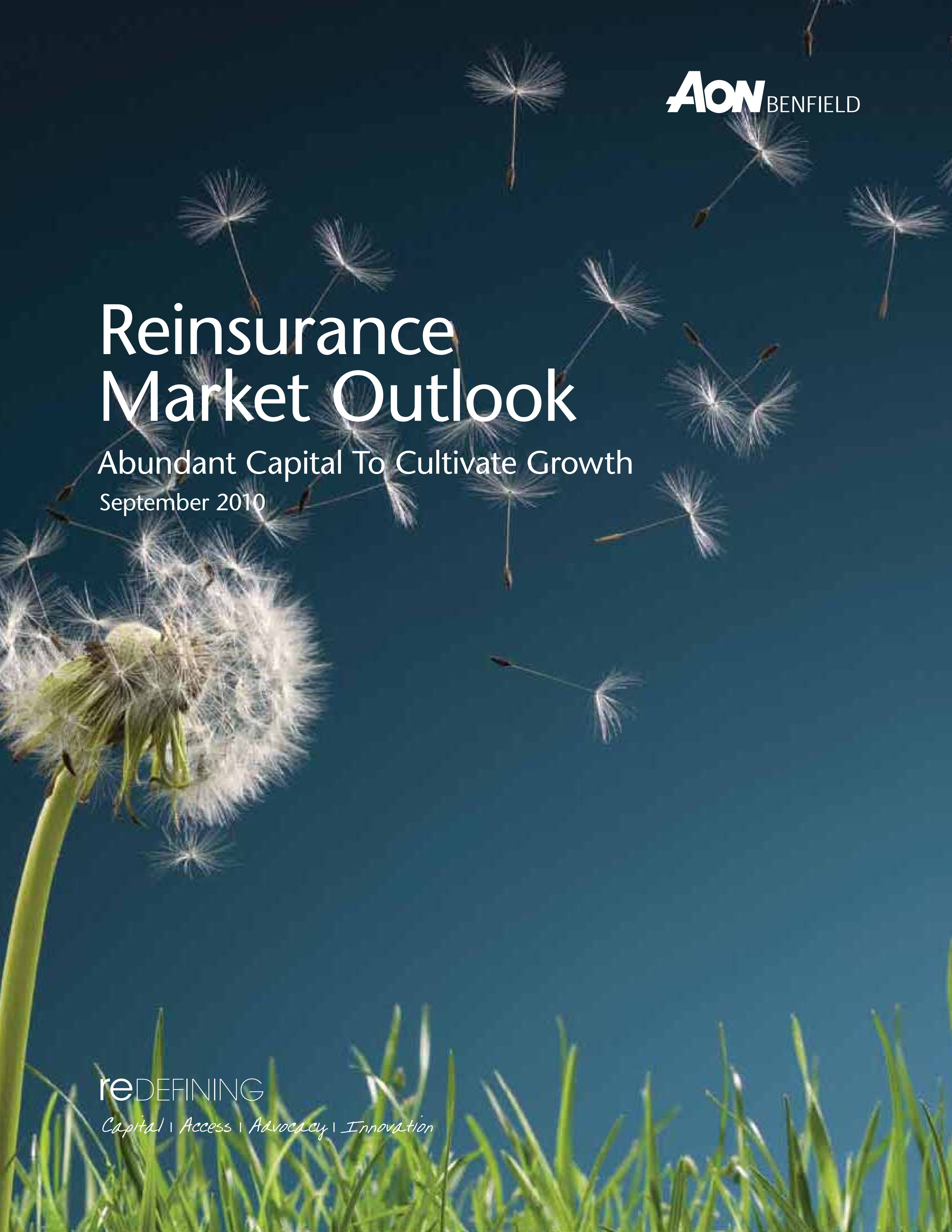


AON BENFIELD

Reinsurance Market Outlook

Abundant Capital To Cultivate Growth

September 2010

reDEFINING

Capital | Access | Advocacy | Innovation

Contents

Executive Summary—Abundant Capital to Cultivate Growth

Reinsurance capacity is at an all-time high. Capacity continues to grow more quickly than demand despite solid capital management actions and some reinsurer consolidation. Our clients will continue to benefit from a softening reinsurance market should these conditions persist through the end of the 2011 negotiation, quoting and renewal season. However, reinsurance sector returns have fallen to 10 to 12 percent and are now at levels where even small price reductions will materially impact overall profitability, fuel further share repurchases and ultimately drive more consolidation. As a result, the pace softening for U.S. property catastrophe renewals will decrease materially from the 10 to 20 percent reductions realized in June and July 2010.

Insured losses from the Chilean earthquake and other catastrophic events occurring in 2010 have had an immaterial impact on reinsurer capital and therefore have not driven a change in the broad market. Global regulatory standards for capital requirements are becoming more clear and they are unlikely to require materially more capital (reinsurance or otherwise) from insurers and reinsurers for non-life businesses. Large man-made events such as Deepwater Horizon may drive demand for more large-limit insurance products, but that demand will easily be supplied from capacity available in the insurance and reinsurance markets.

Insurers will begin to see a more useful reinsurance market emerge in the coming years. Reinsurers have lost, over the past five years, meaningful participations in casualty and specialty reinsurance programs. They now realize that the successful partnerships they enjoyed with these cedents were more valuable to their firms than they had previously considered. With industry wide non-life premiums declining in real terms in most mature economies, insurers and reinsurers are motivated to begin working together to provide innovative insurance products to insureds that face new and emerging risks. Aon Benfield looks forward to helping our clients realize the profits and growth benefits from differentiating their products in very competitive markets through value-added and potentially reinsured additions to their insurance offerings.

Expectations for Upcoming U.S. Property Catastrophe Renewals

Our outlook for January 2011 renewals reflects our expectation that, absent significant reinsurer losses during the remainder of the year, growth in reinsurer capital and capacity will exceed client demand. As a result, market forces will drive a global softening of rates, terms and conditions in the reinsurance market. The reinsurance market will provide cedents their most accretive capital source in 2011 and beyond.

We provide our expectations for rate on line (ROL), capacity and retention changes for January 2011 renewals based on reinsurer loss activity throughout the remainder of 2010. Exhibit 1 shows these expectations for the United States, which represents the reinsurance industry's peak aggregation of catastrophe risk. Expectations for other geographic segments and lines of business can be found later in this report.

Exhibit 1: United States: Property Catastrophe January 1, 2011 Expectations

	ROL Changes	Capacity Changes	Retention Changes
Personal Lines National			
Light	-10% to Flat	+5% to +10%	Stable to +10%
Medium	Flat to +10%	Stable to +5%	Stable
Heavy	+10% to +20%	-5% to -15%	-5% to -10%
Personal Lines Regional			
Light	-10% to Flat	+10% to +15%	Stable to +10%
Medium	Flat to +15%	Stable to +5%	Stable
Heavy	+15% to +25%	-5% to -10%	Stable
Standard Commercial Lines			
Light	-10% to Flat	+5% to +10%	Stable to +10%
Medium	Flat to +10%	Stable to +5%	Stable
Heavy	+10% to +20%	-5% to -15%	Stable to -5%
Complex Commercial Lines			
Light	-10% to Flat	+5% to +10%	Stable to +10%
Medium	Flat to +15%	Stable	Stable
Heavy	+15% to +30%	-5% to -15%	Stable to +20%

Assumptions: No changes in insured catastrophe exposures. Rate of change measured from the expiring January 2010 terms. Annual reinsurer catastrophe loss activity defined: Light means reinsurer capital decreases between zero and five percent from catastrophe losses. Medium means reinsurer capital decreases between five and ten percent from catastrophe losses. Heavy means reinsurer capital decreases between 10 and 20 percent from catastrophe losses.

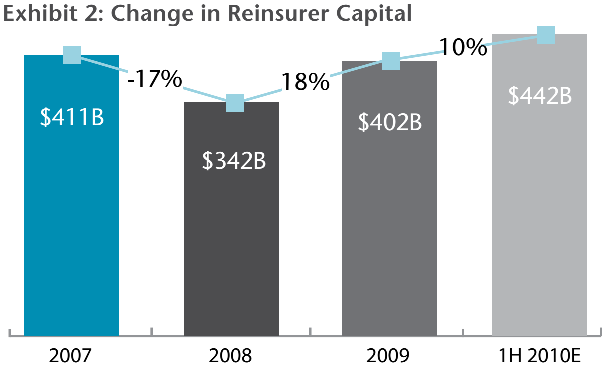
Source: Aon Benfield Analytics

These expectations represent Aon Benfield's 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, catastrophe-exposed aggregations of exposures, loss history, program structure, capacity needs, and security requirements of our clients. Our professionals work closely with clients to properly differentiate their individual placements within the dynamic marketplace. Actual ROL, 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. ROL changes are not always the best measure of the impact of market changes on a particular program. Our firm provides other meaningful benchmarks for individual cedents that fully measure the value reinsurance adds to their organizations, taking into account all of the variables listed above as well as the expiring economics.

Capacity: Growth in Supply Exceeds Growth in Demand

With reinsurers experiencing positive operating results during the last 18 months and broad financial markets recovery and stabilization, reinsurer capital growth exceeds the growth in demand for most lines and geographic territories of reinsurance capacity. Total reinsurer capital increased by approximately USD40 billion, or 10 percent since the end of 2009, with growth in Q2 significantly less than the growth in Q1 of 2010 (0.3 percent versus 9.6 percent respectively). This reflects higher levels of share buybacks in Q2 and the effects of currency translation.

Exhibit 2: Change in Reinsurer Capital



Source: Aon Benfield Analytics

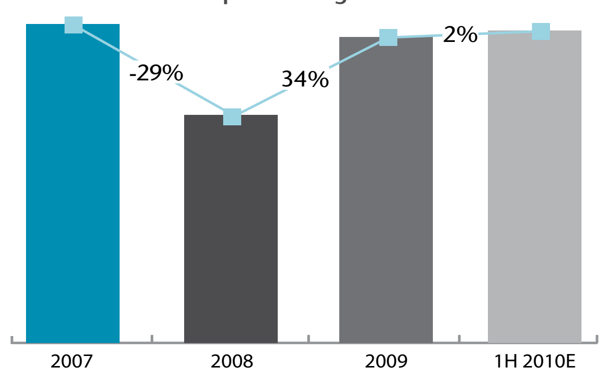
A number of companies have been active repurchasing shares in both the first and second quarters of 2010. Based on the Aon Benfield Aggregate subset of reinsurers comprising approximately USD235 billion of the capital at June 30, 2010, reinsurers have returned slightly more than two percent of opening shareholders' funds: 1.2 percent in Q1 and 1.3 percent in Q2. A number of companies who have actively been repurchasing shares accelerated their programs in the second quarter. The level of share repurchases peaked at 11 percent of shareholders' funds for Arch, RenRe and Validus, and at 10 percent for Platinum and Montpelier.

