Executive Summary – April 1 Renewals Update

The April renewals were in line with the expectations we published following the January renewals. April 1 is a significant renewal date in Japan where renewals were completed at 0 to 5 percent reductions. Some U.S. programs renewed at April 1 with renewal terms equal to the 5 to 15 percent reductions witnessed for January 2010 renewals.

Catastrophe losses in the first quarter did not impact pricing or capacity in critical reinsurer aggregate zones. The impact of the losses in non-peak zones like Chile, will be minimal outside of Chile and even in Chile where the July 1 renewal date is common; the impact is likely muted by the fact that the earthquake risk was well understood by reinsurers and appears to be contained within reasonable loss expectations given the magnitude of the event.

The level of reinsured losses in the first quarter may not materially impact capacity for peak zones as much as the losses may bring additional pressure on reinsurers to merge and potentially further reduce industry capital. Reinsurer returns on equity for 2010 were expected in the range of 10 to 12 percent. The first quarter catastrophe losses push those already low risk adjusted returns to levels that may require more decisive action to right-size the capital base in the face of level to declining demand for property catastrophe reinsurance.

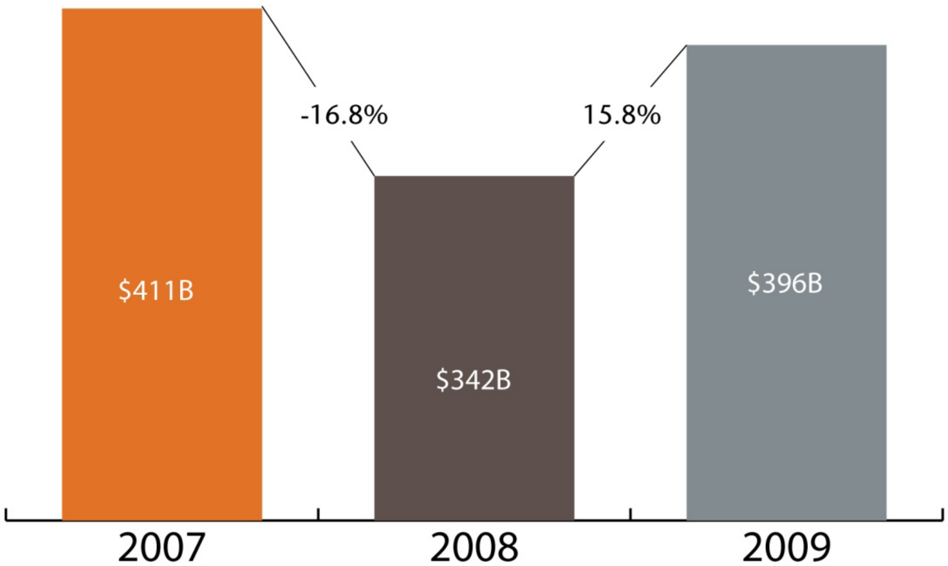
Aon Benfield's outlook for the June and July 2010 renewals is continued softening in line with our guidance published in January. Generally, any hardening of catastrophe reinsurance rates witnessed in 2009, is being reversed in 2010. Markets that held firm in the midst of the crisis are now expected to return to a broad softening phase unless meaningful loss experience dictates otherwise.

Supply and Demand

The supply and demand dynamics highlighted in Aon Benfield's January report are still in place. Generally reinsurance capacity (supply) is growing at a rate that is greater than the growth in demand for reinsurance from insurers. The actions of insurers in Q1 of 2010 only lead us to believe that they are now expecting a softening cycle that may last for an extended term. The implication of this assumption to the reinsurance market is that more and more insurers will retain greater shares of the risks they underwrite.

Reinsurer capital remained stable from Q3 to Q4 2009, with only a modest increase of 0.3 percent. Although Q1 did see earthquake losses in Chile and Haiti as well as Windstorm Xynthia, most reinsurers have reported capital impacts of less than 5 percent with total reinsurance losses annouced currently at approximately USD4.5 billion for the industry. Despite these losses, Aon Benfield expects that key peak zones renewing throughout the remainder of 2010 will continue to soften similar to January 2010 levels.

Figure 1: **Change in Reinsurer Capital**



Source: Individual Company Reports, Aon Benfield Research

FHCF Changes and Impact on Florida Capacity for 2010

Because Florida property catastrophe reinsurance programs dominate the June 1 renewal date, the impact of changes to the State of Florida owned reinsurance-like facility, the Florida Hurricane Catastrophe Fund (FHCF), can be meaningful to the reinsurance market supply and demand dynamics. As a result of the instability of the municipal bond market throughout 2009, many insurance companies elected to forgo the coverage provided by the optional USD12 billion FHCF Temporary Increase in Coverage Limits (TICL). The lack of funding confidence also caused the Florida legislature to pass measures to reduce the USD12 billion TICL by USD2 billion in 2009 and phase-out the balance over a five year period. The TICL maximum capacity for the 2010 hurricane season is USD8 billion; however, the recent Citizens Board of Governors approval of a staff recommendation to forego its significant potental share of the TICL coverage means that substantially less than the maximum TICL coverage will be utilized.

