Executive Summary – July 1 Renewals Update

Catastrophe reinsurance pricing decreased moderately more aggressively for higher margin U.S. business than witnessed at January and June renewals. Catastrophe program costs decreased by 10 to 20 percent in the U.S. and were generally softening elsewhere in the world where loss experience was not present. Global reinsurance capacity remains at record high levels and its growth continues to outpace the growth in demand from cedents.

Reinsurer losses from the significant Chilean earthquake have been within reasonable expectations for an 8.8 magnitude event. The rate on line increases in Chile are in line with our expectations for a diversifying geographic peril that was well understood by reinsurers prior to the event. Concerns over the potential impact of the Deepwater Horizon oil slick and its potential hurricane driven landfall have not affected property catastrophe reinsurance capacity, pricing or terms and conditions.

Casualty reinsurance capacity is also plentiful as reinsurers continue to see decreasing demand for the product. Underlying casualty insurance results continue to be reported at levels that are far better than anticipated.

Regional Market Dynamics for July Renewals

July renewals bring a global diversity similar to January renewals. Reinsurer capital remains at peak levels resulting in increased competition. Regions with catastrophe loss experience in the last 12 months (Chilean Earthquake and Australian storms) saw price increases, while most other regions saw price reductions in line with earlier renewals in 2010.

Australia and New Zealand

Catastrophe renewals started early in Australia, with data and modeling commencing in February for many clients. As expected, 2010 has involved more intense negotiations than previous years due to the February storms in Perth and Melbourne, which each had market losses in excess of AUD1 billion. Pricing has varied considerably depending on the loss activity seen to the program during the last 12 months. Some loss affected layers renewed with more than 30 percent increases while rate decreases have been evident on layers without loss activity. On a total program basis the impacts vary significantly by client. Pressure has also been placed on retentions with many insurers being forced to increase retentions to at least an exposure adjusted equivalent of 2009.

Pricing for most stand-alone New Zealand catastrophe programs has renewed flat to down 5 percent on a risk adjusted basis. The key driver in New Zealand has been the business mix of the portfolio with greater reductions given to residential portfolios than commercial portfolios. Property per risk programs have renewed similar to expiring, with variations directly linked to the exposure change and the loss experience of the portfolio during 2009.

Casualty reinsurance program renewals have seen modest reductions with most treaties renewing flat to minus 5 percent on a risk adjusted basis. As part of 2010 renewals, Aon Benfield has gained acceptance from most reinsurers for a significant alteration to the wording commonly employed by the market, which will lead to significantly better protection. While these changes are being phased, there has been no upward pressure on rates.

Latin America and the Carribbean

The majority of reinsurance programs in Latin America and the Spanish speaking Caribbean renew mid-year. Significant impact of the earthquake in Chile on February 27, 2010 has been limited to property catastrophe reinsurance pricing in that market. In Chile, the cost of property catastrophe excess of loss programs has risen 45 to 65 percent depending on the type of portfolio and the ceding company's loss estimation. Due to the price increase, reinsurance capacity has been plentiful. The capacity of existing reinsurers has been augmented by capacity from reinsurers not currently participating on Chilean business but attracted by the higher rates. Terms and conditions for property catastrophe proportional treaties are expected to harden in Chile as there is less proportional capacity compared to the excess of loss market.

Outside Chile, the impact of the February earthquake has been limited. Prior to the earthquake, the expectation was for further softening of terms at mid-year. Expected discounts for loss-free property catastrophe excess of loss programs have been replaced with flat pricing or single digit risk adjusted rate increases. Key terms and conditions for property catastrophe proportional treaties, such as event limits, have come under greater scrutiny. Capacity for both excess of loss and proportional treaty remains constant outside Chile. Beyond property catastrophe lines of business the reinsurance market remains soft, as reinsurers compete for other business to diversify their property catastrophe exposures.

South Africa

Catastrophe rates are down 10 to 15 percent on a risk adjusted basis following another benign year for major catastrophe losses and competition. Increases in reinsurer's appetite, capacity and the number of reinsurers wanting South African business have assisted in mitigating any price increases. Unless there are large losses in the remainder of the year, this trend is expected to continue into October.

Risk excess of loss and pro rata business are under pressure to increase rates and reduce commission terms following larger than expected losses for some clients.

United Kingdom

For U.K. property catastrophe placements, the trend of softening pricing has continued with reductions of up to 10 percent while retentions and the amount of cover purchased have remained stable. Per risk placements have remained competitive with price reductions similar to those seen at January 1.