A number of companies have stated that they see share repurchases as an important component of capital management and although we expect repurchases to be muted in the third quarter due to the uncertainties of the hurricane season, it is likely reinsurers will continue repurchasing shares during the fourth quarter.

Insurer Capital Stable for 2010

Insurer capital increased a modest two percent from year-end 2009 results reflecting the continued pressure on primary rates and difficult investment environment.

Exhibit 3: Insurer Capital Change

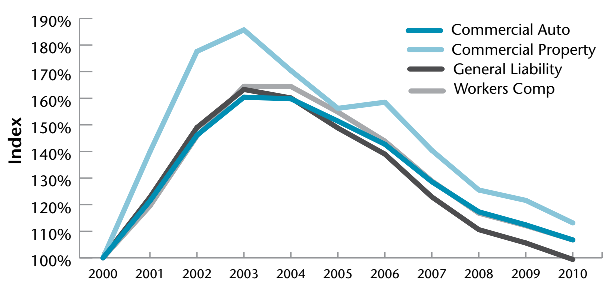


Source: Aon Benfield Analytics

Primary Rates Still on the Decline

Responses from the CIAB survey continue to reflect pricing reductions for major insurance lines in the U.S. General liability pricing has dropped to 2000 levels down from a high of approximately 60 percent above current rates in 2003 and commercial property has declined from its peak of 80 percent above 2000 levels to an estimated 13 percent above for 2010 renewals. When compared to the capital change, it seems pricing may be at its low with insurers only modestly increasing capital for the first half of 2010.

Exhibit 4: U.S. Primary Pricing Trend

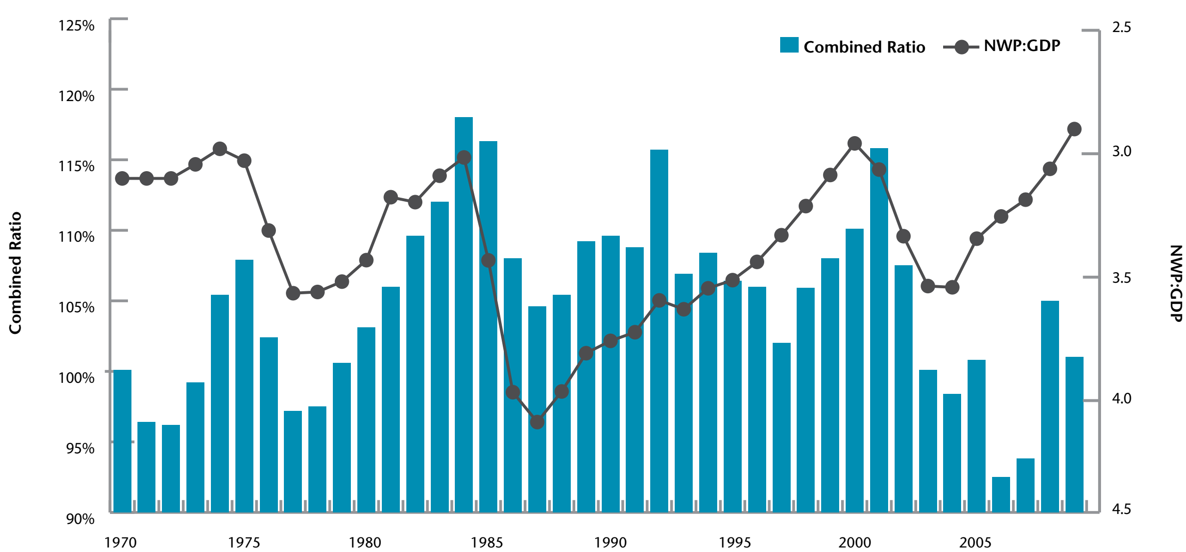


Source: Council of Insurance Agents & Brokers

Combined Ratios Below Historical Norms of Market Shift

In 2009, the ratio of net written premium to U.S. gross domestic product (NWP to GDP) fell below three percent for the first time since 1970. Market turns in 1974, 1984 and 2000 were all preceded by NWP to GDP ratios of three percent or less, so 2009's result is an indication that a market shift may be near. However, the U.S. industry combined ratio was greater than 115 percent prior to the 1984 and 2000 market turns. In contrast, the combined ratio in 2009 was a relatively healthy 101 percent, and low catastrophe loss activity and continued reserve releases in 2010 will keep it well below the stressed levels needed to trigger a hard market.

Exhibit 5: Net Written Premium as a Percent of GDP vs. U.S. Industry Combined Ratio



Source: Aon Benfield Analytics

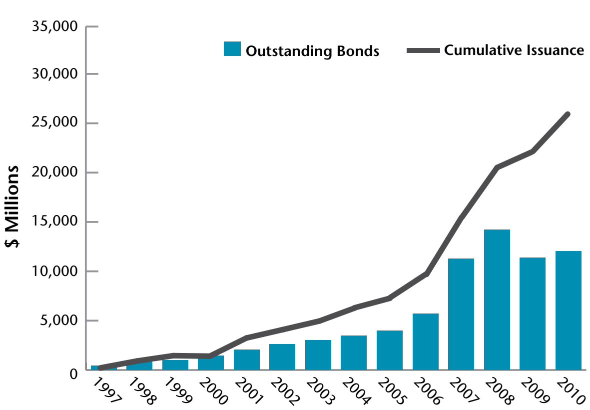
Catastrophe Bonds Outstanding Trending Upward

The use of the capital markets by cedents to complement their catastrophe reinsurance program capacity is again on the rise. Both insurance-linked securities (ILS) issuers and investors have adapted to a new capital market landscape, which is reflected in the continued evolution of the ILS asset class.

The ILS market achieved a 170 percent increase in annual issuance through 12 months ending June 30, 2010, reversing a decline of 71 percent for the same period in 2009. The market placed USD4.6 billion over 20 transactions, compared to just USD1.7 billion in 11 transactions during the 12 months ending June 30, 2009. The 2010 result was exceeded only by the volumes set in 2007 and 2008 (USD7.0 billion and USD5.8 billion, respectively). Clearly, sponsors continue to value the ILS market as a viable alternative and a cost-effective complement to traditional reinsurance.

Catastrophe bonds outstanding as of June 30, 2010 totaled USD12.1 billion, up from USD11.4 billion the year earlier. In all, the ILS market has seen USD30.9 billion of cumulative issuance since 1997, demonstrating its importance as a strategic and efficient risk management tool.

Exhibit 6: Outstanding Catastrophe Bond Volume By Year (ending June 30)



Source: Aon Benfield Securities

The first two quarters of 2009 were marked by high spreads in the catastrophe bond market. Following that period, the market began to soften in the third quarter, while the issuance calendar remained relatively light. Continued spread compression in the fourth quarter of 2009 led sponsors to transfer risk in advance of the year-end.

The first half of 2010 saw a flood of U.S. hurricane issuance. Market participants expected strong demand from investors and stable to declining spreads. Of the USD4.6 billion of issuance in the 12 months ending June 30, 2010, USD2.3 billion was issued in the second quarter of 2010. All but one of the issues transferred U.S. Hurricane risk exclusively or as part of a multi-peril structure. However, after the first few deals cleared the market, investor capacity for U.S. hurricane transactions began to wane. As a result, spreads widened for U.S. hurricane-exposed transactions.

With sustained investor capital inflows and an increasingly attractive pricing environment for sponsors, Aon Benfield Securities anticipates further momentum in the ILS space leading to both a greater number of transactions and deals that are larger in scope.

Both issuers and investors have returned to the capital markets, reflecting shared optimism that the foundation underpinning the global recovery are intact. The same is true in the ILS market, where the statistics tell a story of steady recovery. Some of the rebound can be attributed to greater levels of transparency in collateral structures developed since 2008, which has served to boost investor confidence in the market as a whole.

We expect catastrophe bond issuance to increase and approach the peak levels witnessed in 2007, as the ILS markets continue to provide a substantial contribution to the reinsurance industry.

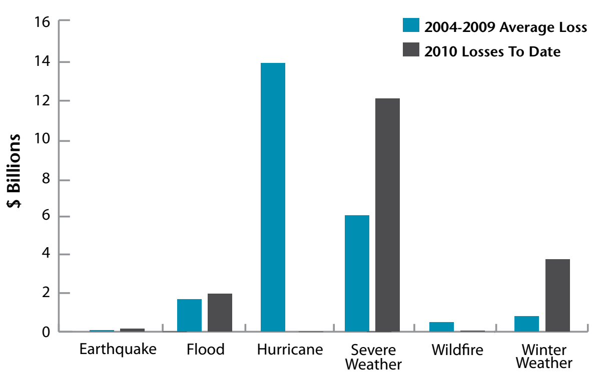
Property Catastrophe Activity Update

Despite more than USD172 billion in estimated economic losses resulting from natural catastrophes so far in 2010, low penetration of insurance outside the U.S. has resulted in current estimates of less than USD27 billion in loss on an insured basis. On an economic basis, losses in the U.S. comprise slightly more than 10 percent of losses in 2010 while on an insured basis they make up more than 33 percent. Losses in the U.S. are more than 50 percent insured compared to countries like Haiti, Pakistan and China that have endured losses with insurance coverage of less than 3.5 percent.

U.S. Activity Rests on Remainder of the Year

2010 has seen significant increase in severe weather activity resulting in losses of almost USD12 billion, or approximately double the average over the past six years. Current estimates of total losses for the year are already approximately 80 percent of average losses based on prior years without any impact of potential hurricane activity. As a result, total property catastrophe activity for the year is dependent upon the outcome of the Atlantic Hurricane season.

Exhibit 7: U.S. Catastrophe Losses by Peril

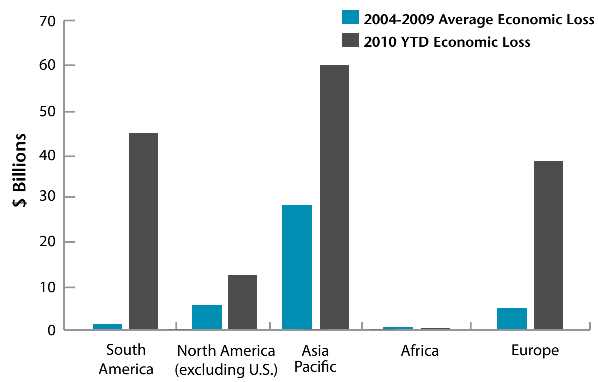


Source: Impact Forecasting

Non-U.S. Activity Highest in Recent Years

Flooding in China and Pakistan, earthquakes in Chile and Haiti, and windstorms in Europe have resulted in higher loss activity in non-U.S. territories in 2010 than in the past six years with all territories except Africa experiencing losses significantly above average levels. Despite growth in insurance penetration in many of these regions, only USD18 billion of the estimated USD154 billion in loss is covered by insurance. Based on the 50 percent insurance penetration in the U.S., losses covered in 2010 would jump from USD18 billion to close to USD80 billion in coverage for this year (or almost eight times the U.S. insured loss).

