top consumers of traditional catastrophe reinsurance capacity. Most sponsors have taken maximum program participations from individual reinsurers and seek high quality capacity near the top of their programs. Pricing is now reasonably, but not directly, comparable to traditional reinsurance. At the March 2009 height of the credit and liquidity crisis, the all-in price of transferring risk to investors through catastrophe bonds was 30 to 40 percent above traditional reinsurance. As credit spreads for corporate bonds recovered in the second and third quarters, the all-in price decreased by 20 to 30 percent. Catastrophe bonds cover only modeled perils, do not include reinstatement premiums or limits and are collateralized. The all-in costs of transferring catastrophe risk to investors in the form of catastrophe bonds are therefore not directly comparable to traditional reinsurance ROLs.

Sidecars

The sidecar market, which has generally focused on providing leading catastrophe reinsurers with extra capacity in hardening reinsurance markets, has not rebounded. The few sidecars that were renewed in 2009 were generally decreased in size. Real demand from reinsurers for sidecar capacity is likely to decrease further in 2010 as most leading reinsurers will again have more capital than they can deploy in the reinsurance market. Some reinsurers may explore sidecars as a potential source of accretive capital; however, investor expectations and alternative uses of their capital will make this a challenging proposition. Without a material catastrophe event in 2010 we do not anticipate material growth in capital supplied to the reinsurance industry in sidecar form.

Collateralized Reinsurance

In addition to catastrophe bonds and sidecars, a number of investors sought portfolio diversification by setting up unrated reinsurance companies that fully collateralize their limits for the benefits of cedents. These are among the most dedicated investors to the sector with many of them originally gaining their exposure to the business as holders of catastrophe bonds. We believe that the pace of growth in collateralized reinsurance capacity will be similar to the growth in capacity for catastrophe bonds. Therefore, collateralized reinsurance will continue to be an important source of capacity for significant buyers of catastrophe capacity.

Exposure Swaps

2009 saw a substantial realignment of swap capacity, largely provided by Japanese insurers. The realignment drew material new interest from U.S. insurers swapping U.S. hurricane and earthquake for Japanese earthquake and typhoon risk. In a number of cases the interest led to new transactions. Swap counterparties tend to prefer to do business with original insurers rather than reinsurers. Many insurers though are uncomfortable with the notion of assuming risks from areas of the world where they do not write insurance even though they understand the quantitative benefits of the diversification strategy provided through the swap transaction. Exposure swaps tend to occur at mid-year renewal dates.

Relatively Stable Demand

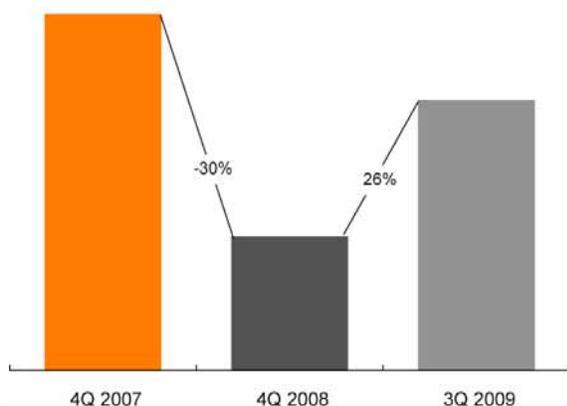
Overall demand for traditional reinsurance remained relatively unchanged from prior year renewals despite continued pressure on primary rates. For the most part, reinsurance rate stabilization or softening helped protect insurance companies' ability to retain similar reinsurance capacity. This, in addition to a rebound in capital for 12 months prior and low catastrophe losses for 2009, seems to have delayed major changes in reinsurance buying.

Increased Capital for Insurers

Insurance company capital increased by 26 percent since 4Q 2008 with approximately 12 percentage points of the increase in 3Q alone. While capital dipped below year end levels through the first quarter of 2009, the following six months resulted in increases that have positioned the industry only 10 percent less than 4Q 2007.

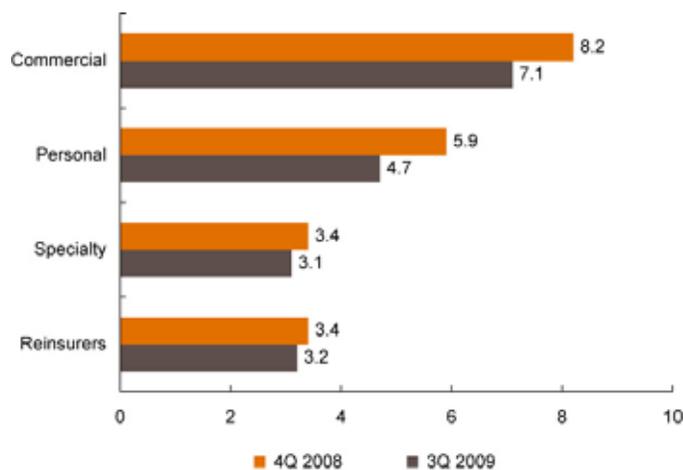
Insurer's higher asset leverage results in greater capital volatility than for reinsurers; their capital decreased further at the beginning of the financial crisis and has subsequently rebounded more quickly. At the end of the 3Q 2009, asset leverage for a composite of insurers was 5.9 times capital whereas reinsurer asset leverage was only 3.2.

Figure 7: Change in Insurer Capital



Sources: Aon Benfield Analytics

Figure 8: Asset Leverage Ratios



While primary pricing continues to decline year over year, 2009 combined ratios benefited from low catastrophe losses. Compared to 2008, the top U.S. personal and commercial lines insurance companies combined ratios are down 3.6 and 4.3 percent respectively. Absent a major catastrophe in 2010, it appears likely that the soft market will continue. Fortunately, many insurers also benefited from reduced reinsurance premiums at January 1 renewals, and further reductions are likely through the remainder of 2010.

Figure 9: Top Personal and Commercial Insurer Financials Percent Change from Q3 08 to Q3 09

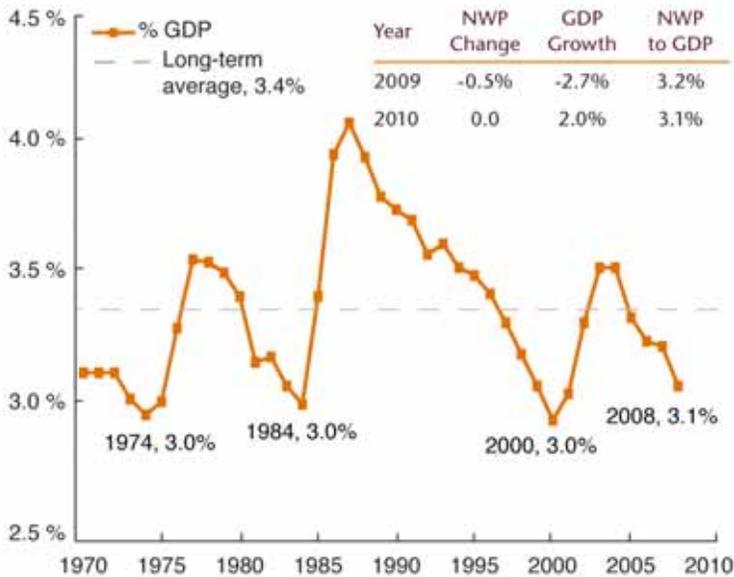
| | Personal | Commercial |
|-------------------------------|----------|------------|
| Direct Written Premium | -1.2 | -5.3 |
| Net Written Premium | -1.7 | -8.4 |
| Earned Premium | -1.8 | -6.8 |
| Loss Ratio Difference | -4.4 | -5.6 |
| Loss and LAE Ratio Difference | -4.0 | -4.8 |
| Combined Ratio Difference | -3.6 | -4.3 |

Source: SNL Calendar Data and Aon Benfield Analytics

Net Written Premium as % of U.S. GDP Suggests Market Softening May Continue

Over the 39 year period since 1970, when Net Written Premium (NWP) as a percent of GDP has fallen below 3 percent, it has signaled the beginning of a hard market. Our current forecasts for 2009 and 2010 remain slightly above 3.0 percent at 3.2 and 3.1 percent respectively.

Figure 10: U.S. NWP as % of GDP



Sources: A.M. Best and U.S. Department of Commerce

Low Catastrophe Losses Helped Push Pricing for 2010 Renewals

Both the insurance and reinsurance industry benefited from low property catastrophe activity with total insured catastrophe losses for the year at \$20 billion and associated economic losses at approximately \$58 billion.

Figure 11: Top Catastrophe Losses By Insured Losses for 2009

| Event Date | Event Name or Type | Event Location | # of Deaths | # of Structures / Claims | Insurer Loss Estimates (US\$ billions) | Economic Loss Estimates (US\$ billions) |
|------------------|--------------------|--|-------------|--------------------------|--|---|
| 1/24 – 1/25 | Windstorm Klaus | France, Spain, Italy | 26+ | 715,000+ | 3.30 | 6.00 |
| 7/23 – 7/24 | Severe Weather | Switzerland, Austria | 11+ | 5,000+ | 1.25 | 2.50 |
| 2/10-2/13 | Severe Weather | Oklahoma, Texas, Ohio Valley | 13+ | 300,000+ | 1.20 | 2.40 |
| 4/9 – 4/11 | Severe Weather | Plains, Midwest, Southeast | 2+ | 190,000+ | 1.10 | 2.20 |
| 6/9 – 6/18 | Severe Weather | Rockies, Plains, Midwest, Mid-Atlantic | 1+ | 200,000+ | 1.00 | 2.00 |
| 2/7 – 2/20 | Brushfires | Victoria, New South Wales | 173+ | 10,040+ | 0.99 | 1.00+ |
| 3/25-3/29 | Severe Weather | Plains, Southeast, Midwest, Northeast | 6+ | 150,000+ | 0.83 | 1.60 |
| 7/20 – 7/21 | Severe Weather | Rockies, Plains | 1+ | 85,000+ | 0.70 | 1.40 |
| 9/26 – 9/30 | Typhoon Ketsana | Philippines, Vietnam | 645+ | 7.4 million+ | 0.26 | 1.03 |
| 4/6 | Earthquake | Italy | 308+ | 15,000+ | 0.25 | 2.50 |
| ALL OTHER EVENTS | | | | | 9.12 | 35.37 |
| TOTALS | | | | | 20.00 | 58.00 |

Source: Impact Forecasting, an Aon Benfield affiliate

Rating Agency Perspective

During the 2008 financial crisis, the property and casualty industry experienced a significant drop in capitalization, predominately due to realized and unrealized losses on investments. Industry capital levels for publicly traded insurers and reinsurers on a combined basis decreased by 22.8 percent from year end 2007 to 2008. This decline in capital was cushioned by the perceived excess capital built up from several consecutive years of surplus growth during the hard market years prior to 2008.

Throughout the financial crisis, the rating agencies maintained that the (re)insurance industry was sufficiently capitalized to withstand these losses. This finding was largely predicated on a view that lower asset values were temporary and that reinsurers, with positive cash flows and strong liquidity, would not have to recognize the unrealized losses, thus making the financial crisis a “temporary” capital drain. The agencies view the turnaround in the financial markets as an affirmation of this view. Industry capital has rebounded 22.2 percent through September 30 based on an analysis of globally publicly traded (re)insurers. The current adequate level of industry capitalization is supported by the chart below presenting estimated U.S. median A.M. Best’s Capital Adequacy Ratio (BCAR) scores by rating and the chart on the following page showing the evolution in capital adequacy based on BCAR and Standard & Poor’s Enhanced Capital Model (S&P CAR) for the U.S. Industry Aggregate since 2007. The 2009 estimated median BCARs are projected to be in line with 2006 and 2007 levels due to a combination of an increase in adjusted capital and a decrease in required capital. Adjusted capital levels improved primarily due to the improvement in the financial markets, with 2008’s unrealized investment losses rebounding and turning into unrealized gains. In addition, modeled required capital is down, paradoxically, due to depressed premium levels resulting from soft market pricing conditions as well as recent reserve releases. The improvement in adjusted capital coupled with a decrease in required capital results in 2009 expected BCAR scores at pre-crisis levels.

