10th May 2010

Under Pressure
The Reinsurance Market in 2010

Chris Klein, London
Global Head of Business Intelligence
One day in April

“Kill one, frighten ten thousand.”

Sun Tzu 549-496BC, “The Art of War”
The Financial Crisis
A Greek Tragedy

- Hubris: The Bubble
- Nemesis: Collapse and Insolvency
- Catharsis: Purge and Recovery
Change in Shareholder Funds
(USD Billions)

GC Global Reinsurance Composite - Change in Reported Shareholders' Funds

-18%
+22%

Source: Guy Carpenter
1Q2010 Insured Catastrophes > USD250 million

Source: Company Announcements, AIR, EQECAT, ISO PCS, Guy Carpenter
Capacity for Terror Risk

- Reduced volume of stand-alone deals
- 83% of reinsurers want to write more
- Geographically discrete opportunities preferred
- NBCR coverage available
## Cat Bond and ILS development

### Risk Capital Amount (U.S.$, Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Risk Capital Issued</th>
<th>Risk Capital Outstanding at Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>633.0</td>
<td>846.1</td>
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<tr>
<td>1998</td>
<td>984.8</td>
<td>1,139.0</td>
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<tr>
<td>1999</td>
<td>1,139.0</td>
<td>966.9</td>
</tr>
<tr>
<td>2000</td>
<td>966.9</td>
<td>1,219.5</td>
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<tr>
<td>2001</td>
<td>1,219.5</td>
<td>1,729.8</td>
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<tr>
<td>2002</td>
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<td>1,142.8</td>
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<td>4,040.4</td>
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<td>4,904.2</td>
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<td>4,693.4</td>
<td>6,996.3</td>
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<td>8,541.6</td>
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<td>14,024.2</td>
<td>12,043.6</td>
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<tr>
<td>2009</td>
<td>12,508.8</td>
<td>12,170.6</td>
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<tr>
<td>2010</td>
<td>12,043.6</td>
<td>12,170.6</td>
</tr>
</tbody>
</table>

Source: GC Securities 2010
2010 Outlook – Returns under pressure

- **Bottom line pressures**
  - Weak investment yields
  - Reserve deterioration
  - Inflation

- **Top line pressures**
  - Lower premium volumes:
    - Recession overhang
    - Short-term price cutting
  - Regulation – more capital per risk

- **Pressure on returns:**
  - Lower valuations
  - Consolidation
  - Return capital
  - Medium-term price rises
“An insurance policy is like old underwear. The gaps in its cover are only shown by accident.”


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