Exhibit 8: Non-U.S. Catastrophe Losses by Region



Source: Impact Forecasting

Chile

Update on Loss Activity and Lessons Learned

Economic damage estimates for the earthquake remain at approximately USD30 billion with more than 1.5 million structures affected. On an insured basis, current estimates are approximately USD8–10 billion. Many of the lessons learned in Chile mirror those from around the world after a significant catastrophe event. Lack of experienced adjusters, sheer volume of claims activity and damage to infrastructure hampering access to assess claims are issues faced in all major catastrophes. Unique to Chile, the regulatory framework in place worked to protect companies despite the event occurring outside Santiago. Going forward, it is likely many more Chilean insurance companies will look to the regulatory guidelines as a minimum standard of protection for earthquakes and use catastrophe models and other tools to enhance their analysis to risks from another event. In addition, other regions with earthquake exposure and low insurance penetration may realize the need for greater protection as the after effects of the event continue to unfold.

Impact on Insurance and Reinsurance Buying

Original rates in Chile have increased by approximately 45 to 65 percent, with higher increases observed for policies affected by the earthquake and less for those policies unaffected. Insurance penetration seems unchanged in the region despite the increases mentioned previously with approximately 90 percent of the total penetration stemming from mortgaged properties and 10 percent on a voluntary market basis. For commercial insurance, many insureds are electing increased deductibles and total coverage reductions in order to mitigate cost increase and maintain total budgets similar to pre-earthquake levels. Even so, commercial take-up rates in Chile remain amongst the highest in Latin America.

On a facultative reinsurance basis, less coverage is required and total premiums ceded are similar to pre-earthquake levels (albeit at higher rates for the exposure assumed) as a result of the reduced limits purchased in the commercial insurance market. Treaty reinsurance limits and retentions have renewed at similar levels despite commensurate rate increases of 45 to 65 percent with a number of companies also electing to purchase reinstatement premium protection covers in order to meet regulatory requirements (minimum of 110 percent of exposure in catastrophe reserve or reinsurance protection).

Atlantic Hurricane Season Update

While Colorado State University (CSU) and Tropical Storm Risk (TSR) continue to hold forecasts at or above April expectations, the National Oceanic and Atmospheric Administration (NOAA) has indicated a slight reduction in the upper bound since their May 2010 forecasts resulting from the expectation of greater early season activity. By August 31, 2010, seven named storms have occurred in the season with three storms resulting in hurricanes and only one major storm for the season.

Exhibit 9: Atlantic Hurricane Season Forecast Summary

Named Storms	Average	December 2009	April 2010	May 2010	June 2010	August 2010
CSU	9.6	11-16	15.0		18.0	18.0
NOAA	6-14			14-23		14-20
TSR	10.4	13.9	16.3		17.7	17.8
						Actual Events through August 2010 = 7
Hurricanes	Average	December 2009	April 2010	May 2010	June 2010	August 2010
CSU	5.9	6-8	8.0		10.0	10.0
NOAA	4-8			8-14		8-12
TSR	6.1	7.4	8.5		9.5	9.7
						Actual Events through August 2010 = 3
Major Hurricanes	Average	December 2009	April 2010	May 2010	June 2010	August 2010
CSU	2.3	3-5	4.0		5.0	5.0
NOAA	1-3			3-7		4-6
TSR	2.7	3.4	4.0		4.4	4.5
						Actual Events through August 2010 = 1

Source: CSU, NOAA and TSR

Ten Things To Know About Insurance Industry M&A Trends

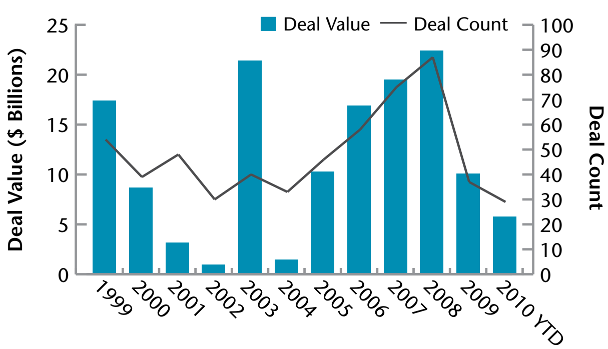
Merger and acquisition (M&A) activity was gravely impacted by the financial crisis of 2008, but picked up in recent months and continues to accelerate. The financial crisis crushed the value of investment portfolios, generated valuation volatility and all but erased any form of financing market. With market valuations uncertain and given the lead time needed to agree and close an insurance company acquisition, it was difficult for many owners and managers to even entertain an M&A discussion in 2008 and 2009.

As financial markets have settled down and the persistency of both the current insurance soft market cycle and depressed company valuations become a strategic reality, M&A activity has significantly increased. Many companies believe that it is better to buy in today's market than to enter new geographies and segments especially since most target companies are trading well below their book value despite remaining profitable. Another driver to recent market activity is the need for banks around the globe to divest non-core assets to repay government bail-out dollars.

As a leading provider of M&A advice to insurance and reinsurance companies, Aon Benfield Securities believes that market participants should be aware of the following M&A market facts and trends.

1) **M&A Activity is Accelerating in the Second Half of 2010**—Following the financial market crash of 2008, M&A activity was extremely light due to volatility in valuations, the freezing up of all forms of financing markets, and a severe drop in GDP which exacerbated an already softening insurance market and added further to uncertainty. As markets settle down, activity is expected to pick up. Announced and completed transaction volumes so far in 2010 are already close to those for all of 2009.

Exhibit 10: Historical P&C M&A Activity



Excludes Title, Managed Care, Mortgage Guaranty, Financial Guaranty, and Life & Health Companies

Includes Announced and Completed Insurance Company / Insurance Broker Company Sales & Insurance Company / Insurance Broker Asset Sales

Source: SNL

2) **The AIG Effect**—AIG has been a substantial contributor to M&A activity over the past two years as it sells assets to repay government loans. Its largest announced transaction that remains on track is the sale of American Life Insurance Company (ALICO) to Metlife for USD15 billion.

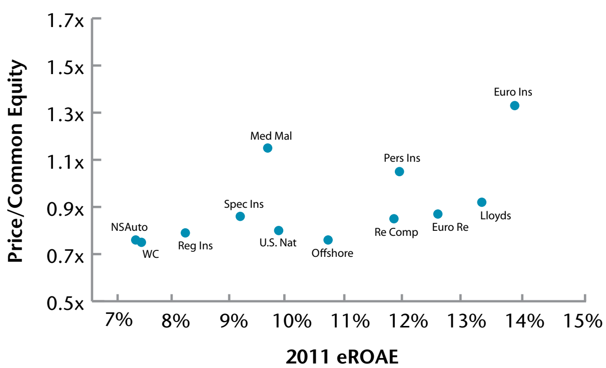
3) **Getting Back to Basics**—Banks around the globe, especially those that received direct governmental support during the financial crisis, are divesting of their non-core insurance operations. Announced and/or completed divestitures include Bank of America's sale of Balboa, KBC's sale of Secura, ING's spin-off of its insurance operations, and RBS's sale of Direct Line and other insurance operations.

4) **Bermudian and U.K. Companies Expanding in U.S.**—Interest from Bermudian and U.K. companies in U.S. specialty companies continues, but at a slower pace due to the fact that much of the demand from reinsurers has been satisfied over the past few years and some potential buyers have grown cautious because of worsening insurance market conditions.

5) **Social Issues in Bermuda**—While there have been two notable mergers of Bermudian reinsurers, Max Re/Harbor Point and Validus/IPC, the remaining Bermuda reinsurers continue with M&A dialogue, but struggle with the social challenges introduced by a merger.

6) **Turning Dollars into Cents**—Valuations of most insurance and reinsurance sectors are below book value. As investors realize that valuations will persist below book and that "franchise" value may never be created, they increasingly agitate for management to consider an outright sale.

Exhibit 11: 2011 ROAE vs. Price/Common Equity



Note: 2011 ROAE = 2011 EPS / Average of 2010 and 2011 Projected Common Equity

Source: SNL

7) **The Soft Market is Contributing to M&A Activity**—Most insurance managers do not believe that profitable organic growth is possible due to deteriorating market conditions and the increased need to loss lead on pricing to break into new segments and geographies. Instead, many are now looking at acquisitions especially given the deep discount to book at which companies are trading. Acquisitions also provide an opportunity to gain scale and cut expense ratios.

8) **Sale Premiums Trending Up**—The premium at which companies are sold over their current trading level remains at historical levels (30–35 percent as shown in exhibit 12 below) and could be increasing as valuations drop further below book and owners demand at least book value in a sale.

9) **It's Good to be an MGA**—A "dirty" acronym just a few years ago, MGAs are again in vogue. As companies search for growth and contemplate the many issues surrounding a carrier acquisition, they are increasingly targeting MGAs and books of business.

10) **Aon Benfield Securities Provides Expert Insurance Industry M&A Advice**—Insurance companies are uniquely complicated due to market distorting regulation, specialized accounting and the opaque nature of many of the risks that they underwrite. As part of one of the largest and most sophisticated companies in the insurance sector, Aon Benfield Securities serves its clients with unmatched analytical resources, direct access to all of the industry's decision makers, and a deep and nuanced understanding of all types of insurance operations.

Exhibit 12: Select Recent Public M&A Transactions (USD Millions)

			Acquisition Price /		
Announcement Date	Acquirer	Target	Tangible Book Value	Prior Day Share Price	30 Days Prior Average Share Price
Announced Deals					
7/15/10	ProSight Specialty Insurance Holdings	NYMAGIC, INC.	0.99x	23.5%	25.5%
7/8/10	Doctors Company, An Interinsurance Exchange	American Physicians Capital, Inc.	1.69x	30.7%	33.7%
6/9/10	Old Republic International Corporation	PMA Capital Corporation	0.59x	16.2%	2.5%
Completed Deals					
2/17/10	Fairfax Financial Holdings Limited	Zenith National Insurance Corp.	1.41x	31.4%	33.8%
6/21/09	Tower Group, Inc	Specialty Underwriters Alliance, Inc.	0.80x	69.7%	86.1%
		Mean	1.10x	34.3%	36.3%
		Median	0.99x	30.7%	33.7%

Source: SNL

Financial Markets Update

Despite a faster than anticipated recovery, the global economy remains in a fragile state. Underlying conditions have improved compared to a year ago as a result of fuller order books in the manufacturing sector and increases in international trade. Economists may disagree on detail, but there is a general concern that, as governments across the world attempt to reign in public spending, the resulting withdrawal of fiscal stimulus could precipitate a return to recession.