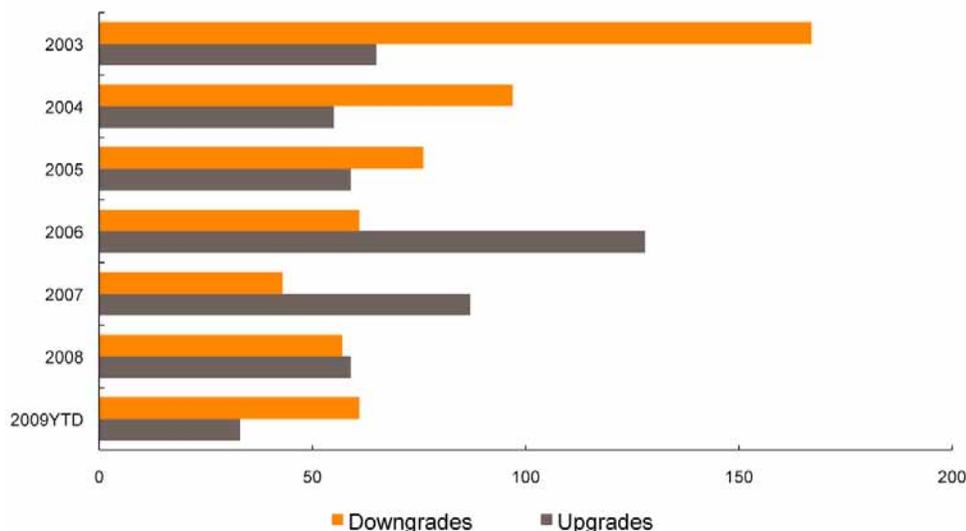
Figure 12: Published U.S. Minimum and Median BCAR by Rating Level

| | Min. | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E |
|-----|------|------|------|------|------|------|------|-------|
| A++ | 175 | 230 | 285 | 323 | 306 | 305 | 264 | 289 |
| A+ | 160 | 240 | 248 | 268 | 284 | 277 | 262 | 281 |
| A | 145 | 228 | 234 | 240 | 268 | 276 | 251 | 288 |
| A- | 130 | 200 | 196 | 209 | 225 | 239 | 224 | 249 |
| B++ | 115 | 260 | 168 | 188 | 201 | 204 | 203 | 223 |
| B+ | 100 | 141 | 146 | 150 | 174 | 176 | 167 | 168 |

Source: A.M. Best Data

Although the rating agencies recognized the reality of the financial crisis, companies that struggled with liquidity or had either investment or underwriting losses in excess of expectations and outside their peer group levels did not fare so well during the 2009 rating reviews, as demonstrated by the number of A.M. Best downgrades compared to upgrades in the figure below.

Figure 13: A.M. Best Upgrades vs. Downgrades



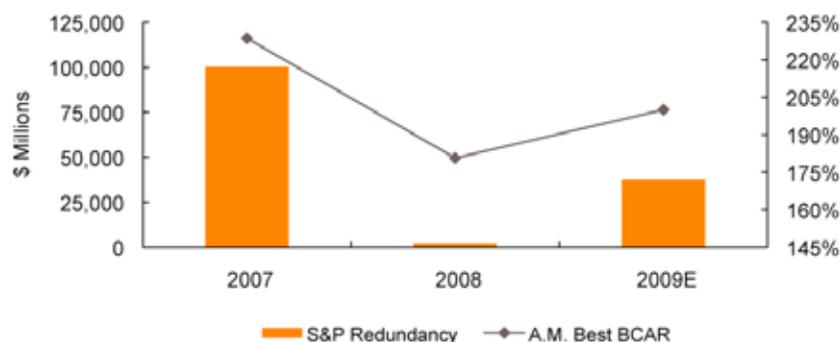
Source: A.M. Best Data

Note: Data as of 12/1/09

For the first time since 2005 downgrades outpaced upgrades. In Europe the same trend holds true as A.M. Best downgraded ten group companies while only upgrading two. In Asia Pacific, however, the opposite trend was apparent as A.M. Best downgraded four companies while upgrading eight companies. Asia Pacific experienced the same economic struggles as the U.S. and Europe, and the rating agencies took a similar approach in those countries; most of the rating changes were for local subsidiaries of large, global groups.

Below is an analysis of capital adequacy as measured by BCAR and S&P CAR for the U.S. Industry Aggregate for 2007 through 2009. In 2008 the industry witnessed a significant decline in redundancy as measured by S&P at the 'A' rating level, virtually falling below the model level of capital. Similarly, BCAR for the industry fell from nearly 230 percent to 180 percent (the minimum for an 'A' rated company is 145 percent; the minimum for an 'A-' rated company is 130 percent). Given the rebound in capital levels, and the decline in premiums and reserves, we expect capital adequacy to improve significantly by year-end 2009, though not quite to the same levels as seen in 2007.

Figure 14: U.S. Industry Aggregate Capital Adequacy



Source: SNL Data

Existing and new challenges face the industry even though capital has been restored to levels comparable to those prior to the financial crisis. Rating agencies and constituents alike remain skeptical as to when the recession, and its effects on the economy, will subside. As a result, rating agencies continue to focus on the following topics for the 2009 ratings reviews during 2010.

Pricing Pressure

Pricing, specifically that for commercial lines, continues to be of concern amongst rating agencies and the driving force for their industry outlooks as demonstrated in the chart below. While 2009 was a softening market for most lines, many do not believe 2010 will experience much rate hardening. The reinsurance segment, which is assumed to be stable by all major rating agencies aside from Moody's, will also likely experience rate softening in 2010 for most lines.

The rating agencies are concerned with how companies are managing the pricing pressures they are facing. Specifically, they are focused on ensuring that companies are not sacrificing underwriting standards to obtain or retain business.

Figure 15: Current Industry Outlook

| Sector | S&P | A.M. Best | Moody's | Fitch |
|------------------|-----------------|-----------|-----------------|-----------------|
| Personal Lines | Negative | Stable | Stable | Negative |
| Commercial Lines | Negative | Stable | Negative | Negative |
| Reinsurance | Stable | Stable | Negative | Stable |
| Health | Negative | Stable | Stable | Negative |
| Life Insurance | Negative | Stable | Stable | Negative |

In the second half of 2008, A.M. Best released a special report titled "Few Companies Excel at Managing through Market Cycles" that outlined:

- Insurers that performed better focused on underwriting to drive profits
- Bottom performers were unable to grow as much as the top performers during the hard market years, perhaps finding themselves less well positioned after the last soft market
- Only 14 percent of the total study population outperformed their industry composite medians over the most recent soft and hard market cycles

The key messages are that companies need to focus on underwriting, though historically only a small percentage of the industry has excelled at this, and those that do will have better success in the hard market years.

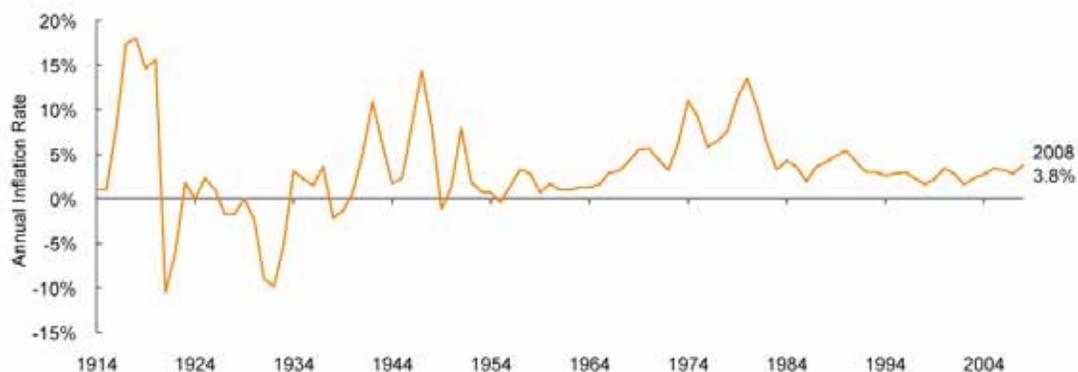
Reserve Adequacy

The rating agencies are starting to say they believe the industry has released all excess reserves, therefore, there is concern that companies might be under-reserved in future years, and further, underwriting results will be constrained going forward without additional reserve releases. Based on the population of publicly traded (re)insurers Aon Benfield tracks for this purpose, companies' combined ratios included approximately 4.6 points of loss ratio improvement due to reserve releases in 2008 and another 4.1 points of loss ratio improvement through the first nine months of 2009. Of the 2009 year-to-date reserve releases, 44 percent related to accident year (AY) 2008, 25 percent to AY 2007 and 31 percent to AY 2006 and prior, therefore, the majority of reserve releases are coming from the recent soft market AY 2007 and 2008.

Inflation Risk

The rating agencies view the risk of significant inflation in the near term not in terms of “if” but in terms of “when.” Significant inflation would impact both assets and the liabilities for (re)insurers. Companies with significant long-tailed liabilities face the risk that amounts reserved for today will not be sufficient to pay claims when they come due in future years. Further, interest rate increases as a result of inflation will have the impact of driving down bond values, further impacting the industry’s ability to pay claims and grow its capital base. Companies need to incorporate inflation risk into their pricing models, asset liability matching and economic capital modeling to adequately capture the risk to both sides of the balance sheet. Rating agencies are beginning to request evidence of this in their company evaluations.

Figure 16: U.S. Historical Inflation Rates

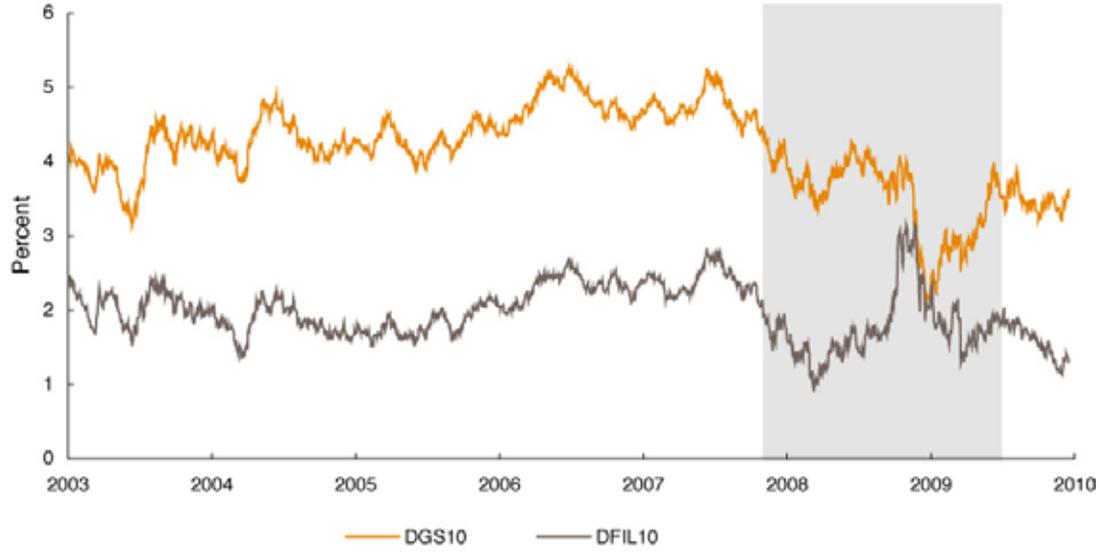


Source: U.S. Department of Labor - Bureau of Labor Statistics (Consumer Price Index - All Urban Consumers)

The current debate being observed by the rating agencies is how future inflation might be predicted based on history. After the stock market crash in 1929, the economy experienced deflation for the following four years, with mild inflation through the remainder of the 1930’s. The 1970’s are deemed to be the period with the most significant inflation, averaging 8 percent per year between 1970 and 1981, peaking above 10 percent in 1974 and again in 1979-1981. It remains to be seen when inflation might begin to creep into the current economy globally, though most economists believe it is only a matter of time.

Few economists will provide a quantitative prediction of anticipated inflation in the near-term. Instead, people look to the spreads between 10-year Treasury Inflation-Protection Securities (TIPS) yield and 10-year Treasury Bills yield. Early in 2009 the spreads narrowed, meaning the perceived fear of inflation was decreasing. However, throughout 2009 the spreads have widened again, reigniting the fear of near-term inflation. The current spread though is in line with the spreads during 2005 through 2007, when the economy experienced little actual inflation.

Figure 17: Historical 10-Year Treasury Inflation-Indexed Security, Constant Maturity (DFIL10)
Historical 10-Year Treasury Constant Maturity Rate (DGS10)



Source: 2009 research.stlouisfed.org

Note: Shaded area indicates recent U.S. recession

Enterprise Risk Management

During a relatively benign underwriting year in 2009, the industry was able to catch its breath and reflect on how the events of 2008 had impacted organizations. There were some suggestions that Enterprise Risk Management (ERM) did not meet expectations in 2008, while others suggested that things would have been worse without ERM. No matter one's opinion, most would agree to the following: 1) ERM, as with any management process, is imperfect, 2) sophisticated risk modeling and risk metrics by themselves are not a sufficient ERM process, and 3) ERM helps to establish more informed boundaries with which to operate. Indeed, ERM has provided many managers additional insight into their organization and should serve as a competitive advantage over time when done appropriately.

What was learned from the events of 2008 should bode well for improved ERM response going forward. However, the challenge that remains for most in enhancing ERM is to understand risk tolerance. When done effectively, ERM can help insurers to manage risks and can help support strategic planning and execution. However, even the most effective risk controls and risk capacity allocation process will be undermined if the barometer that ERM is being used to manage is not clearly defined within the organization or not understood by its stakeholders.

A trend that we have seen across the industry is an increased documentation of risk appetite for certain risk silos or product lines. Often, however, this does not translate into a group level risk tolerance established for the organization as a whole. For example, insurers and reinsurers have grown accustomed to managing property catastrophe risk using probable maximum loss (PML) to a certain aggregate level, and as a certain percentage of surplus or earnings. Similarly, limits on allocation to particular asset classes among the investment portfolio are clearly defined for most companies, and may also be sensitive to surplus or earnings. However, these risk limits are typically established independent of one another. The perspective of a group level risk tolerance that contemplates the interaction of varied risk types is still under development for most firms.

Even when firms have risk appetites established for key risks they are not always communicated effectively to stakeholders. For example, there is little consistency in disclosures specific to property catastrophe disclosures for public firms. For example, although many do mention such information using PMLs on a net basis and as a percentage of surplus, there are other variations, such as pre- vs. post-tax, combined ratio percentage points, earnings sensitivities, etc. Despite these inconsistencies, speaking to risk appetite in any form is a significant step forward.