United States

Property catastrophe placements remain in line with projections from earlier this year and price decreases experienced. Risk adjusted pricing continues to decrease between 10 and 20 percent with small regional placements excluding Florida seeing the most significant decreases as reinsures compete for this business to fill out portfolios. Reinsurer capital remains stable and at adequate levels for insurers seeking additional capacity.

Demand remained stable for July renewals with the majority of companies electing to maintain similar programs to prior renewals.

Exposure rates for per risk excess of loss programs continued to be down more than 10 percent for many clients through July 2010. In general, per risk excess of loss pricing was down between 5 and 10 percent adjusted for exposure. Similar to January renewals, catastrophe coverage and loss experience continue to drive price change for per risk programs. Retentions and capacity remained stable. July renewals do show signs of further softening in the market with some programs achieving improved/increased terrorism protection.

Specialty Lines Market Dynamics for July Renewals

General Casualty

The market for Casualty Umbrella and Excess reinsurance continues to be dynamic. The last twelve months have produced rate change levels that range from flat to slightly down; as a result the reinsurance markets have been increasing their default industry loss ratios for the line. Many portfolios, both new and existing, continue to operate at profitable levels and reinsurers are attempting to analyze business plans and support those clients that can demonstrate profit through actual loss experience and/or from a rating strategy that enables profit even in a challenging insurance market. Companies with actual experience continue to have an advantage in terms and conditions; however new operations that are targeting segments of the market that are still considered profitable have been successful in securing quality reinsurance.

Terms and Conditions have remained relatively stable in the reinsurance market as reinsurers are using capacity as a main topic for renewal discussion. One note, of particular importance to the Bermuda High Excess Casualty market, is that reinsurers will be keenly watching the Deepwater Horizon event in order to determine how losses may occur to those parties that have potential exposure from their various contracts and dealing with British Petroleum.

Workers' Compensation

Capacity remains readily available. High layer Workers' Compensation catastrophe layers were most aggressive, with minimum rates on line from roughly two to three percent depending on EQ exposure and portfolio characteristics. Single person exposed layers were flat to slightly up depending on experience, exposure change and balance of premium to limit. Quota Share reinsurance is demanding additional analysis in states with recent reform, changing loss costs and significant movement in final rate levels.

Life and Variable Annuities

Pricing on Accident, Health and Life (AHL) catastrophe programs continued to decrease for July 1, 2010 renewals with overall pricing down 5 to 15 percent from last year. In some instances, even slightly larger reductions were obtained with the determining factors being perils covered and locations of risks. The primary drivers for these ongoing reductions are the below normal insured losses from manmade and natural catastrophes, a death toll from catastrophic events, which was among the lowest in the past twenty years and a strong market appetite to write AHL catastrophe reinsurance as evidenced by a number of new entrants into the market space. The influx of new reinsurers and the increased lines from existing markets has resulted in double digit percentage increases in available capacity for AHL catastrophe programs in 2010. Absent any major catastrophic events and subject to continued stability in the financial markets, these pricing trends are expected to continue in the foreseeable future.

D&O / E&O

In general, pricing, terms and conditions for the D&O and Professional Liability reinsurance market were similar to those experienced at January 1, 2010. Terms were fairly stable but heavily influenced by experience. Companies with a track record of favorable results over the past six years have been rewarded with slightly improved terms and those with loss activity have been impacted with increased reinsurance costs.

As large ceding companies demonstrate a greater appetite to retain more risk in a soft insurance market to help top line growth, opportunities exist for reinsurers looking for ways to support carriers more dependent upon reinsurance, inclusive of start up operations that have surfaced over that last couple of years. Some of these opportunities lie where ceding companies can differentiate themselves with new products, distribution advantages and/or acquiring books of business.

Smaller, middle market, less volatile portfolios with a track record seem to garner the most support from reinsurers in these more difficult market pricing cycles. Start up opportunities, where clients have an appetite to take significant risk positions have gained support from the reinsurance market; however, these deals generally come with more restrictive terms than business with a demonstrated track record.

In general, reinsurers' concerns stem from the continued underlying soft market pricing, abundance of capacity, including new entrants in the market, public D&O aggregation in their own portfolios on an account specific and systemic risk exposure basis. That said, results over the last six years have been very profitable for reinsurers and their focus has now been directed to a combination of events including developing loss emergence from the financial meltdown, the reliance on underwriting profits vs. investment returns and the difficulty in determining changes in frequency and severity based on broad economic trends.