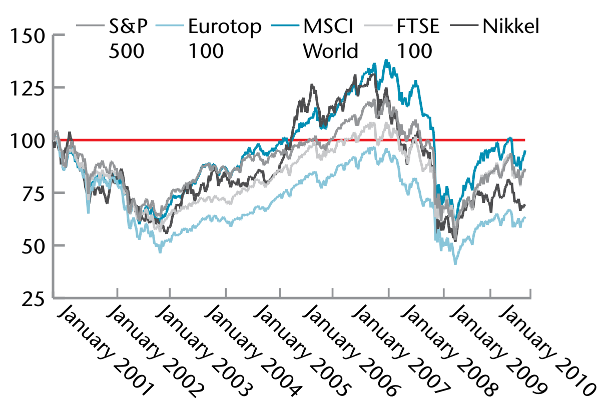
Through 2010, financial markets have been volatile, encouraging the main central banks to maintain a low interest rate policy, although there have been some cases where reference rates have been edged upwards during the second quarter, notably in Canada, Norway and Australia.

The U.S. economy has posted four consecutive quarters of positive real growth, rising by 1.6 percent in the second quarter of 2010 compared with the previous quarter. There was somewhat slower growth in the Eurozone where second quarter growth amounted to just more than 1.0 percent compared with 0.9 percent in the first quarter. Weak consumer expenditure remains a cause for concern in Europe, as does the potential repercussions of the Greek debt crisis. The Japanese economy stabilized, despite moderate deflation, but remains in a weak condition.

Stock markets in the U.S. rallied during the first quarter, but fell back again during the second and were down 5.5 percent by August 31, 2010 with the S&P 500 index at 1,065. There was a similar pattern in Europe, with the U.K.'s FTSE100 index down 3.7 percent at 5,202 and the Eurotop 100 index falling by 2.7 percent to 2,158. In Japan, the Nikkei index was off 14.3 percent at 8,991.

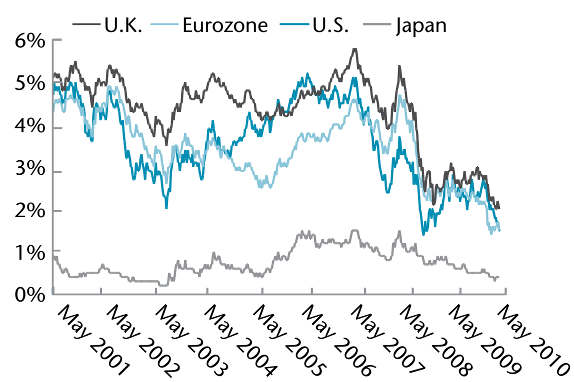
Government bond yields have drifted downwards through 2010, falling by more than 1.0 percentage point in the U.S. to 1.5 percent. Low yields remain a concern for insurers and reinsurers as low investment returns put continued pressure on underwriting results.

Exhibit 13: Equity Markets Index



Source: Bloomberg

Exhibit 14: Bond Yields

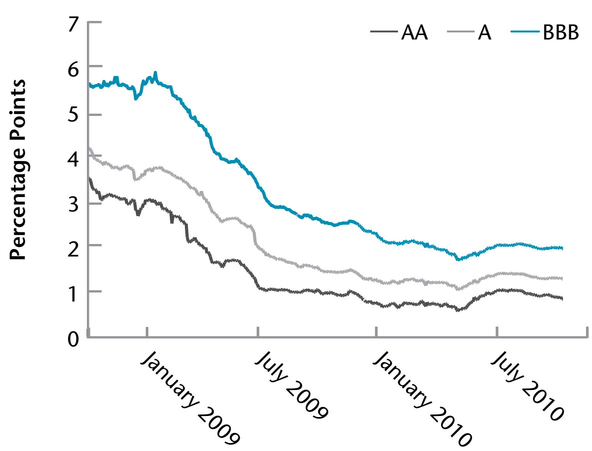


Source: Bloomberg

Corporate Bond Spreads Over Government Debt

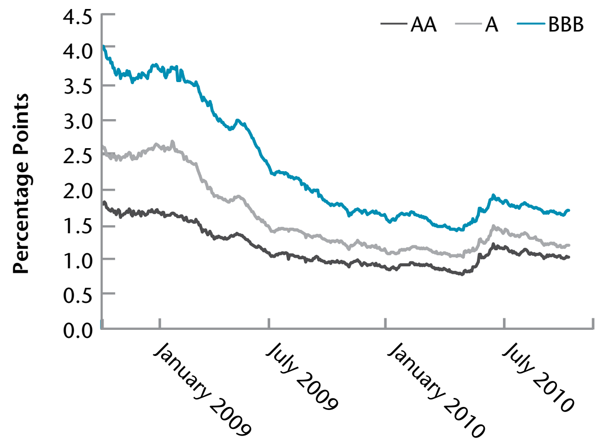
Despite rising slightly in 2010 to date, corporate bond spreads remain substantially below the levels of the first half of 2009. The tightening of spreads through 2009 was reflected in a recovery of the market value of corporate bond investments held by insurers and reinsurers and has been a significant contributor to the recovery in the sector's capitalization.

Exhibit 15: U.S. Five-Year



Source: Bloomberg

Exhibit 16: Eurozone Five-Year



Source: Bloomberg

Banks Update

An analysis of the 20 largest banks globally reveals that total leverage, as measured by total assets to shareholders' equity, has dipped slightly below the pre-crisis level of 29x. Asset leverage peaked at the end of the first quarter in 2009 at nearly 40x. Because the threat to bank solvency was heightened by the highly leveraged balance sheets, the widely anticipated regulatory response has been to significantly increase required capital.

Although the first major comprehensive reform bill, the Dodd-Frank Act in the U.S., does require additional capital for systemically important institutions, the details of many of its provisions are yet to be established or are phased in over time. Under the Dodd-Frank Act, the Federal Reserve Board has also been charged to establish more stringent capital requirements for entities with assets greater than USD50 billion, as well as powers to limit the amount of short-term debt included in the capital structure. Under the Collins Amendment of the Dodd-Frank Act, bank holding companies with greater than USD15 billion of assets will be required to deduct hybrid securities from Tier 1 capital over a three-year period beginning January 1, 2013.

Exhibit 17: Top 20 Largest Banks Total Leverage

Name	6/30/07	9/30/07	12/31/07	3/31/08	6/30/08	9/30/08	12/31/08	3/31/09	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10
BNP Paribas	31.9	33.9	36.0	36.0	36.1	41.5	48.6	40.6	35.3	34.4	33.5	32.1	30.8
Royal Bank of Scotland Group	30.5	40.8	40.0	32.7	32.8	21.8	22.4	20.6	32.7	32.8	21.8	22.4	20.6
HSBC Holdings Plc	18.0	18.2	18.4	19.2	20.1	23.0	27.0	23.4	20.5	19.4	18.4	18.1	17.8
Bank of America Corp	11.5	11.7	12.0	12.5	12.4	13.4	13.0	14.0	11.5	11.3	11.4	11.0	11.0
Barclays Plc	55.2	53.9	52.7	56.9	61.3	58.4	56.1	48.0	41.0	34.5	29.2	30.6	32.0
Deutsche Bank AG	53.4	51.1	54.5	67.8	62.4	59.2	71.7	62.5	50.5	48.0	40.9	42.7	46.4
Mitsubishi UFJ Financial Group	23.3	22.3	24.4	25.6	26.2	27.5	29.2	32.2	28.7	28.0	24.3	23.5	24.1
JP Morgan Chase & Co	12.2	12.3	12.7	13.1	14.0	16.4	16.1	15.0	13.8	13.2	12.9	13.6	12.4
Citigroup Inc	17.5	18.6	19.3	20.2	19.3	20.8	27.3	26.2	23.7	13.4	12.2	13.3	12.5
Mizuho Financial Group Inc	41.1	41.4	43.7	52.9	52.5	64.9	80.1	128.7	95.3	58.6	57.4	52.4	52.5
Lloyds Banking Group Plc	31.0	30.0	29.1	31.4	34.1	38.9	46.4	34.7	31.8	27.3	23.7	22.9	22.0
Banco Santander SA	19.3	19.3	16.5	17.8	18.1	18.6	18.2	18.8	17.9	16.2	16.2	16.3	16.9
China Construction Bank	15.4	15.3	16.2	17.6	18.0	17.5	17.3	17.1	18.0	17.5	17.3	17.1	17.1
Societe Generale	39.1	39.2	39.3	34.0	30.3	30.8	31.3	29.6	27.9	26.0	24.3	24.7	25.1
Sumitomo Mitsui Financial Group	25.9	30.4	31.7	31.3	35.0	32.3	38.0	55.4	33.4	32.2	34.1	26.0	26.7
UBS AG	49.5	51.5	61.7	136.2	46.9	43.0	61.9	59.5	47.7	37.3	32.7	31.7	31.7
Unicredit SPA	21.9	21.2	17.7	18.0	19.0	18.6	19.0	18.0	17.0	16.2	15.6	14.5	14.5
Wells Fargo & Co	11.6	11.6	12.2	12.6	12.9	13.4	19.3	18.7	15.4	13.6	12.0	11.5	11.1
Commerzbank AG	40.0	40.1	40.7	43.7	43.2	41.8	56.6	102.5	80.3	83.1	95.6	84.4	90.0
Credit Suisse Group AG	32.3	32.8	31.5	32.1	33.4	35.7	36.2	32.1	30.1	27.9	27.5	29.2	31.9
Average	29.0	29.8	30.5	35.6	31.4	31.9	36.8	39.9	33.6	29.5	28.1	26.9	27.4

Source: Aon Benfield Analytics

The July re-write of Basel III was also significantly less onerous than previous drafts, despite conclusions from studies by the Basel Committee and the Financial Stability Board that increased capital requirements and liquidity rules would have only a modest impact on economic growth patterns. Recent analysis indicates that U.S. banks will need to increase equity by USD115 billion to comply with the eight percent threshold for Tier 1 Equity to Risk-Weighted Assets (down from USD225 billion required by the December Basel III Draft), and the top 16 European banks would need to raise EUR200 billion, down from EUR300 billion required by the December draft.

The lessons from the banking crisis for the insurance industry remain as (1) correlation among enterprise risk factors is substantial in tail events; (2) excessive leverage and over-reliance on post-event capital replenishment can cripple the ability to exploit market turns and result in substantial dilution; and (3) 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.