Benefits of a defined and disclosed risk tolerance

- **Transparency.** Stakeholders such as investors, rating agencies, regulators, and counterparties will have a better understanding of the types of risks that the organization is willing to entertain. They can then make a more informed judgment of the appropriateness of ERM and the risks controls in place.
- **Level-set expectations.** If stakeholders are on the same page as management, when extreme losses occur management will not have to justify why risk decisions were made. These decisions and the results of them would be expected and accepted.
- **Management incentives.** Having a clearly defined risk tolerance provides management with a repeatable set of parameters within which to operate. This can boost confidence and execution as decision makers understand what guidelines they can operate within as opposed to loose or moving targets.

Challenges of a defined and disclosed risk tolerance

- Multiple constituencies. Rating agencies and policyholders view of risk tolerance may differ with that of an investor or owner. Reconciling these different expectations while trying to capitalize on favorable risk-based opportunities is challenging.
- Restricted management. Once a risk tolerance is defined, management may have to pass on profitable opportunities, or may feel their expertise in risk taking is being undermined.
- Competitors. Peers may try to exploit risk tolerances of others that are known in the marketplace to meet their own goals or to challenge another's market share.

ERM inherently is not focused on any one risk type. Ideally ERM embraces the idea that risks, threats and opportunities transcend the organization. Therefore, risk tolerance should also transcend the organization.

An effective ERM process must balance the concerns of rating agencies, regulators, investors, policy holders, and other counterparties. Consideration must be given to tail events, along with the financial flexibility and liquidity issues that may arise in adverse outcomes closer to the middle of the distribution. Given this ambitious goal, the ERM journey for most companies will be long and difficult. The key to ultimate ERM success will be to minimize the damage from the mistakes that will be made, and to effectively incorporate a risk analysis mindset throughout the organization.

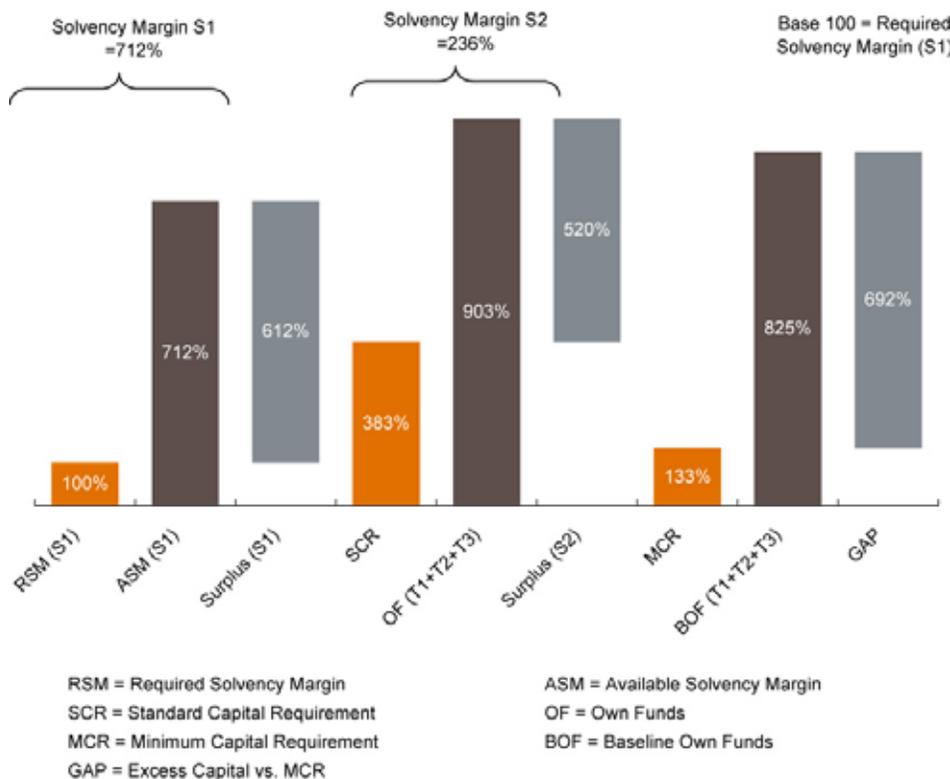
Solvency II

Solvency II is imminent, but complexity might be dwarfed by IFRS Phase 2

Aon Benfield expects that the new solvency regime in Europe (Solvency II) will increase the regulatory capital requirement of composite insurers by 20 to 40 percent on average based on the standard formula. The recent Quantitative Impact Study 4 ("QIS 4") exercise indicated an average increase of 8 percent for composites, versus 94 percent for non-life companies and no change for life companies. Recent Consultation Papers by the Committee of European Insurance and Occupational Pensions Supervisors show a more conservative view post-financial crisis, and capital requirements have increased substantially since QIS 4, especially on the asset side of the balance sheet.

As an example, the following graph shows the evolution of surplus capital (excess capital above regulatory minimums) of non-life insurers in France under Solvency I and Solvency II, as per QIS 4. It is important to note that the definition of available capital is not the same between Solvency I and Solvency II, and therefore one should focus on the surplus rather than the solvency margin (i.e. coverage ratio of available / required capital). The capital requirements will increase significantly for non-life insurers, and although the solvency margin declines by 67 percent (decline from 712 to 236 percent from Solvency I to Solvency II), the surplus decreases by only 15 percent (from 612 to 520 percent) for the whole of the French market. Therefore, increased capital requirements under Solvency II resulted in 15% less excess capital for the French market than previously under Solvency I. As indicated above, the financial crisis will toughen the Solvency II capital requirements and thus we expect the excess capital to shrink further.

Figure 18: Under the QIS4 Solvency II assumptions surplus decreased by about 15 percent



Source: ACAM (l'Autorité de Contrôle des Assurances et des Mutuelles)

Based on an Aon Benfield analysis of various global regulatory and rating agency capital models, both A.M. Best and S&P capital requirements will be greater than the proposed Solvency II SCR requirements per QIS 4. Based on the sample data analyzed, A.M. Best would require 16 percent more capital than Solvency II and S&P would require 29 percent more capital.

We understand that QIS 5 should be more straightforward to complete than QIS 4, and the general consensus is that the capital requirements will increase. Moreover, we believe that Pillar 2, regulatory risk assessment, and Pillar 3, public disclosure, will be more important challenges than Pillar 1, which focused solely on capital requirements. Indeed, calculating the capital requirement seems rather simple compared to explaining to regulators and investors how risks are managed and how these are adequately reflected in the available capital.

Perhaps the most significant challenge of all is bridging the gap between the insurance industry, the regulators and investors. The industry is looking for the correct amount of economic capital, the regulators for a safe amount of capital (the higher the better from their perspective) and investors want capital to maximize long-term value – a perspective that can change over time. Investors wanted insurers to hold less capital 18 months ago, more capital 12 months ago and today they prefer more capital as long as returns are similar to 18 months ago. These inconsistencies have become quite challenging for most companies.

In addition, due to current IFRS accounting where assets are recorded at fair value while liabilities are not, insurers' financial statements experience regular volatility, and the interaction with Solvency II will highlight this disparity. Proposed changes to IFRS Phase 2 should correct this inconsistency, but timing is still unclear as the FASB and IASB are still debating the most appropriate way to calculate the insurance liabilities. No meaningful changes to IFRS Phase 2 are expected in the near-term, so insurers are still uncertain as to what the ultimate accounting will be, and how this might impact assets, liabilities and capital. The potential complexity of IFRS Phase 2 could potentially dwarf the Solvency II effort.

Reinsurance purchasing will benefit from the risk - value relationship

The new Solvency II regime will also increase the need for insurers to understand solvency capital relief when valuing reinsurance. It will become more important and more challenging than has been the case historically to purchase the optimal reinsurance structure in line with Solvency II's Balance Sheet risk management approach. The CROs of insurers will have an important role to manage risks according to the company's risk appetite and risk tolerance, and ensure an adequate risk transfer policy. Across Europe there is a trend of more risk managers appearing, but the formal CRO role is still to be filled out for many continental European insurers.

Solvency II will impact each (re)insurer differently. The real value in understanding the regulatory capital saving from particular reinsurance contracts will be from dissecting each individual company's balance sheet. Although some broad trends have become apparent from the standard formula, there will be opportunities for companies to fine tune their balance sheet to optimize capital efficiency. Although the standard formula will provide little credit for non-proportional reinsurance, a well balanced internal model would provide credit in line with the risk that is transferred.

Catastrophe exposure is often a key driver in the regulatory capital calculation. Under QIS 4, companies could derive their cat risk capital charge using one of three options: a factor based approach, a scenario based approach based on regional scenarios, and a personalized scenario based approach. However, this will change and companies will most likely be able to choose from standardized scenarios (a Task Force has been put in place to ensure the calibration of the scenarios is harmonized) or a factor based method. Companies will be able to use their own exposures and reinsurance programs in their Solvency II capital requirements, but in its current form they would be at a disadvantage compared with companies using the standard model for calculating their catastrophe risk exposure. We expect this to be resolved under QIS 5 (April 2010) and thus companies should be able to manage their catastrophe risk exposure in line with their overall risk appetite.

For the first two years of Solvency II companies are required to use the Standard Formula for calculating their Solvency Capital Requirement. The Standard Formula limits how much historic loss experience companies can use, and applies set volatility factors to net premiums and net reserves. That means the formula calculates the regulatory capital assuming the average purchase of non-proportional reinsurance. As a result, companies purchasing more than the average will not get the full capital benefit. However, the calculation of the capital requirement under the standard formula is based on standard deviations and these will be reduced by buying reinsurance thus reducing the capital requirements.

Although some companies may respond by buying less non-proportional reinsurance when limited credit is given and only buy more where they achieve full regulatory capital benefit, we believe this is a short-term view and not supported by economic risk management principles. Moreover, reinsurance purchasing for many companies will likely still be determined by economic capital views or rating agency requirements.

Under the current standard model, reinsurance provides capital relief in relation to premiums ceded to the reinsurer. Therefore Quota Share (QS) reinsurance receives full credit for the ceded premiums portion, and Excess of Loss (XOL) and Catastrophe covers receive credit in proportion to the premiums paid.

This is contrasted to the A.M. Best and S&P capital models where required capital for both premium risk and reserve risk is calculated on a net basis, as well as the PML. Therefore, reinsurance that reduces those risk components is given considerable capital credit in the models. In particular, Catastrophe XOL is generally given greater than one for one credit due to the mechanics of the capital models. Furthermore, reinsurance that substantially reduces the risk of adverse loss reserve development such as an Adverse Development Cover or limits the incurred losses in a year such as an Aggregate Stop Loss is given capital credit to the extent that meaningful risk is ceded to the reinsurer.

As such, during the first two years of Solvency II when companies are required to use the SCR to calculate capital requirements, reinsurance can only be used to reduce required capital for premium risk, unless there are substantial changes made in QIS 5 when compared to QIS 4. One such expected change is to the standard model cat risk charge, which should be much better calibrated to the real capital requirement than was the case under QIS 4 where the difference between method 3 (the personalized approach) and method 1 (the factor based approach) lead to a 15x higher capital requirement for personalized scenarios (based on captive QIS 4 results). This could result in more adequate credit provided for catastrophe reinsurance. However, after those first two years when companies can use internal capital models to calculate capital requirements, companies will be able to reap the full profit from their reinsurance programs.

Rating Agency vs. Solvency II Requirements

The rating agencies generally see Solvency II as a positive change to the insurance industry. The increased focus on capital management and risk management, as well as improved disclosures, will assist stakeholders to better understand the key risks of companies. The rating agencies do not plan any changes to their approach to analyzing companies as a result of Solvency II, but rather think the additional analysis will parallel the rating agency review. Given that Solvency II initially encouraged companies to build internal capital models, many of the more sophisticated European companies dedicated significant resources to developing internal capital models, which have helped those companies better understand their risks and be ahead of their non-European peers.

The rating agencies have repeatedly stated that they do not intend to increase their capital requirements above current levels for most securely rated companies simply because Solvency II is resulting in increased levels of regulatory required capital. However, greater disclosures and analysis could lead to an increased focus on certain risks, thus resulting in a different perspective of those risks going forward, which could impact future rating agency capital requirements.

Florida Market Capacity Update

Despite the light 2009 hurricane season in the southeast and Florida, the rating agencies are still concerned with the Florida Hurricane Catastrophe Fund's (FHCF) ability to raise sufficient funds post-event. In fact, the FHCF just announced they need to raise approximately \$300 to \$600 million in additional bonding capacity to close out payments from the 2004/2005 hurricane season. Therefore, the rating agencies are continuing to require companies to present their solutions for recapitalization should a significant hurricane occur and the FHCF not be able to raise funds post-event. Recapitalization can come from additional third party reinsurance, contingent capital facilities or other forms of financial flexibility. The rating agencies expect companies to be prepared to support how they will continue to operate in the event of a major hurricane with limited FHCF support.

Demotech, a financial analysis firm that reviews and rates hundreds of companies countrywide, including many Florida property companies, is in the process of formalizing its catastrophe data collection process in advance of the 2010 renewal season. In the chart below, we compare the Demotech parameters to those from A.M. Best, as well guidance from the Florida Office of Insurance Regulation. Demotech has specifically stated they will again be considering companies' net retention to surplus ratio in their evaluation. If companies have not been including all the model switches in their reinsurance purchasing decisions, they might need to buy more reinsurance limit in 2010.