The decision by Citizens Board of Governors not to utilize its share of the TICL program may possibly bring renewed interest in the optional TICL program from private Florida insurers that may find TICL coverage more affordable than reinsurance from the private reinsurance market. This potentially renewed interest may build quickly if the FHCF, in May, was to reestimate its claims paying and funding capacity to levels that show the potential to fully fund both the USD17 billion so called “mandatory layer” as well as the portion of the TICL program that is likely to be purchased.

Global Market Dynamics for April Renewals

While catastrophe losses in Chile, Haiti, and other regions of the world have resulted in some reinsurance recovery, the extent of loss has resulted in minimal impact on overall reinsurance capital. Aon Benfield expects that renewals throughout 2010 will remain as experienced in January 2010 for peak zone regions that have not experienced a catastrophe loss. This was true for the April renewals. The following provides an update of renewals in various regions and lines.

Japan

Pricing for Japanese property catastrophe business saw risk adjusted price reductions of between 0 and 5 percent at April 1, 2010 renewals. On the basis of this pricing the overall capacity offered by reinsurers remained relatively stable with some increases in certain special cases.

Ceding company retentions remained relatively stable from the previous year. There were a few instances of increased retentions following the improved financial background but these involved only modest changes.

Personal accident excess of loss renewals continued to soften compared to last year and there was a general market trend among cedents to include specific cover for infectious disease for the first time.

India

With depressed original rating as well as a number of small to medium size losses, proportional treaty renewals were the main area of concern for Indian insurance companies as many were in a negative balance.

Commission levels fell with many on a sliding scale basis and conditions were greatly restricted. In some instances, this included the imposition of co-insurance clauses, exclusion of inwards facultative business and in extreme cases loss participation corridors imposed. Even at these more restrictive terms, placement has been extremely tough as the perception from the market of these covers is still poor.

With such focus on the proportional treaty, the non proportional covers fared much better. Both per risk and catastrophe programs have suffered small losses but were still able to achieve reductions. Risk adjusted decreases of approximately 5 to 10 percent were achieved on property catastrophe covers.

United States

Although April is not a significant renewal period for U.S. catastrophe risk as a whole, these renewals can provide a leading indicator for any changes expected in the market in June and July from what was experienced during January renewals in the same calendar year.

For 2010, pricing remains in line with the rate reductions of between 5 to 15 percent that the market saw at January 1, with the majority of renewals happening at April 1 being secured for nationwide programs. It also compares favorably to the rate increases that were seen in the market for 2009 renewals of 10 percent or more in some instances. Capacity remains abundant as a result of the resurgence of supply throughout the second half of 2009.

U.K.

Property catastrophe reinsurance rates have continued to decline during the first quarter of 2010 with the majority of programs seeing reductions of approximately 5 to 7 percent. This compares to 5 percent increases on renewals a year ago. Similar to in prior renewals, excess capacity is evident particularly at the top end of programs.

Non-Marine Retro

Very low natural catastrophe losses and significant investment and underwriting returns characterized 2009. The Q1 retrocession renewal period has seen a definite easing of buyer’s appetite and an increase of supply as reinsurance markets seek to expand and diversify their underwriting income into a class where rates are still healthy.

Aon Benfield's Global Retrocession team estimates that, on a risk adjusted basis, rates have decreased by 7.5 to 10 percent (depending on the client, territorial scope and loss history) for UNL reinsurance protections. Capacity is available and pricing is holding steady in comparison to broader reinsurance rates although non-peak pricing may start to respond to the Chile EQ event. A few markets have started to write retrocession as a new class as they seek to diversify their portfolio and some of these markets have proved to be very successful during April renewals. Throughout Q1, demand for UNL purchase has been flat as reinsurers seek to renew their expiring capacity. The few natural catastrophes which have already occurred during Q1 2010 may now turn the focus towards buying opportunistically at competitive prices to protect the balance of the property portfolio's profit for the year.

The ILW market has seen a marked decline in demand as balance sheet and profitability improvements has meant reinsurers do not need to purchase as much index cover as previous years. Pricing is down up to 40 percent, depending on territory, peril and level. It is expected that interest in ILW covers will marginally increase as we approach the U.S. wind season and the overall limit purchased for 2010 is forecasted to be 35 percent less than 2009, subject to no major market events (losses, consolidations etc.) during 2010.

Expectations for Upcoming June and July Renewals

Our outlook for June and July 2010 renewals remains in line with our forecast at January 1, 2010. As mentioned before, despite the reinsurance recoveries paid as a result of the Chile Earthquake and Xynthia windstorm, reinsurer capital remains stable and capacity remains abundant. Our expectation is that renewals in peak zones such as the United States and Europe throughout the remainder of the year will be unaffected by the reinsurance losses incurred during the first quarter of 2010. With major market renewals in the United States throughout the remainder of 2010, we provide our views on how the reinsurance market is likely to continue throughout 2010 renewals.

Figure 2: 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/Summery renewals.			

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.

Contacts

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