However, the lighter than originally expected regulatory response may not be indicative of the response to an insurance crisis. In the aftermath of Hurricane Katrina, a relatively higher probability event, the rating agency response substantially increased the capital required for catastrophic risk and put the models used to evaluate such risks under substantial scrutiny, even after the models were re-worked to increase the expected level of loss. Although the U.S. remains the highest concentration of insured catastrophic exposure in the world, the U.S. regulatory capital model still does not contain a catastrophic component. Work considering incorporating a catastrophe component in the U.S. RBC model continues, and time will tell whether another truly significant event is required to cause the change.

The insurance industry should look carefully at the value of absolute exposure limitations as evidenced by the impact of the Chilean earthquake on February 27, 2010. Despite a magnitude 8.8 earthquake and estimates up to USD10 billion of insurance loss, no Chilean insurer exhausted their catastrophe reinsurance coverage. This is in part due to a regulatory requirement that insurers maintain an adequate level of capital, either in contributed equity or reinsurance form, to cover a given percentage of total aggregate exposure in their largest CRESTA zone. On average, this requirement is between 10.5 percent and 11.0 percent of total aggregate buildings, content and business interruption exposure in the CRESTA zone with an insurer's largest accumulated value. In context, the Chilean earthquake is estimated to be between three and four percent of total aggregate exposure to CRESTA zone 3 (Santiago), illustrating the relative ease with which this significant event was absorbed within the capital structure. The successful industry response to the earthquake may serve as a model to other regulatory bodies.

Sector Analysis By Geography

The following sections provide an update on significant reinsurance market segments by region. Property catastrophe reinsurance capacity and pricing for the U.S. are discussed on page four.

Asia Pacific

Australia

Global capacity remains abundant for Australian catastrophe business and this continues to lead to a high level of competition. Over the last 12 months, capacity for Australian business has also been maintained by the continued growth of the Asian reinsurance market, with numerous new entrants offering significant capacity.

The March storms in Melbourne and Perth cost the industry more than AUD2 billion and had a varied impact by cedent. Loss-affected layers have shown increases of up to 30 percent while rate decreases have been evident on some layers without loss activity. Pressure has been placed on retentions with some insurers choosing to increase retentions to at least an exposure adjusted equivalent.

China

Strong economic growth combined with an improving legislative framework, ongoing liberalization and easing of investment rules provides scope for growth for both domestic and foreign insurers. During the first half of 2010, primary property and casualty premiums grew by 33 percent compared to the corresponding period of last year.

In the absence of a large event loss, insurers have been looking for rate reductions with unchanged terms and conditions while major reinsurers sought for rate improvement to reflect the continued increase in exposures. Average exposures have increased by 15 to 20 percent throughout 2010 and are expected to increase again in 2011. Property catastrophe excess of loss pricing in China has been broadly flat on a risk-adjusted basis. There has been an increase in capacity from both new players and existing reinsurers. Coverage requested by insurers 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.

Markets and capacity are largely unchanged with the exception that reinsurers have become more competitive for increased shares. Capacity has increased particularly for reinsurers with branch offices in Singapore, but their primary focus is 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

With depressed original rates as well as a number of small to medium-sized 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 terms 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, imposed loss participation corridors. Even with more restrictive terms, placements have been challenging for some insurers as the perception from the market is still poor.

Despite the pressure on proportional treaties, non-proportional covers were in line with other regions. Both per risk and catastrophe programs have suffered small losses, but were still able to achieve price reductions. Risk-adjusted decreases of approximately five to ten percent were achieved on property catastrophe covers.

Indonesia

The Indonesian market is expected to continue its softening trend in 2011. With no major catastrophe losses since last year's Padang earthquake, capacity in the region is still growing.

Although the Indonesian insurance market is highly dependent on proportional treaties, most treaties are marketed on bouquet or a whole account basis and may also be tied in with the non-proportional treaty. Event limits are common for both earthquake as well as flood, while treaties with only cession limits may be difficult to find.

Due to the relatively smaller limits purchased, many of the treaties are able to be placed with international reinsurers based in the Singapore reinsurance market. Coverage for some specialty classes (e.g., terrorism) may need other market support.

In line with the government regulations on increasing insurers' financial strength, all direct insurance companies are required to have USD4.5 million in paid up capital by the end of the year, followed by a gradual increase to USD7.8 million by 2012 and finally USD11.1 million by the end of 2014. In addition, reinsurers will be required to have USD22.2 million by the end of 2014. As of this date, there are still a few companies that have not yet complied with this regulation.

Japan

The current situation in Japan is consistent with other major territories with supply for property catastrophe adequate at the current pricing. Local catastrophe results have continued to be extremely low and although there has been a gradual increase in overall demand, increases have been absorbed in the available supply to the market.

As a result, we expect that pricing will face continued pressure in the absence of major global, or Japanese, losses. The next major Japanese renewal is at April 1, 2011, thus trends will be picked up from the January renewals.

Korea

Similar to Japan, the Korean market renews predominantly at April 1, 2011. During the last renewal season, the market enjoyed roughly five to ten percent reductions on a risk-adjusted basis. This trend is expected to continue in 2011, subject to no major losses.

With this in mind, Korea has now officially entered the annual typhoon season with the first typhoon, Dianmu, making landfall during the second week of August. Initial reports have indicated very little damage, and the event is not expected to produce any major insured losses.

In mid-July, the Financial Supervisory Service sent a letter to all local companies including Korean Re, Korea Insurance Development Institute and the General Insurance Association of Korea instructing them to evaluate the performance of their respective companies by measuring retained premium and profit rather than original premium. The intention is to force companies to concentrate less on turnover and short-term strategies. This instruction will be placed into effect from January 2011 for all non-life insurance lines other than long-term and motor policies.

Singapore

Sufficient capital in Singapore amongst reinsurers resulted in ample capacity to meet treaty reinsurance demands. Companies that suffered financial uncertainty in 2008 and began to recover in 2009 were keen to maintain market position throughout 2010.

No significant property risk losses and a lack of perceived catastrophe exposure, coupled with profitability of the property market means property treaties rarely have event limits.

Original rates for motor insurance increased in 2009 following high industry losses in 2008 (industry loss ratio of 90 percent). As a result of these increases and some control on major liability awards, the industry loss ratio reduced to 75 percent for 2009. Despite primary losses, the class remains profitable for reinsurers and rates decreased in 2010 by up to five percent.

Taiwan

Prices have reduced on an exposure-adjusted basis with catastrophe capacity up approximately five to ten 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 despite 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 that caused price increases. While losses have resulted in some reinsurance recovery, the extent of loss had minimal impact on overall reinsurance capital. Aon Benfield expects that renewals throughout 2010 will remain as experienced in January and April 2010 for peak zone regions that have not experienced a catastrophe loss.

Europe, Middle East and Africa

Austria

After substantial catastrophe losses in 2009, loss activity in Austria during 2010 has been quite moderate and most national catastrophe programs remain unaffected. That said, agricultural business has been affected as the events that did occur caused significant damage in this segment.

Group catastrophe programs for Austria and Central and Eastern Europe will have pressure on pricing and retentions in the lower and middle parts of programs as a result of this year's flood losses. This may be offset by an increased demand for frequency protection that resulted from the increased frequency of smaller and medium-sized events in 2010. While some companies are debating over the current Standard Formula approach of CEIOPS and are in disagreement with the results, the majority of Austrian programs already comply with the Solvency II requirement to cover the 1 in 200 year PML. In general, the Austrian insurance companies carry a more than sufficient capital base.

Some pressure is anticipated on excess of loss rates in motor third-party liability due to the deterioration of the results in the primary market. Most market participants have announced the intent to increase their tariffs, which might partially help to balance or offset the pressure on excess of loss rates from the reinsurance market. In exceptional cases, a small increase of the attachment level of motor third-party liability protections is possible.

For property, all proportional instruments will continue to be under due diligence by some of the leading reinsurers, which will further support the trend to seek additional non-proportional capacity.

For all other lines of business, we expect stability in terms of pricing and capacity.

Belgium

Windstorm Xynthia caused limited damages to Belgium compared to other areas in Europe. The total cost of this storm is estimated between EUR40 million and EUR60 million, or about 2.8 percent of property premium in business at a maximum. A thunderstorm also occurred on July 14 with current damage estimates of EUR58 million for the whole market, with impacts to individual companies varying based on their respective exposures. With both of these losses expected to be within current company reinsurance retentions, we expect no impact on pricing for catastrophe programs for 2011 renewals.

Retentions are expected to remain flat and limits are expected to increase for some cedents to bring these more in line with Solvency II directives. Given a stable financial environment and normal catastrophe activity during the remainder of 2010, property catastrophe excess of loss prices on a risk-adjusted basis are expected to decrease by five percent on average.

Rates for property per risk excess of loss are expected to be flat to down five percent, but to be adjusted per client based on loss statistics. Casualty rates are expected to remain flat.

Central and Eastern Europe

Heavy snowing that started on January 8 mostly affected the Czech Republic and Poland, and caused the insurance sector in the region more than EUR130 million in losses. So far 2010 is showing a higher frequency of catastrophic events.

A significant event that began on May 13 and ended by mid-June brought spring flooding across central areas of Europe, causing a multi-country flood event. Poland, Hungary, Slovakia, and the Czech Republic were the hardest-hit countries. Total insured losses are currently estimated at EUR495 million. As a result, many catastrophe first layers in these countries sustained loss.

Another flood event occurred on August 7, when a local downpour caused flash floods in the north of the Czech Republic, southwest Poland and southeast Germany. The situation worsened when a few Polish dams broke causing a higher flood wave. Insured losses are preliminary and estimated to reach EUR100 million.

The Standard Formula for Solvency II published by CEIOPS has caused some debates and disagreements. Aon Benfield is in discussion with regulators, cedents and CEIOPS to rationalize the modeling approach in the region.

Generally, we expect loss affected layers to be under pressure in the coming renewal; however, for loss free layers and programs, we expect to see slight softening. Rates during the first half of 2010 on some Russian and Bulgarian property renewals were flat or showed slight rate reductions.

Germany

The German economy is recovering quickly from the financial market crisis with a substantial growth in the second quarter of 2010 that has resulted in a positive influence on the labor market. German insurance and reinsurance sectors achieved healthy results in the first half of the year with some companies achieving double digit growth in revenue and operational results. Due to the higher yield of the life insurance market compared to the capital markets, single premium products have shown immense growth. Despite the 2010 losses (Chile earthquake, Windstorm Xynthia with estimated losses at around EUR575 million for Germany-only, and Deepwater Horizon), all major German reinsurance companies reported positive results in the first half of the year resulting from technical profits, increased investment incomes and prior year reserve releases. These results are supported by the absence of any significant local per risk or fire losses in 2010.