Based on an estimate of the Florida market, 25 percent of companies are currently modeling on a long-term basis. Should they need to model their PMLs on a near-term basis for Demotech purposes, the increase in PML would be an estimated \$2.5 billion.

Figure 19: PML Comparison for Florida Hurricane Companies

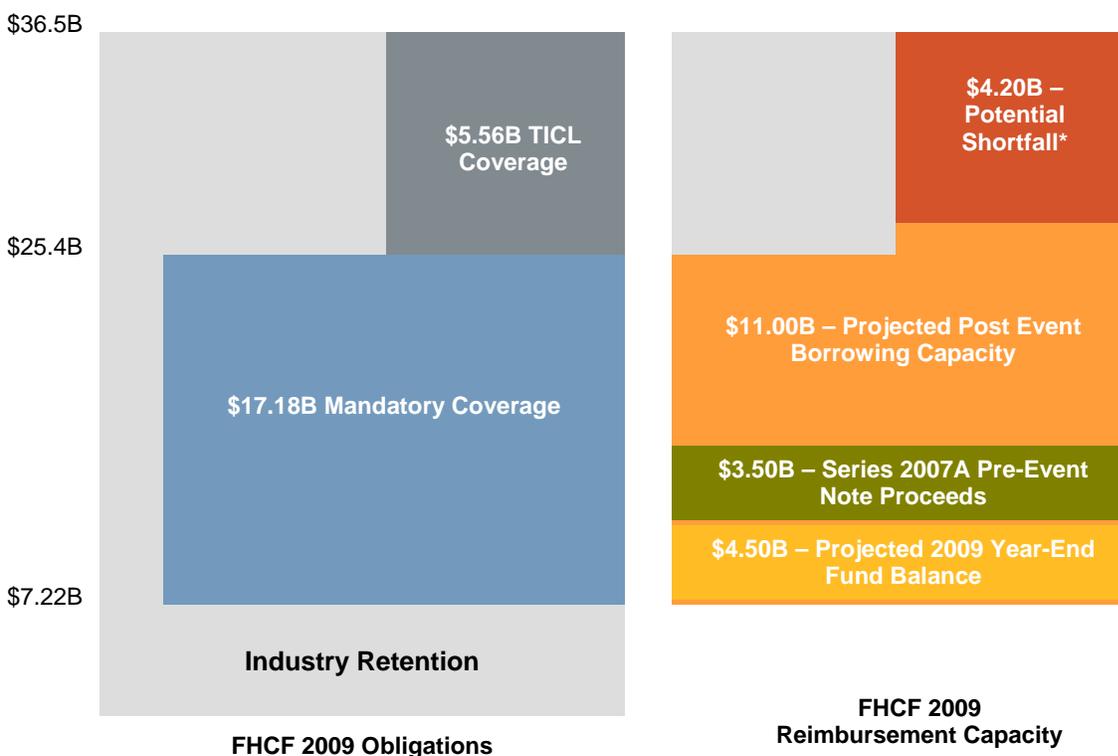
| Sector | A.M. Best | Demotech | OIR |
|---------------------------|--|---|---------------|
| Key Return Period | 1 in 100 | 1 in 100 | 1 in 100 |
| Occurrence vs. Aggregate | Occurrence | Occurrence | Occurrence |
| Long-Term vs. Near-Term | Near | Near | Not specified |
| Loss Amplification | Yes | Yes | Not specified |
| Secondary Uncertainty | Yes | Yes | Not specified |
| Storm Surge | Yes | Yes | Not specified |
| Treatment of FHCF | Haircut Based on Shortfall Estimates | Full Credit for Mandatory Layer; Credit for TICL dependent on company demonstrating sufficient liquidity to pay claims while awaiting reimbursement | Full Credit |
| Additional Considerations | Stress Test Requires Sufficient Capital for 2 Events | Aggregate retentions and cumulative effect of multiple events on surplus; provisions for reinstatements of reinsurance coverage | |

Source: Aon Benfield Analytics

REINSURANCE MARKET OUTLOOK

A Raymond James report recently presented to the Cat Fund Advisory Council indicated the FHCF's claims paying capacity at \$19 billion, including post-event borrowing of \$11 billion, which was determined from a range of estimates between \$5 billion and \$20 billion. The post-event bonds of \$11 billion, in combination with the projected year-end fund balance of \$4.5 billion and \$3.5 billion of available pre-event notes, comprise the \$19 billion total capacity. This amount would cover the full mandatory layer and a portion of temporary increase in coverage limits (TICL) layer for the 2009 season, leaving a \$4.2 billion shortfall. These estimates are significantly more optimistic than in October 2008 or May 2009, when the post-event bonding estimates were \$3 billion and \$8 billion, respectively. Due to the improvement in the capital markets, as well as legislation passed in May 2009, the FHCF's financial position is stronger than last year. However, there is still a great deal of uncertainty surrounding the post-event bond issuance and thus, the FHCF's claim paying capacity. Based on the capacity described above, an event that exhausts the FHCF would result in policyholders paying a 3.9 percent assessment for 30 years to cover the post-event financing of \$11 billion. Separately, the companies that purchased TICL would bear the credit risk associated with any unfunded amount. The schematic below illustrates the capacity for the FHCF and TICL layers of coverage for 2009 in conjunction with estimated sources of funding.

Figure 20: FHCF Capacity and Estimated Funding for 2009



*Note: Reimbursement capacity includes USD440M (2 limits of USD220M) of potential liability for LAC layer coverage

Source: Advisory Council 10-20-09 Meeting Materials

Citizens' net loss estimate for a 1 in 100 year storm is \$13.3 billion, while it only estimates \$4.1 billion in capital at the end of 2009. The FHCF currently needs to fund approximately \$18.7 billion to cover its exposure to a 1 in 100 year event (\$23.2 billion of total capacity less \$4.5 billion of projected fund balance). This leaves Florida and its residents liable for nearly \$28 billion in losses or, said differently, more than 25 percent of the total projected \$107 billion loss from a 1 in 100 year industry event in Florida. Following this type of an event, Citizens would be distressed and surviving companies would likely have to rely more heavily on external market reinsurance with considerably higher rates. Such a loss would have a significant, long-term impact on the Florida homeowners' insurance market. However, many believe that Florida's insurance bet against significant storm losses is hedged by the politics of a federal bailout if such an event were to occur. It is not certain though that a federal bailout, if any, would allow bailout funds to be distributed through current Florida market mechanisms such as Citizens or the FHCF.

The FHCF has announced that it will reduce the TICL layer over the coming years from \$10 billion in 2009 down to \$2 billion by 2013. Companies who purchased TICL protection in 2009 will therefore need to rely on third party reinsurance to a further extent going forward. For January 2010, we estimated that the impact on demand was minimal as the majority of insurers who purchased TICL protection were Florida only companies, though this is notwithstanding the potential impact of companies needing to buy reinsurance based on near-term results for Demotech purposes. Unfortunately, currently many Florida companies are not making sufficient rate to cover increasing reinsurance costs as was evidenced by three Florida insurers going into receivership in the second half of 2009 (American Keystone Insurance Company, Coral Insurance Company and Magnolia Insurance Company).

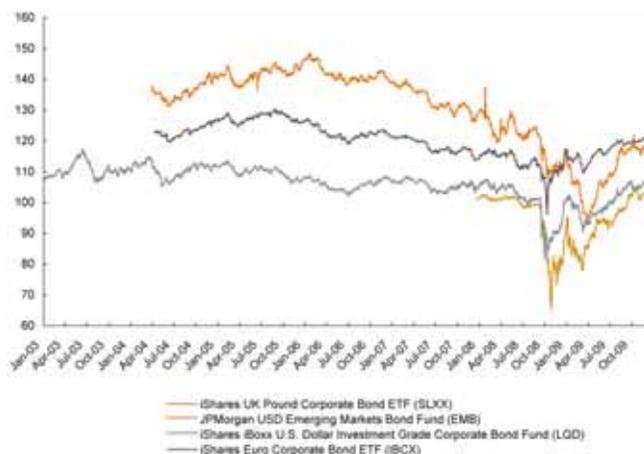
Financial Markets Update

The panic selling from fall 2008 has subsided and the financial markets have staged a substantial recovery since the first week of March 2009. Despite continued high unemployment and many sources of uncertainty which could cause further disruption, the atmosphere is best characterized as one of relief that the worst is over.

Figure 21: Equity Market Valuations



Figure 22: Global Bond Market Valuations



Lessons for the Insurance Industry:

- Excessive leverage and over-reliance on post-event capital replenishment can cripple the ability to exploit market turns and result in substantial dilution.
- Full consideration should be given to how permanent enterprise risks are currently financed and appropriate steps should be taken to mitigate the risk that current capital sources become unavailable.
- The continued deterioration in underlying insurer rate adequacy exacerbates the need to evaluate long-term capital needs and availability.
- Direct government intervention into the operations of critical but failing enterprises is disruptive and highly dilutive

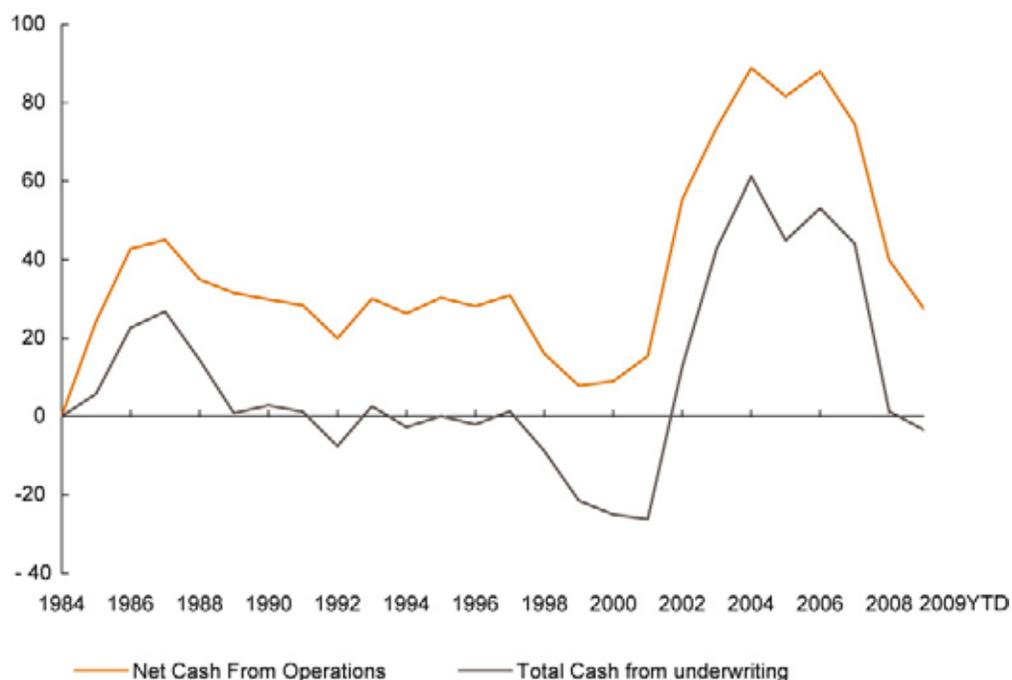
Analysis of the top 15 global banks (ranked by total assets) reveals that prior to the financial crisis, banks had total asset leverage greater than 25 times their common equity. Financial flexibility was heavily reliant on short-term borrowings, which accounted for 4.6 times Q2 2007 common equity and 48 percent of Q2 2007 total debt. At the height of the financial crisis the banks had incurred losses equal to nearly 45 percent of their capital and found short-term borrowings unavailable at accretive terms, if at all, forcing dilutive capital raises and costly government intervention. Insurance companies who wish to mitigate their risk of a similar capital squeeze might view accretive reinsurance in the same way, and should push to extend the terms of these contracts past one year.

Certain insurance enterprise risks such as catastrophe exposure are long-term if not perpetual, and most are currently mitigated through annually negotiated reinsurance contracts. Although peak zone areas in the U.S. might not be willing to make the trade off between long-term stability and the cost increase that would be necessary, non-peak regions where capacity is more abundant and competitively priced should view this as a significant advantage over current annual contracts. Such an action could serve to mitigate the impact of an event occurring that would constrict capacity and increase the cost of critical reinsurance capital.

Beneficial Timing

While insurers have historically focused risk management efforts on underwriting risks, the asset side of the balance sheet has experienced significant volatility in a period where the underwriting cash flows were generally positive. The U.S. insurance sector has produced positive underwriting cash flows since the last hard market beginning in 2002 (following several years of negative underwriting cash flows). While far from robust, the industry's underwriting cash flows remained positive for 2008, allowing the industry to refrain from liquidating undervalued securities to meet cash flow needs.

Figure 23: U.S. Industry Cash Flows



Despite a low catastrophe year, the U.S. industry's 2009 underwriting cash flow turned negative for the first time since 2001. Speculation is rampant regarding timing of the next hard market, but the last three hard markets were all driven by identifiable market disruptions. Following the hard market caused by the casualty crisis of the mid 1980s, underwriting cash flows were minimal by 1989 and negative in 1992 and 1994. Even the occurrences of Hurricane Andrew and the Northridge Earthquake were not sufficient to produce a sustainable, industry-wide hard market, as conditions languished until 1997 when competition for growth resulted in rates, terms and conditions well below cost. If history repeats, then the current market conditions may steadily erode until a specific triggering event.