Surety

For the first half of 2010, surety reinsurance pricing, terms and conditions remain stable in the face of the prolonged economic slump. Reinsurers continue to support sureties whose underwriting discipline holds firm. Capacity is attainable for all but the largest of risks, and a few markets not currently participating in the line show interest of entering.

Lawyers Professional Liability

Lawyers Professional Liability market is essentially unchanged since January 1, 2010. In general, treaty reinsurance pricing was stable to slightly down on an exposure neutral basis, with any rate increases driven by ceding companies' experience and risk profile. Capacity continues to be stable for the business.

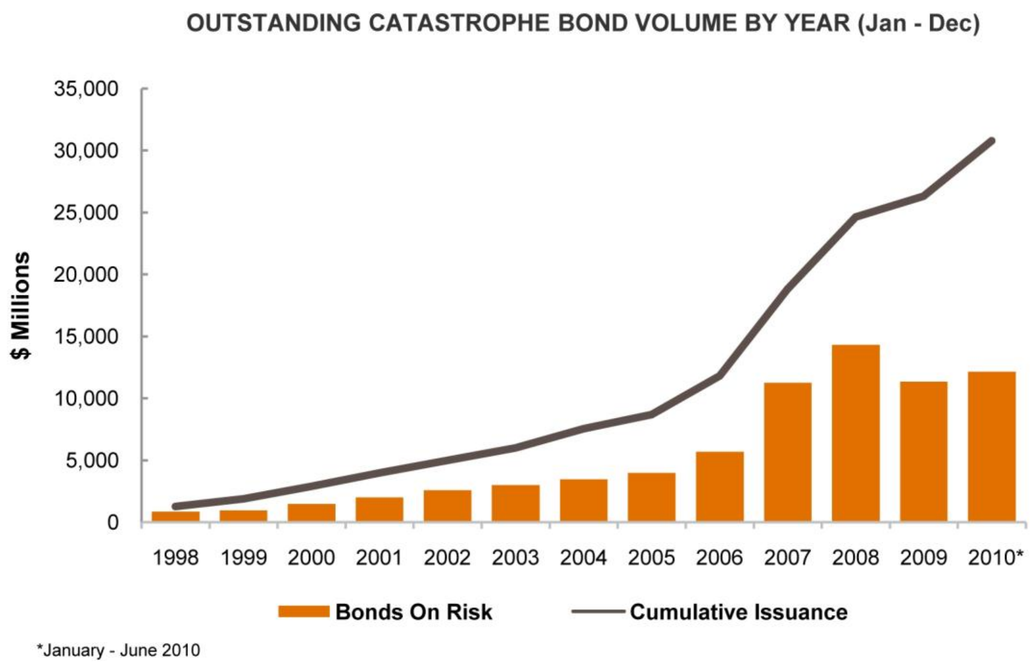
Medical Professional Liability

The Medical Professional Liability market remains soft. Primary pricing continues to decrease via rate decreases and increased credits. Pricing for hospital business is softer than for physician and surgeon classes. Loss experience remains favorable overall with loss frequency at all time low levels, and stable to slightly increasing loss severity.

Reinsurance support remains abundant from U.S., London, Bermuda, and European reinsurers, with reinsurance premiums following primary pricing declines, but generally flat reinsurance rates. Reinsurance coverage terms have broadened at January 1 and now again at July 1, 2010.

Capital Markets Remain A Key Source of Capacity

There were nineteen transactions placed in the market during the 12-month period ending June 30, 2010, totaling $4.4 billion. Bonds on risk at June 30, 2010 totaled $12.0 billion, up from $11.4 billion the prior year. In all, the ILS market has seen $30.7 billion of cumulative issuance since 1997, demonstrating its importance as a strategic and cost effective risk management tool for sponsors. Any tentativeness with this market segment resulting from the financial crisis seems to have passed and drivers of supply and demand have returned to traditional concerns of pricing compared to traditional capacity and sponsors need to transfer risk. The money market based collateral structure has proven highly attractive to cedents sponsoring ILS transactions.



Source: Aon Benfield Securities

Predicted Catastrophe Pricing: Second Half 2010

As described above, catastrophe price movements seen at the July 1 renewals were broadly consistent with our predictions made earlier this year. Few significant programs renew during the balance of the year and we expect the pricing of these programs to be similar to the market conditions witnessed at July 1, absent any market changing catastrophe event.

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