The reinsurance market is expected to remain quite stable with possibly slight decreases in catastrophe rates on a risk-adjusted basis. Further loss activity will dictate whether reductions are concentrated in lower layers of catastrophe programs similar to prior renewals.

Overall, catastrophe limit is expected to increase moderately as companies look to achieve the required Solvency II level. Solvency II and MaRisk have increased the importance of accurate modeling results. Aon Benfield and the University of Cologne, Germany have agreed upon a cooperation to quantify European storms (winter, summer and hail events) in a more precise way.

Motor third-party liability excess of loss treaties can expect modest pressure for rate increases as well as some pressure on the commission level of motor quota shares due to increased loss frequency in the 2009/2010 winter period. Overall, reinsurance capacity is expected to be more than sufficient since reinsurers' balance sheets have been reinstated to a pre-crisis level and supply exceeds demand. We also expect the new market participants in Switzerland to reinforce this imbalance.

Netherlands

Only two noteworthy windstorm events produced losses in the region with each impacting the property loss ratios by less than two percent. Windstorm Xynthia caused limited damage to the Netherlands in February and total loss amount is estimated at EUR25 to 50 million. In addition, a local Dutch windstorm in July 2010 caused damage of approximately EUR50 million. Since these events are within the normal activity expected in the region, no impact on pricing or catastrophe is expected for 2011 renewals.

Retentions are expected to remain flat and limits are expected to slightly increase for some cedents to bring these more in line with Solvency II directives. Given stable financial and catastrophe experience in the second half in 2010, property cat excess of loss prices on a risk-adjusted basis are expected to vary between flat and minus five percent.

Rates for property per risk excess of loss are expected to be flat to minus five percent, but to be adjusted per client based on loss statistics. Casualty rates are expected to remain flat.

Nordic Countries

The Nordic region experienced declining rates in property catastrophe programs following market portfolio improvements throughout 2010 renewals and this trend is expected to continue during the forthcoming renewal. Capacity purchased is expected to remain stable with the major buyers having oversupply in their programs.

Property risk pricing is expected to again come under some pressure with modest risk-adjusted reductions on loss free programs and modest increases on loss affected programs.

Most Nordic casualty treaties have not reported any major changes in loss pattern following the financial crisis and flat or slightly reduced prices are expected on an exposure-adjusted basis.

There were no extreme catastrophe losses to the Nordic market in the motor third-party liability sector. We anticipate stable to slightly decreased prices and thus stable retentions with more discussions about frequency protections following the hard winter in 2009/2010. Green card exposures of the Baltic accounts are significantly reduced as a consequence of the economic downturn.

For the accident and health market, no major catastrophe losses and a few new reinsurers with experienced underwriters entering the market will put further pressure on rates.

Portugal

Insurers presented an overall positive result of EUR263 million in 2009 (against a loss of EUR22 million in 2008) despite a 103 percent combined ratio increase, which was up from 99 percent in 2008. The main contributor was the recovering in investment values that followed the 2008 slump, particularly in the life sector. This also had a positive impact in the overall market solvency ratio (202 percent in 2009, up from 171 percent in 2008). The Portuguese insurance market has shown strong resilience in the period 2007-2009, avoiding any systemic risk threat.

Weak economic conditions and fierce competition in most branches put premium income under sustained pressure, with the market falling by five percent in 2009. This reduction was strongly impacted by the decrease of the two major compulsory branches, motor and workers' compensation accident (down eight percent and nine percent, respectively).

On the positive side, life saving-related products showed an outstanding 18 percent growth while health, a fast-growing branch in the last years, showed a modest four percent increase.

The end of 2009 and beginning of 2010 was affected by bad weather events, particularly the February storm in Madeira Island (latest estimate EUR120 million insured loss) involving some 3,500 claims.

Consolidation was strong in 2009 with two major transactions completed. Other mergers/sales could occur in the future.

Overall reinsurance results continue to be very positive, with no major catastrophe affecting the market and a few large claims being absorbed within the normal activity. 2009 renewal was rather smooth, with the few adjustments typically made in favor of cedents.

Spain

Windstorm Klaus was the largest historical loss in 2009 with EUR600 million paid by the Consorcio at 75 percent and by reinsurers and insurers at 25 percent. 2010 treaty renewals were generally stable with increases limited to catastrophe programs with poor loss records despite the coverage provided by the Consorcio. Capacity was plentiful in all major lines of business including new entrants in the credit and bond market where the state stepped in to provide coverage that was not available in the private market in 2009.

The Chilean earthquake resulted in a significant impact on the facultative market and Spanish branches of multinational insurers writing Spanish corporate risks heavily exposed to Chile. In addition, losses from the Windstorm Xynthia (although smaller than Klaus and largely covered by Consorcio) and a few large industrial fire losses also made for an active first part of 2010 in this market.

Overall, results continue to be profitable for the Spanish insurance market despite reduced margins due to difficult competitive environment and a slight decline in the market resulting from the economic downturn beginning to affect insurance purchasing.

The last quarter of 2010 will prove interesting as the majority of insurers carry out their QIS 5 studies and an increase in demand for reinsurance may develop as cedents look more closely at reinsurance as a form of capital.

With regards to pricing, we anticipate a stable renewal for January 2011 although some programs with bad results or heavily exposed to international exposures will likely face pricing increases.

Switzerland

Switzerland remains in a relatively healthy financial condition. The economy remained stable throughout the global financial crisis with unemployment peaking at 4.4 percent and falling to 3.8 percent by July of 2010. Although economic growth was down 1.5 percent for 2009 compared to an increase of 1.8 percent for 2008, we expect an increase of 2.2 percent for 2010.

Despite contrary assumptions, reinsurers in Switzerland have not experienced severe financial difficulties due to the financial crisis, nor have rating agencies rated them significantly down. New participants are continuing to enter the Swiss market, settling mostly in Zurich and providing additional capacity.

Despite losses resulting from the severe hailstorm in 2009, the effect on the reinsurance programs was less severe than anticipated. This, coupled with only minor local flood losses recently and new markets moving to Zurich that are interested in writing local business, means the current catastrophe market situation is still relatively soft.

We expect general third-party liability and motor third-party liability reinsurance rates to remain more or less unchanged. Direct rates in Switzerland continue to be under pressure in nearly all lines of business, but especially for motor business.

The pressure on the cedents, as competition is fierce on the direct side, forces them to reduce their costs. This leads to a situation where retention levels are increased and overall limits stay relatively stable although the Swiss Solvency Test shows, for most companies, a need for more reinsurance capacity.

Turkey

Exposure growth in 2010 in Turkish Lira terms followed inflation at seven to eight percent. While this growth was anticipated when setting limits for 2010, the fact that catastrophe programs are placed on a euro basis resulted in lower ultimate coverage by mid-year as the Turkish Lira has strengthened by almost 10 to 15 percent during 2010. As a result, some clients elected to buy top-up euro capacity mid-year. Upcoming renewals are expected to be stable in this region.

Retention levels and limits as return period and percent of key zone aggregates are expected to remain stable for 2011.

U.K. and Ireland

The U.K. property catastrophe market has seen prices continue to soften throughout 2010 due to excess reinsurer capacity. In addition, the amount of limit purchased in 2010 has reduced for the first time since the emergence of catastrophe models due to increased cedent confidence in the lower estimates from recent model changes. Prices in the first quarter were down around five percent on a risk-adjusted basis and at July 1, prices were down between five and ten percent as recent international losses had little impact on capacity. Retention levels in the market remain relatively constant. We expect the excess capacity to remain for January renewals with pricing continuing to reflect the surplus.

Underlying results in the U.K. motor market have been very disappointing. Surprise inflation on smaller claims and increased fraud have resulted in unacceptable loss ratios for many. This has resulted in strong original rate movements in personal motor business in excess of 20 percent in some areas, and these rates continue to push through the market. Insurers and reinsurers have seen an increase in claims settlements with periodical payments, which is distorting reinsurance claims settlements and results to excess of loss treaties being purchased. There is ongoing concern as to the long-term security of reinsurers in respect of these claims. Renewals throughout the year have remained stable, with deductibles flat and prices depending on individual underlying claims performance. Rates have been in the range of minus five percent to plus ten percent. For the forthcoming renewal, it is expected that reinsurers benefiting from strong underlying rate increases will recognize this in their rating. Capacity remains plentiful and there are expected new arrivals increasing competition for the 2011 renewal season.

Middle East

Non marine property reinsurers have closely scrutinized commission levels in response to poor treaty results. Primary competition remains fierce amongst insurers who are looking to increase capacity to maintain revenue in a soft market while also dealing with challenging economic conditions and associated claims activity. Retentions in this sector remain low hence there is no significant impacts to reinsurers.

The energy market remains flat in the absence of any significant claims activity in the region and insurers are looking for increased capacity to respond to a buoyant global energy sector.

Marine reinsurance, particularly cargo, continues to be very competitive and hence rates are softening further.

In general, motor business remains flat, with some increases in rates resulting from Cyclone Phet that hit Oman in June. The loss also resulted in event limits for exposures in this territory. Bodily injury awards remain tightly controlled under Islamic Law, hence no significant motor liability claims activity.

General liability rates remain soft as there has been little change in the benign claims environment. The primary market continues to be categorized by strong growth in capacity, competition and premium volume, yet maintenance of historically low reinsurance retentions. Insurance penetration remains low; however Takaful business is making inroads, particularly in personal lines.

South Africa

South Africa and the Rest of Africa (ROA) are potential markets for international insurers and reinsurers who are keen to diversify their exposures by writing business from a continent not exposed to natural perils to the same extent as the U.S., Europe and Asia.

South Africa and ROA offer a combination of both proportional and non-proportional business and the results have been profitable, notably for catastrophe programs which have not been affected by large catastrophe claims for a long time. A number of foreign players who have shown interest over the last couple of years have enjoyed profitable results from the African region.

The main exposure is probably earthquake and the main exposed regions are Magreb countries in North Africa, and to a lesser extent Kenya and South Africa. No earthquake losses have been reported in recent years due to absence of seismic activity and the low level of economic development in the areas prone to earthquake.

Flood and hail are other natural peril exposures on the continent, but the exposure is limited again due to limited development and the low level of insurance penetration in these areas.

Pricing of South African reinsurance programs generally follow the international trends as it is estimated that more than 60 percent of the catastrophes programs are placed outside the country.

Aon Benfield Africa, in conjunction with a local university, is the forefront of research on natural perils and can share the results with underwriters wishing to write business from the region.

Americas (Ex-U.S.)

Canada

Pricing and capacity has remained stable for all lines of business through the first half of 2010. It is expected that this trend will continue through the fall renewals.

Property lines, both catastrophe and per risk, continue to be attractive to reinsurers and some modest (up to five percent) decreases may be achieved subject to loss activity. Capacity is available to meet the expected demand for moderate increases in cover primarily due to the full consideration of the increased PMLs produced by RMS v9 released in 2009.