If the industry cycle had resulted in negative cash flows in 2008, then the devaluation in assets would have been far more severe for the insurers. Selling out of devalued securities, potentially driving security prices even lower, in order to meet cash flow needs would have resulted in realized losses and reinvestment at much lower yields, disrupting duration matching and increasing susceptibility to anticipated inflation. Near term downside asset volatility is far from impossible, and insurers should focus on cash flow needs in determining asset risk tolerance.

Government Intervention is Plausible, Painful

With mounting real estate and other related losses, governments around the globe determined their economies would not recover without a functioning banking industry, and acted quickly with various measures to prop up struggling banks. Similar beliefs are held among developed nations about a functioning insurance industry. The insurance industry is in the business of taking risks, and it is certainly possible that a single event or series of events in a short period could trigger rapid and significant rate increases and/or decreases in coverage availability. However, government intervention into the insurance sector is not solely contingent upon industry incurred losses.

In the U.S. alone, the government has intervened with the creation of the National Flood Insurance Program, triggered in part by Hurricane Betsy in 1965, the Terror Risk Insurance Act subsequent to the attacks of September 11, 2001, and most recently targeted an overhaul of the health insurance industry. The common denominator in these interventions is a significant number of uninsured / underinsured risks and a perceived lack of affordable coverage options. These conditions currently exist in a number of areas, such as earthquake insurance in California and other earthquake-prone regions. A meaningful government intervention into otherwise insurable risks is clearly foreseeable upon the occurrence of an event impacting a broad portion of the uninsured public.

Such an intervention is unlikely to occur without consequence to existing insurers and their shareholders. In exchange for the participation in TARP, banks were required to issue equity warrants, diluting existing shareholders, enact certain limits on executive compensation, enhanced disclosure and other requirements.

According to the U.S. Treasury Department, the \$25 billion repayment of Capital Purchase Program funds by Wells Fargo and the \$20 billion repayment from the Targeted Investment Program by Citigroup on December 22 bring the total Troubled Asset Relief Program (TARP) repayments to \$164 billion. The repayments follow the decision by Bank of America to repay \$45 billion earlier in December. The Treasury further estimates that total bank repayments will exceed \$175 billion by the end of 2010, representing more than 75 percent of the taxpayer exposure to U.S. banks. Thanks to dividends, interest and the sale of warrants, the Treasury expects to earn a profit for the U.S. taxpayers, rather than the \$76 billion loss initially projected.

Bank of America, Wells Fargo and Citibank were all forced to raise capital, diluting existing shareholders, in order to exit the TARP, but the accompanying restrictions, oversight and the distraction to management, along with governmental pressure to accelerate repayment, have driven the banks to move forward regardless of the dilution.

January 2010 Renewal Highlights

The following sections provide an update for significant reinsurance market segments by region.

Asia and Pacific Rim

Australia

Global capacity remains abundant for Australian catastrophe business and this has led to a high level of competition for business incepting at January 1. With relatively few covers of varying size renewing at January 1, it is difficult to generalize price movements for companies in Australia as the size of the program is also a major factor in pricing. Price changes for that small sample have tended to reflect changes in modeled losses at the 250 year level and have varied between plus or minus 5 percent, but loss experience in both the 2009 bushfire events as well as the 2008 Brisbane storm has also driven prices for lower layers. In many cases, larger customer events have also forgone prices that could be lower than in favor of placing programs with better rated reinsurers.

China

In the absence of a large event loss, ceding companies have been looking for rate reductions with unchanged terms and conditions while major reinsurers sought significantly improved terms on renewal. Average exposures have increased by 10 to 15 percent. Excess of loss pricing has been broadly flat on a risk adjusted basis.

It has been beneficial for major players to split Non Marine pro rata treaty into pure Fire and pure Engineering treaty. There has also been a move away from fixed proportional commissions towards sliding scales, with assumed facultative business excluded.

Loss participation clauses (LPCs) have been introduced. For co-insurance business, the treaty capacity under the Surplus Section has often been reduced proportionally according to ceding company's share on the policy. There has been a jump in new capacity from both new players and existing reinsurers.

Excess of loss coverage requested ceding companies is largely unchanged and no new clauses or restrictions were introduced by reinsurers.

Hong Kong

For the majority of programs, pricing for casualty lines is unchanged or has achieved small decreases, with the exception of a few programs receiving rate increases due to poor experience or increased exposure. Price movement has been within plus or minus 5 percent.

Markets and capacity are largely unchanged with the exception that reinsurers have become more competitive for increased shares. New capacity has increased particularly for reinsurers with branch offices in Singapore, but their focus is primarily to develop a mainland China portfolio rather than Hong Kong specifically.

Coverage requested is unchanged and no new clauses or restrictions from reinsurers were introduced.

India

The majority of programs in India renew at April 1 as a result of the Insurance Regulatory and Development Authority encouraging that all business be conducted in line with the Indian financial year. Proportional treaty capacity was the hardest to secure due to the continued softening of the original business, poor past results, and the flexibility of the proportional treaty terms forcing some reinsurers to reconsider their position on pro rata business. As a result, there was some reduction in flexibility of terms for proportional treaties.

REINSURANCE MARKET OUTLOOK

There have been a number of medium size risk losses; notably:

- IndianOil company
- Jaipur
- Haldia Petrochemicals

While there were no significant losses to the excess of loss market, there will be significant pro rata treaty losses. This helped to spur on the arrest of the continued downward drift in original pricing. There was also monsoon flooding in Andhra Pradesh but this did not impact reinsurance programs.

Indonesia

Initial indications are that the reinsurance market is looking fairly flat except for accounts where the recent Padang Earthquake has caused significant ceded losses and even then, the increases are less than originally expected. In addition, many companies are reviewing their catastrophe coverage and have chosen to secure additional capacity to protect against the uncertainty in modeling results.

For per risk business, this has also been a fairly active year in terms of fire losses. There have been several large losses coming from mining, shoe factories, and textile risks, which have had a negative impact on pro rata treaties and some renewals are facing significant difficulty this year.

Capacity remains ample for better priced excess of loss business in Indonesia and, following the earthquake losses, more reinsurers are looking at the territory opportunistically due to better priced excess of loss business. However, the market for pro rata treaty capacity remains very tight given recent poor loss experience and declining original rates.

Despite all the loss activity, the primary market still remains soft and rates continue to drop. A revised earthquake tariff will be introduced at January 1, 2010 which will lead to higher pricing for earthquake in some of the key zones. However this may have a negative impact on fire rates to compensate and may further exacerbate the results of the pure fire treaties.

Malaysia

Primary pricing continues to decline albeit at a slower rate.

Absent claims or underlying exposure changes, excess of loss program pricing is flat. For the first time in recent memory, reinsurers finally seem to be adjusting up their prices almost in line with underlying exposure increases.

Pro rata terms seem relatively stable with marginal increases in commissions on companies with very good results or those whose terms were above the market average in the past.

There has been no material change in capacity as it continues to remain in abundance for most classes, proportional and excess of loss. Despite additional interest from new Bermudian reinsurers in Singapore looking to diversify into South East Asia and/or less catastrophe exposed territories, there has been limited impact so far.

There have been no material changes in coverage sought, market exclusions or original conditions. There is no push to increase retentions. There is however, a continued push by most clients to retain more of their original premium, except those at the margins of Capital Adequacy Ratios under the new Risk Based Capital regime which came into effect from January 1, 2009.

For Motor and related Third Party Liability, most companies are operating under extremely thin margins if at all, with a number of notable players in the red. Other classes remain profitable, albeit with reduced margins. Regarding the underwriting cycle, it appears that we are nearly at the trough and seeing stable conditions moving into 2010.

While these observations are provisional, early signs are that the significant reduction in terms seen in the past few years is coming to an end.

Taiwan

Prices have reduced on an exposure adjusted basis with catastrophe aggregate capacity up approximately 5-10 percent as a result of an overall exposure increase as well as increased coverage on sub-limited policies. Even companies with Typhoon Morakot losses were able to see flat pricing as a result of the increases in exposure. Capacity remains ample for the region with most programs renewing with existing major players and a few new aggressive reinsurers.

Per risk protections sustained significant losses in 2009 and have seen price increases as a result

Other territories in Southeast Asia

With depressed and in some cases continued reductions in original direct market pricing, clients are under pressure not to spend more on reinsurance.

For claim-free excess of loss contracts pricing is between flat and 10 percent down. Those contracts with catastrophe or risk claims seem to be getting relatively lenient treatment as price increases seem quite small.

There is no shortage of capacity in almost all classes. Many new companies have arrived in Singapore in last 12 – 24 months from London / Bermuda and to date no reinsurers have exited the region. Property is more competitive than Casualty as not all reinsurers are writing long tail business currently.

There have been no material changes in coverage sought, market exclusions or original conditions. There is no push to increase deductibles. Some clients looked to retain more of their original premium. Loss affected programs saw a significant change in pricing as reinsurers reappraise their exposures.

Due to depressed original rates in South East Asia, pro rata results are at best “mediocre”. Despite this commissions remain high and margins for underwriters seem slim.

Despite having expected an upturn in the primary cycle in 2009 due to the financial crisis, we are instead seeing stable conditions in 2009/10.

In summary, the renewal season was late. Due to excess capacity in most areas insurers were relaxed about the speed at which they engaged reinsurers. Price increases after losses have not been as dramatic as many clients expected. Equally, at this early stage, loss free programs were only achieving minor reductions.

Europe

European catastrophe programs have seen a general softening in reinsurance rates with minor regional variations and capacity has been easier to find. Where losses have occurred, prices have firmed, especially in Spain where growing demand for reinsurance around the state scheme has also affected pricing.

Highlights from individual territories are outlined below. Unless otherwise stated, comments relate to property catastrophe business, with price movements quoted on an exposure adjusted basis.

Austria, Germany, and Switzerland

Germany saw an increase in exposures, but rates remained flat to minus 3 percent. Cedents are extending their catastrophe limits to comply with the 1:200 Solvency II requirement.

Rate increases on non-proportional covers and commission reductions on pro-rata treaties were based on lower interest rate levels and superimposed inflation. We expect index-clauses to move away from consumer-price-indices to cover higher healthcare cost during the course of 2010 retroactively. A respective workgroup is in place within the Association of German Insurers (GDV).

Austria and Switzerland had losses into the bottom layers of catastrophe programs in 2009 following a severe hailstorm that hit Switzerland, Austria, Poland and the Czech Republic on July 23. Aon Benfield estimates a total insured loss in Switzerland and Austria of \$1.25 billion. These losses have caused prices to firm slightly.

In particular, Austrian catastrophe treaties are under significant pressure this renewal. All programs have seen severe losses in the past years and some were fully exhausted in 2009 with one of the highest market losses ever, hailstorm Wolfgang. Despite increased retentions (50-100 percent up), rates increased substantially.

In Switzerland, the current catastrophe market situation is still relatively soft with a reduction of terms up to 10 percent for accounts with no losses and flat renewals for accounts with losses. Liability terms remain unchanged. Generally cedents are under high pressure to reduce costs.

Benelux (Belgium, Netherlands, and Luxembourg)

In Belgium prices have decreased by 5 to 7 percent with unchanged aggregates. Additional protection is being purchased as insurers move towards buying cover to the 1 in 200 level and new capacity has not been difficult to find.

For the majority of the Netherlands, pricing has softened, with reductions in the 2.5 to 5 percent range. Demand and supply are well matched with overall capacity purchased increasing by around 5 percent, driven by natural growth of indexed insured values and a move towards buying to the 1 in 200 level. Above average property market losses in 2009 and continuing reductions in insurance rates have put property insurance results under pressure and will likely mean reinsurance budgets will be constrained.

Motor excess of loss in the Netherlands has seen little change in structure, pricing or coverage. The motor market benchmark curve has remained relatively stable for the past 4 to 5 years, except for slight structure and pricing modifications in 2008 due to the implementation of the fifth EU motor directive regarding minimum legal WAM limits.

In addition to the traditional multi-line professional reinsurers, many of the European hubs of other, particularly Bermudian reinsurers are offering to write motor business with some success at this early stage.

Central and Eastern Europe

The total volume of excess of loss premium in the region increased by approximately 5 percent which is partly due to the increased capacity purchase (approximately up 6 percent) and exposure growth (approximately plus 3.5 percent) and partly due to higher pricing of loss affected layers (e.g. hailstorm Wolfgang and CEE floods in June 2009). No significant changes were made to retention levels of different programs however it seems that there is a tendency to retain more exposure in-house via introducing or increasing annual aggregate deductibles for bottom layers. Despite the increase in premium to the region, loss multiples were reduced from 2009 to 2010 renewals.

France

First layer property catastrophe programs that were affected by winter storm Klaus in January have seen some double digit price increases while other layers have been stable or increased slightly. On a combined basis, increases will be between 5 and 10 percent on average. For the past ten years, program retentions and limits increased steadily by 14 percent each year, however for 2010 some companies have elected to reduce retentions and limits for programs.

Property per risk remains dependent on individual program experience and exposure changes. Where there have been losses prices have increased. Rate reductions have been negotiated following exposure reduction and low loss activity.