Casualty pricing is anticipated to remain firm and capacity adequate.

Client retention levels are expected to remain constant primarily due to stable pricing.

Caribbean

Through the first half of 2010, property renewals have been relatively stable throughout the region. Pricing for proportional reinsurance, which remains the core product in many markets, has been flat. While capacity has in general been stable and adequate, there are signs that the oversupply of the last two years may be at an end. This is particularly true in specific markets such as Puerto Rico where primary rates continue to fall. Catastrophe excess of loss pricing through the year is down two to five percent with more than adequate supply. Following the Chile earthquake, there has been greater interest in high level earthquake covers. The outlook for 2011 depends on the wind activity through the rest of the season.

All other classes, motor liability and marine, are stable and dependant on individual loss records.

Latin America

The majority of reinsurance programs in Latin America and the Spanish-speaking Caribbean renew mid-year. Significant impact of the earthquake in Chile was limited to property catastrophe reinsurance pricing in that market.

In Chile, the cost of property catastrophe excess of loss programs rose 45 to 65 percent depending on the type of portfolio and the ceding company's loss estimation. Due to the price increase, reinsurance capacity was plentiful and was augmented by the entry of reinsurers not currently participating on Chilean business but attracted by the higher rates. Terms and conditions for property catastrophe proportional treaties hardened significantly in Chile as there was less surplus capacity compared to the excess of loss market. Hardened terms and conditions included reductions in event limits, increases in minimum average earthquake rates and pressure on earthquake ceding commissions.

Outside Chile, the impact of the February earthquake was 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 were replaced with flat pricing or single digit risk-adjusted rate increases. Event limits were a key discussion point for property catastrophe proportional treaties, with fewer reinsurers being willing to offer uncapped proportional catastrophe capacity. However, overall capacity for both excess of loss and proportional treaty remained 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.

Sector Analysis By Specialty

This section provides an update on the following significant reinsurance lines of business: Global ReSpecialty, U.S. business segments and Facultative.

Global ReSpecialty

Accident, Health and Life

Pricing on Accident, Health and Life (AHL) catastrophe programs decreased for July 1, 2010 renewals with overall pricing down five to fifteen percent from last year. In some instances, even slightly larger reductions were obtained with the determining factors being perils covered and the location 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 20 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.

Aviation

The major risk market has experienced a high incidence of both operational and non-operational losses in the first seven months of 2010. Most losses are below retentions or have partially affected primary layers. However in some cases, when insurers have low penetration on major risks and retentions can be considerably below the market average of USD225 million, reinsurers are in a deficit position. To this end, market average rate changes will not tell the full story and individual deal dynamics will be more relevant than market forces.

In recent years insurers and in turn their programs, have experienced differing results in any one year as significant losses have been rare and losses have generally fallen on certain segments of the market. In the last 12 months, loss region and types of operator have been more varied and therefore few programs are now loss free—albeit many still have considerable credit balances that built up during the benign loss period of 2002 through 2005.

Buying patterns remain fairly similar year-on-year with the larger entities generally retaining more primary exposure than the small to medium players, but conversely buying more vertical cover than their smaller competitors.

If we look at the top ten players by market share, they write approximately 55 percent of major risks and post Air France loss (May 30, 2009), have suffered an estimated 38 percent of losses. Thus, the smaller to medium markets have incurred a disproportionate share of losses although as mentioned earlier, lower deductibles are generally purchased.

Overall in the first six months, we have seen a relatively flat market with January renewals flat to up eight percent with differentiation in price not relating to loss active/inactive. April renewals remained flat and July saw flat to minimal increases depending on the exposure metric used to equate price change.

For the rest of 2010, we would expect rates to be flat to firm with pressure on cedents who have suffered significant losses, in relation to their reinsurance spend, to increase retentions.

One factor that may further influence rates is the Washington hangar loss in February. Even though this loss was general aviation aircraft and as yet the loss quantum is unclear, the worst case scenario is multiplies of the largest historical general aviation loss. This may not be perceived as market changing relative to airlines/ product risks, but retentions on general aviation risk excesses can be as low as USD10 million and therefore ceded losses may be far greater proportionately.

Most of these general aviation covers are written by professional reinsurers and some specialist Lloyd’s players and if purchased, coverage is included in their first tier “generals”. This loss could burden some reinsurers more than Air France or the GCC loss.

Credit and Financial Risks

The last 12 months have seen a significant improvement in results generally, and in Trade Credit business specifically. The speed and extent of the improvement has surprised both insurers and reinsurers. It is now possible that many programs will show profits for reinsurers in 2009, although some of the treaty terms mean that insurers' results may be under more pressure.

While the economic climate remains very uncertain, the expectations are for results to continue with current trends. As a result, reinsurers continue to add capacity to this segment with a few reinsurers setting up new operations in the area. That said, the additional capacity has yet to result in improved pricing for insurers on renewal reinsurance programs.

Capacity for political risks has stabilized following the bank losses that affected treaty year 2008. For established insurers, capacity is generally adequate while smaller underwriters and new entrants still find capacity tight and often expensive. There is still caution in terms of accepting risk in some emerging markets given the general economic situation, and particular issues surrounding individual countries.

During the last two years, reinsurers have focused their comments and attention on the need to obtain adequate returns over the cycle. However, variations remain between the returns sought by different reinsurers, and the 2011 renewal should provide more evidence as to whether there is market consensus on this point.

Marine and Energy LMX and International

Overall, marine & energy reinsurance softened over the January 2010 renewal. Most buyers achieved cost savings although this did not translate to pure rate reductions. Many of the cost savings were achieved through rationalization of coverage.

Despite a lack of catastrophe events, the marine market was hit by a series of deteriorations on the back years of the International Group contract. Although losses were small to the reinsurance industry, the deterioration was large enough to alert reinsurers to the danger of the tail on this type of business.

Market conditions for non-energy exposed business are expected to remain relatively stable.

Insurance capacity in general for the hull and cargo sectors continues to be plentiful with overall results being acceptable. As the economy recovers, cargo insurance premium volumes have started to increase. Nonetheless, these markets will depend heavily on the economic situation, which can lead to difficulties in business planning and therefore reinsurance requirements.

In 2009, the Ex Gulf of Mexico wind market suffered significant risk losses from the Montara/West Atlas and Ekofisk Big Orange incidents. Although the frequency of losses declined from 2008, the severity of the losses was notable, especially the effect of a number of different interests and coverages that made up the Montara/West Atlas loss. Despite the impact of the losses on insurers' profitability for 2009, they did not have a positive effect on pricing.

July was the first significant renewal since the Deepwater Horizon incident in April. At this stage, reinsurers were measured in terms of pricing and retention levels. Although most, if not all of the interests involved in the loss are of a known quantity, there are still a number of factors that have to play out which will shape the 2011 renewal season.

Despite being the first renewal following the Deepwater Horizon incident in April, reinsurers did not force major changes in prices, retentions or limits during July renewals. We expect that the following factors will have a significant impact on the outcome of 2011 renewals.

> Price adequacy for energy casualty business

> Exposure accumulations between contractor and operators

> Nature of hold harmless agreements between operators and contractors

> Oil Pollution Act (OPA) limitation of liability

Despite the initial decrease in rating, the supply of Gulf of Mexico windstorm aggregate exceeded the demand. This was a result of underwriting discipline and the reluctance of buyers to purchase a product deemed to be expensive and of limited responsiveness. For 2010, aggregate levels remained relatively static, albeit on the reduced 2009 aggregate base.

Post Deepwater Horizon, a market that was prepared to give reductions in price consequently hardened. As a result, the wind premium base for 2010 is largely the same as 2009.

The reinsurance market and buyers still struggle with the economics of the product and despite the similar levels of aggregate written in 2010 in the primary market, the volume of Gulf of Mexico stand alone coverage bought decreased. Many cedents have also been able to achieve economies of scale by combining risk and catastrophe coverage.

Non-Marine Retrocession

2010 treaty retrocession capacity purchased is up by approximately 15 percent year-over-year as a result of new buyers and expanded purchasing from existing buyers. The Chile earthquake (and other small 2010 frequency catastrophe losses including hailstorms in Australia, Windstorm Xynthia, and severe weather in the U.S.) stemmed the mild softening of retrocession pricing during the first quarter of 2010. The Chile earthquake has highlighted the potential exposures from non-peak territories and has fuelled client interest in purchasing cover attaching at a lower level compared to worldwide layers resulting in significant interest and successful new placements of non-peak cover at attractive terms. The modeled gap in pricing between standalone treaty retrocession and catastrophe on direct and facultative has weakened during 2010 thereby improving the value of the treaty product.

There has been wholesale pricing recovery (increases) in the ILW sector as the supply/demand relationship moved following erosion of reinsurers profitability post Q1 and Q2 non-property losses and increased U.S. hurricane activity forecasts. Although pricing has improved in Q2, the overall capacity placed for 2010 is expected to be down compared to 2009, assuming no further activity in Q3 and Q4.

Subject to no major loss for the remainder of the year and reinsurers meeting their 2010 forecast catastrophe premium, there may be marginal pricing movement as retrocession markets seek to control the market softening. Worldwide layers (which mainly renew at January 1) may be under particular stress when non-peak exposures are actively priced in during renewal—this could further development the interest of non-peak strategies.

Specialty Casualty

From a reinsurer perspective, general liability and employers' liability are still profitable mainly due to the benign loss environment. Headline disasters have not materialized into catastrophic insured losses. The market has been and remains competitive and flat renewal indications are usually a starting point for negotiations.

Many of the more exotic classes of general liability, (e.g, chemicals and pharmaceuticals) are still a marketing challenge, particularly where there are perceived U.S. exposures and where historical U.S. class actions have resulted in multi-billion dollar settlements. In July 2010, the latest U.S. settlement involving a major U.K.-based pharmaceutical manufacturer resulted in a reserve provision of around GBP6 billion to settle a number of disputes and "fully" resolve the "vast majority" of historical antitrust litigations.

Employers' liability losses have followed the high frequency, but low severity patterns observed in the past and excess of loss reinsurance is competitive as a result. The frequency of loss is however seen to be reducing and this could well be attributed to U.K. government intervention via the health and safety executive.

In professional lines, rate movements are very specific to styles of account and exposure, especially where there is U.S. exposure. Broadly speaking, rates are flat with slight adjustments up or down to reflect the combination of exposure type and importantly, loss history throughout the financial crisis. There are no significant changes in coverage.

U.S. Business Segments

Property Catastrophe

Property catastrophe pricing in the U.S. decreased commensurate with our expectations published earlier this year and these decreases afforded most companies the ability to maintain similar limits and retentions adjusted for any exposure changes in their portfolio. Looking forward to January 2011, we expect excess reinsurer capital will continue to push pricing lower for these portfolios absent a major event.

Property Per Risk

Exposure rates for per risk excess programs reduced an average of five to ten percent through the first half of 2010. Primary commercial rates have been flat to down since mid-year 2009 generally, resulting in reduced subject premium. This combination resulted in reinsurance rate reductions of approximately five percent. The degree of price change was particularly influenced by loss experience and limits required for critical catastrophe perils. Retention levels have remained stable or increased over the course of 2010. Increases in retention were discretionary as some clients consolidated placements to take advantage of economies of scale.

Per risk reinsurance capacity remains plentiful. Natural peril loss experience should not have as dramatic an impact on per risk program pricing as on catastrophe pricing, but it can't be ignored. If catastrophe losses are light to moderate, per risk pricing should not be impacted dramatically. Clients with well articulated underwriting plans, modest catastrophe exposures and good loss experience, will continue to have ready access to additional limits and should continue to achieve risk-adjusted rate reductions in excess of five percent.

Medical Professional Liability

The 2010 reinsurance market for U.S. medical professional liability business continues to be stable. Medical professional liability insurance remains an attractive sector with combined ratios below 90 percent. These results are being impacted by loss reserve releases and lower rate decreases varying by class of business. Loss frequency remains at all-time low levels, although an upward trend continues with frequency of more severe losses. Severity overall is posting modest increases.

These attractive results have encouraged reinsurers to hold onto their core books of business—offering improved terms and conditions for established companies with good experience. Capacity is abundant in the U.S., London, Bermuda, and Europe.

The outlook for 2011 needs to factor in the growth challenges the ceding companies are confronted with—primarily driven by competition and the continued consolidation of their customer base. Ongoing “unknowns” are present as respects to healthcare reform and the ultimate route it will take. We anticipate that the medical professional liability reinsurance market will become more aggressive in 2011, particularly on targeted accounts.

Lawyers Professional Liability

Treaty reinsurance pricing is stable to slightly down on an exposure neutral basis, with rate changes driven by ceding companies’ experience and risk profile. In some cases, reinsurance rate decreases were only achieved as a result of authorizations from new markets to the line of business. Existing reinsurance counterparties did not offer program improvements, but ultimately supported some improvements in terms and conditions on final contracts. Capacity is adequate, with active markets in the U.S., London, Europe, and Bermuda. Expectations are that pricing and capacity will remain consistent for the remainder of 2010 and at January 1, 2011, barring a catastrophe that would impact the market as a whole.

Facultative capacity remains limited, but in general both capacity and pricing have improved over the past several 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 reinsurers and 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 in the primary market has created downward pricing pressure, despite some companies’ push to achieve price increases due to deteriorating underwriting results.

Directors and Officers Liability

In general, pricing and terms and conditions for the D&O and professional liability reinsurance market were fairly stable with some programs showing modest improvements in overall terms through the first nine months of 2010. Those companies with a track record and significant favorable results over the past six years or so have been rewarded with slightly improved terms, and those with outsized loss activity relative to the industry have been impacted with increased reinsurance costs.

As large ceding companies demonstrate an 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.

The forecast for 2011 in supply and demand is stable, although supply will be influenced by the emergence of settlement values of claims from the financial crisis, which generally have been developing slightly better than originally anticipated to date. That said, this will be offset against continued softening in the underlying pricing in most lines and a continued reliance on underwriting profits versus investment returns. Reinsurers will continue to differentiate underlying portfolio mix/characteristics to determine which carriers to support and at what cost.

General Casualty

The environment for general liability and umbrella in 2010 has remained fairly consistent in the last 12 months. Insurers and reinsurers are both conscious of the cumulative rate decreases since the market peak of 2004 and its potential impact on current policy year profitability. However, calendar year and accident year results still indicate that in many portfolios, casualty remains at profitable levels.

Insurance rate levels are flat to slightly down, with rate increases occurring mostly for insureds with loss activity or in classes such as energy liability, where recent events have allowed for positive pricing movement.

Reinsurers that support general casualty business are focusing on insurers' business plans and continue to seek to 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. Terms and conditions have remained 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 are 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 BP. This event has highlighted to both insurers and reinsurers that aggregation management to large events is also a topic of consideration for general casualty.

For 2011, we anticipate the market will continue on its current course as a stable market unless loss emergence begins to develop for prior accident years.

Workers' Compensation

The primary market for workers' compensation continues to be highly competitive. Severe pricing declines and increased agent commissions start to remind us of the late nineties soft cycle. California might be considered an exception as carriers have been getting rate increases on new business and renewals. Recently, however, it was published that the needed pure premium rate in California is light by about 30 percent. The rate increases have not been anywhere near 30 percent so California remains competitive as well. The needed rate increase in California comes from the erosion of the 2003 and 2004 reforms and the gubernatorial election in November will determine California's future direction.

Another aspect of the soft pricing market and a very weak economy has been the consolidation in the primary market. Zenith, PMA and First Comp have all been or are about to be purchased. This trend in all likelihood will continue as premium growth is most difficult to obtain.

The reinsurance market for workers' compensation has been as equally competitive as the primary market. The lack of catastrophes in both the property and workers' compensation lines has resulted in pricing for cat covers that is most attractive for the buyers. There are no signs of this trend changing in the short term. There is significant capacity available of up to USD1 billion. Terms on cat covers are broad as coverages include NBCR, terrorism and higher MAOL's.

As a result of the primary companies keeping large net lines, working layer business comprises a smaller percentage of the workers' compensation reinsurance market. For those companies that do purchase reinsurance within the first USD10 million of exposure, the market is competitive but realistic. Good loss ratios are rewarded and poor loss ratios are asked to pay more. The overall rates in this segment are competitive.

There are a number of issues that are or will affect both the primary and reinsurance segments of the workers' compensation business. The most important of these issues are as follows:

> Medicare Set-Asides—regulation has become a major block in the settling of claims. The longer a claim is open the more it costs.

> Frequency is still declining but at a declining rate. If frequency changes, the loss side changes dramatically.

> Two monopolistic states (Washington and Ohio) are considering allowing entrants of private companies into their state's marketplace. The premium volume will be welcomed by private carriers.

> Severity of losses through obesity and an aging workforce is a growing concern for the workers' compensation industry. To compound this concern, recent cases have allowed weight loss surgery as a workers' compensation benefit.

> Pain management through narcotics continues to be problematic for the workers' compensation industry. The problem is getting the injured worker off the narcotic as one treatment ends.

> The overall reserve adequacy for the workers' compensation industry has decreased from 2008 to 2009. As a result, the financial results of the 2010 year will most likely increase several combined ratio points.

Surety

Despite the challenging economic environment, surety reinsurance pricing, terms and conditions remain stable. Reinsurers continue to support sureties whose underwriting discipline holds firm and have demonstrated the ability to make a profit over the long term. Reinsurance capacity is generally adequate and several new markets are showing interest in the surety line. Reinsurers remain cautiously optimistic that ceded results will remain favorable and that treaty pricing will not deteriorate during the upcoming January renewal season. Primary company results have been modestly impacted by an increasing frequency of small (retained) losses against a backdrop of declining revenue. Nonetheless, the surety product continues to provide a meaningful ROE contribution to both primary writers and reinsurers of the line.

Facultative

At the midpoint of 2010, the Aon Benfield Fac Index (ABFI) indicates that facultative rates have continued to fall in almost every property and casualty market around the world, despite the incidence of a number of high-profile losses, including the Chile earthquake, Windstorm Xynthia, several U.S. winter storms, severe storms in Australia, the Transocean Deepwater Horizon loss in the Gulf of Mexico, and the European flood losses. In addition, reinsurers continue to battle for market share leading to a divergence in global pricing that began during the second quarter of 2009.

Property Fac

Contrary to initial market expectations, European markets have reported typical reductions of around five percent, although in Germany at the beginning of the year reductions of eight percent were also possible. There has been a slight firming of rates in the region as the year has progressed, but reductions of two to three percent are expected as the year draws to a close. Similarly, French rates dropped by three percent during second quarter and are expected to continue while the Dutch market began to level off. At the same time, European business placed in the London market has been even more competitively-priced with 10 percent rate reductions across the board and little sign of any change for the second half of 2010. Continued over-capacity and competition has kept U.K. rates falling by five percent, and they are likely to continue to do so, barring a significant market-changing event.

U.S. property catastrophe rates have seen reductions of approximately 15 percent domestically and by as much as 20 percent in the London market, as abundant capacity in the market as a whole has led to further softening. This is set to continue over the coming months in the absence of significant above-average storm activity — and similar severity to what was experienced in 2005 — occurring between now and year-end.

Domestic rates have dropped by five to ten percent in the Australian and New Zealand markets and by as much as 15 percent in Asia, compared with more modest reductions of five to eight percent for business placed in the London market. Meanwhile, Japanese business remains stable, with typical reductions of three percent both domestically and in London.

Casualty Fac

While London-placed business has generally experienced flat rates across the board, domestic rates have typically dropped by around five percent, with the exception of North America, where the year began with rates falling by as much as eight percent. Forecasts for the rest of the year indicate that North America will fall more in line with other markets, reducing by just five percent.

2010 Property Catastrophe Renewals Recap

Aon Benfield is pleased to confirm our guidance last year for U.S. renewals was predictive. 2010 saw decreases in all major categories and regions as a result of minimal catastrophe loss activity in the last 12 months and increased capital positions of reinsurers.

In addition, we provide a general update on price change for the rest of the world for 2010 renewals.

Exhibit 18: July 2010 Renewals

United States	ROL Changes	Capacity Changes	Retention Changes
Property Lines National	-15% to -5%	+5% to +15%	+5% to +15%
Property Lines Regional	-15% to -5%	+10% to +20%	+5% to +10%
Florida 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%

Rest of World	ROL Changes	Capacity Changes	Retention Changes
Europe			
Northern (wind dominating)	-5% to -10%	Stable	Stable
Southern (quake dominating)	-5% to -10%	Stable	Stable
United Kingdom	-5% to -10%	Stable	Stable
Japan	Stable to -5%	Stable	Stable
Australia / New Zealand	Experience Driven	Stable	Stable
Canada	Stable to -5%	Stable	Stable
Latin America (excluding Chile)	Stable to +5%	Stable	Stable
Chile	+45% to +65%	+5 to +10%	Stable
Caribbean	-2% to -5%	Stable	Stable
Assumptions: No changes in insured catastrophe exposures. No significant catastrophe model changes. No significant catastrophe losses occur before negotiations are completed. Rate of change measured from the expiring June through July, 2009 terms.			

Source: Aon Benfield Analytics

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About Aon Benfield

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