Indications for motor renewals suggest overall price increases of approximately 5 percent mostly driven by increases on higher layers. Some programs have seen rate reductions following a change in exposure or improved development patterns. Multiple line programs including Motor Own Damage with losses from hailstorm Felix have seen price increases specifically related to the Motor Own Damage exposure. Sublimits added in 2009 for material damage to EUR 100m per policy and EUR 300m per event have been extended for 2010. The intention is to cover two vehicles of the same fleet that would be jointly liable for a big loss (the 2008 channel tunnel loss is an example).

As with property per risk, life pricing changes depend upon individual program experience and exposure change. As with previous years, life catastrophe coverage has increased in comparison with 2009, with one major program showing a 25 percent increase in cover purchased. Pricing trends are consistent with 2009 and have flat or slight reductions in renewals. With an average rate on line of approximately 1 percent or below, minimum rate on line considerations begin to have a moderating effect on price reductions.

Greece

Property Catastrophe prices are down 10 to 15 percent in a loss free year. Prices in other classes including property per risk, cargo, marine and liability are generally flat.

Israel

In general, Israeli cedents saw a 10 percent increase in country wide sums insured. Catastrophe program PMLs were generally held at or around 2 percent of average annual aggregates. Following meaningful price reductions in recent years, a typical program saw a very low rate on line of approximately 1.10 percent. For 2010, further 3 to 5 percent price reductions were achieved on an exposure adjusted basis.

Italy

Prices are stable to up 5 percent in Italian property catastrophe protections notwithstanding the L'Aquila earthquake. Despite losses to these programs, no payback elements seem to have been applied. Property per risk prices are stable to plus 10 percent depending on the program and with many insurers experiencing high overall loss activity.

General liability prices are broadly stable. There has been limited loss activity on most programs and so pricing has not materially altered. Most coverage issues have been ironed out over the past few renewals.

Pricing for personal accident was unchanged. Little appetite exists for larger catastrophe covers.

Nordic countries

The Nordic region experienced flat to declining rates in most business lines. Following continuing market portfolio improvements, Property Catastrophe pricing was flat to 5 percent down. Capacity purchased remained stable with the major buyers having oversupply in their program. Property Risk pricing again came under some pressure with modest risk adjusted reductions on loss free programs and modest increases on loss affected programs.

REINSURANCE MARKET OUTLOOK

Motor and Casualty program rates remained stable for both lines as stand alone, but rate reductions of 5 percent or more were achieved when combining covers and/or territories. Higher retentions on consolidated Liability and Motor programs also reduced premium volumes in those areas. Some programs experienced losses and unsurprisingly this was reflected in the rates.

Accident market capacity purchased remains unchanged other than minor variations despite some increases in retro coverage in certain cases. Pricing fell between 5 and 10 percent as more capacity came into the market and buyers adjusted program coverage to allow for changes in original policy conditions.

Portugal

Catastrophe reinsurance rates are mostly stable with some small reductions. Cedents are buying less, and reprioritizing purchases based on a reduced budget. Some direct reinsurers tried to increase prices.

Motor business has received slight increases with the exception of a few companies where historically higher than average rates reductions were achieved. Quotes continue to be very volatile, with some quoting two or three times the price of others. Most retentions remain the same.

Although a new law change has an impact on the direct workers' compensation business, on the reinsurance side no major movements are expected.

Other excess of loss treaties, for example Workers' Compensation and Personal Accident there have been no major claims or alteration of limits, saw stable pricing. Other minor excess of loss programs protecting net retentions have not changed significantly.

Terms (including commissions, event limits and interest rates) and capacity have tended to improve in favor of the cedent for proportional reinsurance, but are overall relatively stable.

Spain

Unlike other European markets, Spain has seen catastrophe pricing increase by up to 50 to 100 percent. The loss from Windstorm Klaus was EUR 600 million gross in Spain, and there were thorough negotiations with the Consorcio, as the coverage for wind only was not very clear. Ultimately, the Consorcio agreed to pay approximately 75 percent of the claim.

Other classes generally saw prices remaining stable except where loss activity warranted increases. The marine market, for example, generally suffered from poor experience in 2009. Additional capacity has been seen for Trade Credit due to improved results with more reinsurers expressing interest in the class. More capacity has come from the Bermudian reinsurers established in Zurich but most treaty panels are expected to be largely unchanged.

General insurance results in the market have been very good in spite of the bad economic environment, although some deterioration is expected in future years.

Turkey

Exposures in Turkey were overall down in Euro terms, the currency in which most reinsurance is bought, as devaluation of the Turkish Lira outweighed any inflation or organic growth. Like-for-like reductions were achieved at the upper end of catastrophe programs, but lower layers were flat or up slightly, due to the September Floods. The insured market loss figures stands at EUR 300m and a number of first and second layers were affected.

UK and Ireland

Prices for property catastrophe business are flat to down 6 percent with larger programs closer to flat. Some programs attempted higher reductions but struggled to complete.

Although some direct markets sought increase of up to 20 percent on motor business, typical rate reductions of up to 5 percent were seen. Others, with poor loss experience saw rate increases. Capacity continues to be abundant with insurers looking to diversify their reinsurance counterparties. Market issues included:

- Periodical Payment Orders (PPOs) - increased use of PPOs is leading clients and reinsurers to discuss commutation mechanics.
- Original rate increases are assisting the tempering of reinsurance rates.
- Continued original rate increases during 2010 should help insurers move back to profit.
- Reduction in original loss frequency

For Personal Accident business, price reductions of up to 10 percent were obtained after allowances for changes in exposure.

Casualty pricing is generally flat to marginally reduced depending on a client's management of their exposures. Programs with poor loss experience were penalized.

International Specialty

Aviation

Rates have increased between 5 and 10 percent, with approximately 7.5 percent across major risks, general aviation flat to 5 percent and retro 2.5 to 7.5 percent. Technical rate increases were predominantly driven by the Colgan air (\$350 million) and Air France (\$680 million) losses, which triggered the first hardening in the market after seven soft years.

Some clients have maintained retentions while others have increased by as much as 33 percent of their current deductible, albeit from very low original retentions (as low as \$150 million). Average retentions are now closer to \$250 million from \$175 million pre losses. Rates are expected to continue to increase by around 5 percent in 2010.

Capacity between \$250 and \$750 million is price sensitive but readily available (circa 125 percent). As rates have increased markets that backed off three or four years ago have re-entered. Capacity between \$750 million and \$2.5 billion is abundant; typically layers can obtain 150 percent support. This is probably the most attractive area, with primary writers leveraging their position to get higher signings. On catastrophe layers (rate on line 2 to 5 percent) capacity is around 150 percent, but few markets are happy to deploy unbalanced aggregate, therefore there is artificial excess capacity.

Credit, Bond and Political Risk

While exposures fell by 20 percent, excess of loss pricing is up approximately 10 percent resulting in a significant drain on net premiums. Broadly, insurers are buying similar amounts of cover as in 2009. Commissions on quota share placements fell by 2 to 5 percent. While capacity has increased with one major new reinsurer, Ariel, entering the market, it is only available at the right price. Reinsurers are keen to guarantee adequate returns through the economic cycle and are increasingly selective about which insurer to write based upon expected returns offered.

REINSURANCE MARKET OUTLOOK

International Marine

Marine excess of loss pricing is generally flat to down 5 percent in London and the U.S., and down 5 to 10 percent elsewhere. In addition, there was no material change in capacity or reinsurance markets, specifically for energy in the Gulf of Mexico, energy wind & first party liability removal of wreck still being excluded.

Largest risk losses in 2009 are West Atlas between \$600 to \$700 million and Ekofisk circa \$1 billion, with the West Atlas loss barely reaching retentions for most people despite being the third largest Energy risk loss of all time. Despite these losses, the energy market remains profitable.

The cargo market also remains profitable despite reduced turnovers and significant rate competition in some areas. In contrast, the hull market remains difficult to navigate profitably due to reducing hull values and above average vessel lay ups. The liability market remains profitable despite past year deterioration with some single digit rate increases likely.

In the catastrophe market, falling turnovers and revenues in the first half of 2009 have eroded the original income base which, in conjunction with a relative benign loss year and continuing surplus capacity, is fuelling pressure on reinsurance rating levels. Reinsurers endeavoured to stand firm on existing pricing levels, with some reductions being offered where it can be demonstrated aggregates have reduced.

Marine LMX/Retro

Prices have generally softened with hull, war, cargo, specie and liabilities reduced by 5 to 10 percent. Energy ex-Gulf of Mexico (GoM) wind rates are down 5 to 7 percent, where there is no GoM wind exposure rates are broadly flat. Rates for terrorism and marine retro are also flat.

Although there have been no significant new entrants to the market, the consolidation of Validus and IPC Re has led to an increase in capacity. Despite this, over-capacity remains in most classes, though less so for retro, terrorism and Energy including GoM wind exposure.

An increased appetite from clients to self-retain has led to an artificial increase in capacity on a relative basis.

Coverage has not changed in scope. There has been an increased scope on excess SIPC within specie accounts. The refinery exclusion clause has been moved away to apply to energy risks only.

There has been continued pressure to exclude power utility liabilities from the energy sector in light of the 2007 Sempra loss. Generally information is the key to avoid an exclusionary attitude from reinsurers.

There have been no significant catastrophe losses in 2009 but a large energy risk loss; West Atlas/Montana estimated at \$500 million. However, this loss is well spread over the market and only likely to impact primary layers and so was not be a market changing loss. Reinsurers' attitudes towards payment of the Sempra loss remains a significant feature and talking point.

Non-marine retrocession

Traditional capacity is flat. One new entrant found that what they wanted to sell is not sellable. Pricing pressure has led to decreases of approximately 5% for risk adjusted UNL solutions.

Industry Loss Warranty (ILW) pricing is off 35 percent for small purchases but for bigger limits the price goes up if it is to be placed. One or two reinsurers will buy a little less.

One area which begs a solution is the plethora of risk losses which are not dealt with by the normal catastrophe programs. These losses span marine and non-marine classes. Bottom layers at 30 percent ROL for each class does not make economic sense when viewed at a group level.

To date, a little less is being bought but there is plenty of market capacity. Given over supply, it is suspected that prices will ease into the new year – particularly top layers

Specialty Casualty

In professional lines rate movements are very specific to styles of account and exposure, especially where there is US exposure. Broadly speaking they are flat with slight adjustments up or down to reflect the combination of exposure type and importantly, loss history throughout the financial crisis. In other specialty casualty lines, such as general liability (GL) and employers liability (EL), rates are also broadly flat.

There is new capacity in the market for both GL/EL and professional lines. In particular financial institutions (FI) business has attracted additional capacity with reinsurers looking either for growth or, given the lack of rate increases in other sectors, to use their capital.

There are no significant changes in coverage. On FI business, reinsurers are scrutinizing accumulations more closely on the larger, high profile banks.

In general terms, commercial professional indemnity and directors and officers remain in a steady state. The expected rate increases have not materialized; rates have even decreased in some segments and the anticipated tidal wave of recession-related claims has not yet been forthcoming but still expected to some degree. To date results remain good. Financial Institutions business is suffering something of a 'hangover from the financial crisis' and despite a reasonably positive outlook, the continual drip feed of claims is not expected to tail off anytime soon.

United States

Overall, the U.S. market found rate relief for ceding companies, with additional demand met for insurers seeking extra protection. Low catastrophe loss activity in 2009, resurgent financial markets and reinsurance rate reductions allowed companies to maintain similar protections. Terms and conditions remain stable in most segments with cedents focusing on rate relief first.

Property Catastrophe

Pricing has decreased from 5 to 15 percent across various national and regional carriers in line with our expectations published in September 2009. As anticipated, some reinsurers pushed to maintain flat pricing by quoting at or above expiring terms and were ultimately signed on to programs that reflected a rate reduction. As a whole, the London market stuck to their quoted price more than other markets and while many ultimately signed on to firm order terms below quotes, others believe that their ultimate signings will be down significantly as a result of their pricing strategy.

Despite softening market conditions, few companies elected to secure additional limit and our current expectation is that total capacity will change less than 5 percent for 2010. Where additional limits were

REINSURANCE MARKET OUTLOOK

purchased, it typically came in the form of reduced co-participations for companies in lieu of additional layers of capacity. While retentions fluctuated for a few companies, the majority maintained similar risk appetites to last year.

Although insurance companies emphasized low catastrophe losses in 2009 as well as reduced loss estimates from commercial models, these facts and arguments ultimately failed to produce independent price reductions.

Property Per Risk

Exposure rates for per risk excess programs were down more than 10 percent for many January 2010 clients. This in turn led to reinsurance rate reductions of approximately 5 percent on a risk adjusted basis for programs where loss experience has been good and the cedent does not require significant catastrophe aggregate as part of their per risk program. The degree of change was particularly influenced by loss experience and limits for critical catastrophe perils. As a testament to soft market reinsurance conditions, even accounts facing these challenges were treated reasonably and renewed with competitive terms. Recent catastrophe model revisions also added positive influence throughout the renewal process, although they did not independently account for reductions in rates.

Primary commercial property rate change showed signs of turning positive in early 2009 but leveled off or decreased after mid-year. Although the trend in rates turning upwards did not continue, proportional reinsurance programs in 2009 reflected optimism regarding original rate levels. Even without rate increases, favorable catastrophe experience meant the majority of these programs were profitable. That said, optimism regarding original rates will likely continue as non-cat loss ratios have been higher than expected, leading many to believe that rates for this segment will resume increases before the end of 2010.

Retention levels were stable over the course of 2009 and capacity relatively plentiful. Clients with well articulated underwriting plans, modest catastrophe exposures and good loss experience, will likely continue to have ready access to additional limits and should see risk adjusted rate reductions of 5 to 10 percent.

General Casualty

Primary and Umbrella carriers are seeing their insured's purchase similar limits and retentions year over year and are aggressively seeking to retain and acquire these insured's. As a result, casualty insurance rates may continue to soften by single digits for commercial and large corporate segments in the near term. Many are starting to believe the hard market is very close, however, since primary carriers have nearly exhausted their reserve redundancies through releases from prior years. Reserve positions along with limited reinsurance capacity may eventually provide a scenario for underlying rate improvement late in 2010.

Reinsurers continue to take a cautious view of commercial Umbrella and Excess business. Reinsurer loss ratio picks are typically higher (72 to 78 percent) than the cedent's loss pick, which has led to the introduction of a loss corridor, loss cap or extensive exclusions. Ceding commissions are under pressure due to reinsurers' higher expectations for losses and typically range from 21 to 26 percent. Commissions for Excess and Surplus lines may be as high as 28 percent. While reinsurance pricing is ultimately near flat despite the introduction of additional features benefiting reinsurers for significant loss activity, there remains a disconnect between the insurance and reinsurance markets. That said, reinsurance protection purchased for this segment continues to provide an economic benefit to ceding companies.

Capacity for existing carriers remains stable but reinsurers are reluctant to support new insurance carriers as they are concerned about potential inflation, toxic dry wall, pharmaceutical products liability and other emerging issues. That said, reinsurers have not expressed an interest in increasing capacity for the segment and are looking elsewhere to deploy capital until they view the casualty market as coming back to adequate pricing.

Medical Professional Liability

Despite pressure for mid-single digit decreases in primary rates and slowing of loss reserve releases, Healthcare Professional Liability industry profitability is strong with combined ratios in the mid-90s or lower. Loss frequency has remained stable and severity is increasing at a manageable rate. Excess hospital business continues to be the most competitive segment of the market.

Reinsurance rates for 2010 renewals are generally flat with variances due to individual cedents' unique risk characteristics and original policy rate changes. Both insurers and reinsurers express ongoing concern over large loss potential, including ECO/XPL loss exposures and the risk of multi-insured or multi-claimant "event" losses.

Generally, reinsurers' current appetite for medical professional liability insurance is strong with abundant capacity in the U.S., London, Europe, and Bermuda. U.S. appetite has increased while London's appetite has remained stable with new Lloyd's casualty operations helping to offset the declining appetite of the more established Lloyd's markets.

Ceding companies have generally opted for competitive reinsurance rates versus requesting expanded coverage, with the exception of slight increases in the amount of ECO/XPL limit provided in certain working layer treaties and an expansion or removal of maximum recovery caps if applicable. While 2010 placements have generally been completed on firm order terms, certain ceding companies stated a willingness to increase their basic retention or implement new or increased co-participations if target reinsurance rates were not achieved.

Lawyers Professional Liability

In general, treaty reinsurance pricing was stable to slightly down on an exposure neutral basis, with rate increases driven by ceding companies' experience and risk profile. Capacity is generally adequate, with active markets in the U.S., London, Europe, and Bermuda. Expectations are that capacity will remain consistent during 2010, barring a catastrophe that would impact the market as a whole. With the exception of some pushback on special termination provisions, minimal term changes were noted at January 1, 2010. Facultative capacity remains limited, but in general both capacity and pricing have improved over the past five to six years.

Financial results for primary companies continue to vary widely across the industry, with many of the poor performing companies plagued by increases in claim frequency in the real estate sector. Many companies have also been impacted by an increase in claim severity, which is driven to a great degree by increasing defense costs. While (re)insurers continue to focus on residential real estate, there is also concern with the potential impact of the economy on financial institution, commercial real estate and transactional practices. Significant competition has created downward pricing pressure, despite some companies' push to achieve price increases due to deteriorating underwriting results.

Directors and Officers Liability

Reinsurance pricing was basically flat with little or no room for improvement during 2009, but terms and conditions still remain dependent on individual profiles and experience of the specific reinsured portfolio. The main concerns lingering among reinsurers are additional claims and development on credit crisis reserves for accident years 2007, 2008 and 2009 and their aggregation on public D&O business. While financial institutions D&O/E&O exposures remain a concern, reinsurers who had an appetite for it saw improved terms and pricing in primary business; however there is still restricted reinsurance capacity for financial institutions business. Reinsurers remain diligent in their reviews of portfolios exposed to systemic risk as they contemplate potential areas of new contagion.

REINSURANCE MARKET OUTLOOK

We believe reinsurers' appetites will hold firm into 2010, until they can establish that primary rates are trending upwards for a sustainable period of time. We have seen an increased appetite from buyers to purchase more reinsurance, however additional reinsurance capacity is limited due to the lack of D&O aggregate and the continuation of buyer's concerns regarding counter party credit risk for reinsurance recoverables and increased scrutiny of reinsurers' financial strength.

Primary D&O rates continued to stabilize as we moved through 2009. The first two quarters showed increasing rates year over year, driven by financial institutions lines, but the 3rd quarter showed a year over year decline of 2.7 percent. Financial institutions lines were up 3.2 percent in Q3 with commercial (or non financial institutions) rates down 4.9 percent for that same period. Financial institutions rates had been up double digit percentages during the first two quarters while commercial rates were relatively flat.

Securities class action filings in 2009 were below long-run average levels, with a filing frequency 26 percent lower than 2008 as of December 1. Several things are worth noting. First, frequency for the S&P 100 (largest companies) remained high, at 13.1 percent in 2009 versus the 10-year average of 11.4 percent. Financial institutions accounted for most of the filings, with nine in 2009 following the high of 10 in 2008. Second, the mix of filings shifted away from Financials starting in the second quarter. The number of subprime and credit crisis-related litigations has dropped significantly this year, and plaintiff lawyers may now be working off a backlog of claims in other sectors.

No federal securities claims have been settled in 2009, so severity can be a challenge to describe accurately. However, we observe a 6.8 percent long-run trend in SCA mean settlement size. Moreover, extremely large settlements continue to occur, such as the \$2.9 billion derivative settlement against Healthsouth Corp.

Errors and Omissions

Reinsurance rates for E&O coverage were generally stable, but dependent on the profile and experience of the reinsured business. Reinsurance structure and pricing depended upon the classes of business, experience, primary or excess business and volume associated with the portfolio. A number of large professional liability programs for E&O classes of business are bundled with multi-line D&O and E&O treaties and reinsurance terms for these programs tend to be driven by the D&O exposure. There are also individual monoline E&O programs and reinsurance terms tend to be more favorable for them, reflecting historical profitability and more reinsurance capacity.

Most reinsurance programs continue to benefit from good results generated by the underlying E&O business, with the notable exception of risks with subprime or credit-crisis exposure. Miscellaneous E&O remains a desired class by most reinsurers although there is concern about rate erosion. Reinsurance pricing in this area was generally favorable, with reinsurers willing to recognize positive loss experience with improved ceding commissions for pro rata deals and reductions in excess of loss rates.

Primary rates for E&O were mixed on average with certain lines of business trending flat to others down 5 percent to 10 percent. With respect to coverage for financial institutions and other groups such as real estate related with subprime or credit-crisis exposure, prices were up 5 percent to as high as 25 percent in certain cases

There has been a noticeable trend for carriers to focus and grow E&O lines of business to diversify their books away from a concentration in the more volatile D&O line of business. Additionally, there have been a few new entrants into certain E&O lines as historical results for E&O lines of business have been more stable over recent market cycles.

Workers' Compensation

As we enter 2010, the Workers' Compensation market place has a number of head winds to overcome. The recession has resulted in a dramatic reduction of payrolls and in turn the primary workers' compensation premium has reduced as well. While the soft pricing cycle in the primary business continues, rate reductions have moderated in recent months to the 4 – 5 percent range. In addition, primary carriers continue to release reserves, albeit to a lesser degree than in prior years. On a positive note we have seen loss costs continue to decline in most states except for California resulting from a reduction in frequency of 2.6 percent in 2007 and another 4 percent in 2008. In addition, the impact of a potential pandemic was tempered as the Swine Flu turned out to be less of a threat than was feared earlier.

Several items have the potential to affect the workers' compensation market place in 2010, including:

- Privatization of State Funds in Ohio, Washington, and Oklahoma may offer new opportunities to primary and reinsurance markets.
- Medicare-Set-Asides are causing delays in settlements and thus increasing the values of those settlements
- California's En Bank decisions will have upward influence on permanent disability claims
- Federal Health Legislation may impact workers' compensation in every state
- National and State law enforcement units are looking at employers that may be misclassifying employees.

With that as a background on the primary business, we also see a divergence in response to single vs. multi-person business. Capacity for single person exposed business is stable at year end 2009. Reinsurers continue to push for rate increases as a result of lower investment income and increased severity on single person business, yet insurers have been able to resist this pricing pressure.

Multi-person business has seen an increase in capacity at year-end 2009. The absence of loss and the desire for premium has created significant competition with a number of accounts able to place layers below two percent ROL. Changes in modeled loss have also helped reduce pricing with many companies achieving 10 to 30 percent rate decreases.

For the most part, terms and conditions remain unchanged on both segments. Customers have also maintained similar limit purchases despite the reductions in earthquake modeled losses, largely reflecting the ability to achieve the necessary price decreases.

Life Variable Annuities and Other Guaranteed Retirement Products

As implied volatilities fell and long term rates climbed, direct writers have seen the costs fall but not by as much as the fundamentals would indicate due to very limited capacity for variable annuity reinsurance. Limited capacity is evidenced by the fact that there have been no large variable annuity reinsurance transactions in the market place in 2009. While few transactions are being executed in the Japanese market and Europe, there is little to no activity in the North American market.

"De-risking" industry efforts continue with companies raising prices, reducing benefits, offering new products, and looking for solutions to better manage legacy risks. Variable annuity sales have fallen by 42 percent year over year and many companies have issued debt and equity, and have raised rider fees, reduced benefits, and issued new products. Aside from Japan, the market basically shut down due to the financial crisis in 2008 and has not re-opened since.

REINSURANCE MARKET OUTLOOK

It seems the best hope for the variable annuity reinsurance marketplace is industry consolidation. Reinsurance prices may increase enough to get the desired coverage for a line of business as part of a larger deal.

Terrorism

The stand-alone terrorism reinsurance market remains relatively dormant at year-end 2009. Supply and demand dynamics have remained unchanged for several years. Although individual insurer appetite remains limited, terrorism continues to provide a diversifying exposure for reinsurers; supply remains high, and under-utilized. On the demand side, there is limited interest. Most insurers, since the establishment of TRIA in 2002, have grown comfortable dealing with the terrorism exposure either through avoidance, limited acceptance or with the benefit of the government backstop. For property, traditional reinsurance provides some benefit as it has not followed the TRIA revision in differentiating between domestic and foreign terrorism; the former is generally covered under mainframe reinsurances. Capacity for terrorism in Workers Compensation Cat covers is available.

One area of activity is in the facultative market, particularly in London, where clients can easily and cost-effectively deal with terrorism exposures presented by an account or location.

Price, or more correctly value, is one obstacle to a more robust stand alone terrorism market. Without the ability to assign frequency to loss, the value of the reinsurance is impossible to quantify. Reinsurers will not part with aggregate and the capital needed to support below a minimum rate. Most reinsureds tend to see that minimum price as too high for an exposure they perceive as large but very remote.

The stand-alone terror product has evolved over several years from a "silo" approach, Property and Workers' Compensation, to an aggregate all lines product. Pricing has reduced over the past 24 months from the low 20 percent ROL range to low single digits excluding Nuclear, Biological, Chemical and Radiological events, and to mid-single digits with NBCR.

Events that could create need for clients in the future include a revision to the TRIA legislation or the rating agency perspective.

In late 2007, as the first extension of TRIA was about to expire, the legislation was extended for 7 years to 2014. The (re)insurance market reaction was to revert to practices that had been adopted since 2002. A recent, early Obama Administration budget proposal included a plan to scale back TRIA. We view it as unlikely that a revision to the legislation will take place prior to 2014, but such a move could create a need for additional terrorism reinsurance.

For several years, rating agencies have been requiring carriers to detail terrorism exposures. While not currently incorporated quantitatively into ratings, evolution of ratings agencies treatment of terrorism exposure could increase the economic attractiveness of private terrorism cover.

Surety

Primary pricing for Contract surety continues to hold fairly stable despite the lingering weak economic cycle. Revenues of surety companies are off an average of 15 percent for 2009 which is more than most had predicted in their business plan projections. While this might suggest price competition to attract new accounts and bolster lackluster premium, that has not materialized. Instead, the market has eroded terms and conditions and more liberal extension of credit lines. One reason for the lack of pricing pressure may be the continued perception that the market will see contractor failures in 2010 and 2011.

Commercial surety (account-driven, Fortune 2000) is typically more in line with the broader economic climate. The market has seen some reduction in competition in this area leading to a modest amount of price stability through 2009 but it is expected that as the economy recovers so will competition and that rates will be driven lower.

Reinsurance pricing hardened dramatically in the last 90 days of 2008 in anticipation of contractor failures. At January 1 2009 we saw rates rise an average of 5 to 15 percent depending on perceived quality of portfolio, with some attempts to gain even more. Pricing remained fairly stable throughout the first three quarters of 2009 despite of the continuing strong performance of primary sureties. As we entered the 2010 renewal cycle we experienced a strange phenomenon. Reinsurance price reductions were given to solid performers in an attempt to retain new customers gained during the market shakeout of 2008. The credit crisis continues and the lack of available work to sustain contractor backlogs is becoming more and more apparent. Reinsurers are apprehensive, but expect that sureties are positioned to withstand the expected contractor failures and that they have positioned themselves above the fray through higher retentions. We are seeing renewal quotes come in as expiring for the most part and have been able to extract single digit reductions in some cases.

2009 adds a fifth year to the string of excellent results in the surety industry. 2007 was the most profitable year on record but 2008 will still show very favorable calendar year results and that has continued into 2009. Private and Public non-residential spending that fueled the construction arena through 2008 and early 2009, has virtually collapsed. There is no sign of any recovery in the decimated residential construction market for the next several years. Contractors are simply running out of available work. This is driving a conservative underwriting policy among primary sureties and a slight reduction in competitive pressure.

Most sureties are still optimistic about their portfolios for 2009 and maybe slightly less for 2010. Although they realize many contractors will fail as the construction market recedes, they hope to manage those accounts down through project completion until they simply run out of work; a much different scenario than having contractors explode in times of aggressive construction growth. Obviously, the stellar results of the past few years will not be replicated. However, the industry hopes to control losses to manageable levels.

Reinsurers do not appear to be as optimistic as the primary companies. Capacity for existing accounts is adequate, though several major reinsurers are reducing their lines where possible. Reinsurance capacity for new accounts has been quite limited until late November and early December. We see reinsurers sensing an opportunity to grow their share or pick up a new account.

Up until mid year there were still several companies inquiring about entry into the surety space on the primary side. There is little activity in that regard currently. We see a few new reinsurance markets entering the surety space, but most with trepidation. We do not believe that 2010 is a bad time to enter the market and we expect to see more appetite from them next year.

XOL programs again dominate the surety space. Sureties clamor for a different structure that will more closely correspond to the tenor of the primary risk they assume, however they are unwilling to pay the increased cost for risk attaching coverage. We have been the sole voice for a structured concept matching surety performance to possible price reductions for coverage over a 3 year period. The concept has been met well by sureties and a few (mostly non-traditional) surety markets. Sureties are conservative in nature so it is difficult to make the transition but we have laid significant ground work to change the landscape in 2010-2011. Terms and conditions remain stable and in fact we are seeing some flexibility by reinsurers in some terms. For example, we saw programs with a no claims bonuses and with an aggregate stop loss; both rare terms in the surety space.

Rest of World

Canada

Key issues at renewals were RMS v9 which increased PMLs by 35 to 40 percent on average in Western Canada and significant catastrophe loss activity during 2009.

Most companies increased their catastrophe limit and we estimate that the Canadian market purchased between \$2.5 and \$3 billion of additional catastrophe capacity for 2010. Pricing was generally stable to up slightly. Any increases were primarily based on loss activity and/or PMLs that grew over and above the impact of the RMS model change. Capacity was adequate but not abundant.

Property per risk treaties were impacted by a significant increase in both frequency and severity of losses in 2009. The results of many programs ended in a deficit position leading to a much harder market at renewal as reinsurers tried to recoup their losses.

Casualty programs experienced a relatively stable renewal with respect to both price and coverage.

Caribbean

Prices for property catastrophe business are generally flat, within the plus or minus 3 percent range with no shortage of capacity.

For proportional property renewals (the main reinsurance vehicle), overall commissions are flat and while some direct reinsurers pursued reductions in commissions, the balance of the reinsurance market was prepared to renew as expiring and carry any reductions in capacity from the direct market. Overall, capacity was up marginally from last year with increased allocations and a limited number of new reinsurers entering the market. While property reinsurance pricing is flat to marginally down, it remains above the lows of the late 1990's.

For casualty lines, pricing is flat with downward pressure from new market wanting to write business. Most programs stayed with existing markets who were forced to at least maintain existing pricing. A competitive market with price reductions was available if clients are willing to move reinsurers.

Latin America

Less than half Latin America's treaty renewals now occur at January 1, with the majority of cedents already traditionally settled on or having migrated to mid-year renewals. For the main property lines increased capacity was observed in all markets across the region, with the capacity of traditional players being augmented by the addition of a number of new entrants.

The effect of increased capacity has been to further tip the ratio of supply over demand in the buyers' favor, with the result that on an exposure adjusted basis ceding companies were able to achieve price reductions of on average 5 percent for loss free excess of loss program renewals, and slight improvements in ceding commissions and other terms, such as minimum catastrophe rates, for pro-rata renewals. The largest price reductions for excess of loss programs, in some cases over 10 percent, were observed for regional catastrophe programs, and per risk excess of loss programs from Brazil.

For non-property renewals both capacity and pricing remained stable to slightly lower in comparison to the prior year.

South Africa

Catastrophe rates are stable to 5 percent off. Generally where aggregates have increased there has been greater scope for small risk adjusted rate reductions.

Risk excess of loss treaties are being renewed flat where no major losses have occurred, but on those that were burned, prices increased by approximately 10 percent.

Global Facultative

The following provides a review of 2009 and a forecast for global facultative reinsurance.

Property

Competition for market share drove a continued divergence in global pricing. Rate reductions were more pronounced in regional markets when compared to the London market as domestic markets fought to keep the business local while there were modest rate increases for business where additional global capacity was accessed via London.

Rate increases seen globally in the early part of 2009 quickly evaporated in the second half of 2009: the year end analysis shows that catastrophe pricing stayed flat or dipped slightly while non-catastrophe rates fell across the board.

Continued rate reduction is expected for 2010 around the world with the only difference being an expectation that London market might increase competitive pressures for European business as they seek to regain lost ground from the European domestics.

Casualty

Rates continued their downward trend in 2009, although at a slower pace than in 2008. Outside of the U.K. International and U.S. wholesale space, rate reductions were quite common, despite the potential for losses in the D&O and Financial Institution markets.

Competition continues for market share by major domestic casualty insurers and rates are expected to drop between 5 and 8 percent in 2010 in all areas except the London market where rates are expected to be flat.

Impact of Large Losses (defined as greater than \$50 million in insured loss)

There were 50 major losses in 2009, with an estimated insured loss impact of \$26.6 billion. This compares with 94 losses in 2008, which are estimated to have cost the markets \$52.4 billion.

Figure 24: Aon Benfield Fac—Market Rate Tracking

| Property Domestic Markets | 2009 | | | | 2010 |
|--|--------|--------|--------|--------|-------|
| | Q1 09A | Q2 09A | Q3 09A | Q4 09A | 2010E |
| North America average | 6% | 7% | -2% | -5% | -5% |
| US: Property Cat | 15% | 17% | 0% | -5% | -5% |
| US: Property Non-Cat | 2% | 4% | -5% | -10% | -10% |
| Canada | 0% | 0% | 0% | 0% | 0% |
| Europe average | -4% | 0% | 0% | -1% | -5% |
| France | -4% | 0% | 0% | 0% | 0% |
| Germany | 0% | 10% | 0% | 0% | -8% |
| Netherlands | 0% | 0% | 0% | 0% | -10% |
| Nordics | -10% | -5% | 0% | 0% | -5% |
| United Kingdom (domestic) | -5% | -5% | 0% | -3% | -3% |
| Asia Pacific average (domestic) | 3% | -3% | -2% | 0% | -7% |
| Australia / New Zealand | 8% | 0% | 0% | 3% | -10% |
| Asia - excl Japan | 0% | -10% | -5% | -3% | -10% |
| Japan | 0% | 0% | 0% | 0% | 0% |
| Africa | 5% | 3% | 5% | 5% | -10% |
| Middle East | 0% | -5% | -5% | -5% | -10% |
| Lat Am & Caribbean | 10% | -3% | 0% | -10% | -15% |
| Americas average (domestic) | 7% | 5% | -1% | -6% | -8% |
| EMEA average (domestic) | -2% | 0% | 0% | 0% | -6% |
| Global average (domestic) | 2% | 0% | -1% | -2% | -7% |

| Property London Markets | 2009 | | | | 2010 |
|--------------------------------------|--------|--------|--------|--------|--------|
| | Q1 09A | Q2 09A | Q3 09A | Q4 09A | 2010 E |
| North America average | 11% | 12% | 3% | 0% | -5% |
| US: Property Cat | 13% | 13% | 0% | 0% | -5% |
| US: Property Non-Cat | 10% | 13% | 0% | 0% | -10% |
| Canada | 10% | 10% | 10% | 0% | 0% |
| Europe average | 3% | 3% | 0% | -8% | -8% |
| France | 5% | 5% | 0% | -5% | -5% |
| Germany | 5% | 5% | 0% | -10% | -10% |
| Netherlands | 5% | 5% | 0% | -8% | -8% |
| Nordics | 5% | 5% | 0% | -8% | -8% |
| United Kingdom | -5% | -5% | 0% | -8% | -8% |
| Asia Pacific average (London) | 2% | 3% | 2% | 2% | -5% |
| Australia / New Zealand | 3% | 8% | 5% | 5% | -8% |
| Asia - excl Japan | 3% | 0% | 0% | 0% | -8% |
| Japan | 0% | 3% | 0% | 0% | 0% |
| Africa | 5% | 3% | 3% | 3% | -3% |
| Middle East | 7% | 5% | 0% | -2% | -5% |
| Lat Am & Caribbean | 10% | 3% | 0% | -5% | -10% |
| Americas average (London) | 11% | 9% | 3% | -1% | -6% |
| EMEA average (London) | 4% | 3% | 0% | -5% | -6% |
| Global average (London) | 5% | 5% | 1% | -3% | -6% |

| Liability Domestic Markets | 2009 | | | | 2010 |
|----------------------------------|------------|------------|------------|------------|------------|
| | Q1 09A | Q2 09A | Q3 09A | Q4 09A | 2010E |
| North America (domestic) | -4% | -7% | -6% | -8% | -8% |
| UK: Intl Wholesale (domestic) | -5% | -5% | 0% | 0% | 0% |
| UK: US Wholesale (domestic) | -8% | -5% | 0% | 0% | 0% |
| APAC (domestic) | -8% | -5% | -5% | -5% | -5% |
| EMEA (domestic) | -8% | -5% | -5% | -5% | -5% |
| Bermuda (domestic) | -8% | -5% | -5% | -5% | -5% |
| Global average (domestic) | -7% | -5% | -3% | -4% | -4% |

| Liability London Markets | 2009 | | | | 2010 |
|--------------------------------|------------|------------|-----------|-----------|-----------|
| | Q1 09A | Q2 09A | Q3 09A | Q4 09A | 2010E |
| North America (London) | -8% | -5% | 0% | 0% | 0% |
| UK: Intl Wholesale (London) | -8% | -5% | 0% | 0% | 0% |
| UK: US Wholesale (London) | -10% | -5% | 0% | 0% | 0% |
| APAC (London) | -5% | -5% | 0% | 0% | 0% |
| EMEA (London) | -5% | -5% | 0% | 0% | 0% |
| Bermuda (London) | 0% | 0% | 0% | 0% | 0% |
| Global average (London) | -6% | -4% | 0% | 0% | 0% |

Source: Aon Benfield Fac

Recap of January 2010 Renewal Expectations

Aon Benfield is pleased to confirm our guidance for January 2010 renewals, released in September 2009, was predictive. Decreases in U.S. nationwide programs and a relatively flat market internationally have helped stabilize the reinsurance market. As a result of the dramatic capacity increase in both the reinsurance and insurance markets, companies were able to secure their desired capacity and most companies maintained similar retentions as to prior renewal periods

Our predictions for the January market were as follows:

Figure 25: United States: January 2010 Renewals

| | 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 0 and 5 percent from catastrophe losses. Medium means reinsurer capital decreases between 5 and 10 percent from catastrophe losses. Heavy means reinsurer capital decreases between 10 and 20 percent from catastrophe losses.

Source: Aon Benfield Analytics

About Aon Benfield

As the industry leader in treaty, facultative and capital markets, Aon Benfield is redefining the role of the reinsurance intermediary and capital advisor. Through our unmatched talent and industry-leading proprietary tools and products, we help our clients to redefine themselves and their success. Aon Benfield offers unbiased capital advice and customized access to more reinsurance and capital markets than anyone else. As a trusted advocate, we provide local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial, and rating agency advisory, and the right professionals to advise clients in making the optimal capital choice for their business. With an international network of more than 4,000 professionals in 50 countries, our worldwide client base is able to access the broadest portfolio of integrated capital solutions and services. Learn more at aonbenfield.com.

This document is intended for general information purposes only and should not be construed as advice or opinions on any specific facts or circumstances. The analysis and comments in this paper are based upon Aon Benfield's general observations of reinsurance market conditions as of January 2010. Forward looking statements are based on existing conditions in the marketplace which are always subject to change, therefore, actual future market conditions may be materially different from the opinions expressed in this paper. The content of this document is made available on an "as is" basis, without warranty of any kind. Aon Benfield disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Benfield reserves all rights to the content of this document. Members of the Aon Benfield Analytics Team will be pleased to consult on any specific situations and to provide further information regarding the matters discussed herein.



200 E. Randolph Street, Chicago, Illinois 60601
t: +1 312 381 5300 | f: +1 312 381 0160 | www.aonbenfield.com

Copyright Aon Benfield Inc. 2010