

# GUY CARPENTER



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16 September 2009

## **Gybe-Ho!** **The Reinsurance Market Turning-About**

Chris Klein

IUMI President's Workshop


$$2 + 2 = ?$$

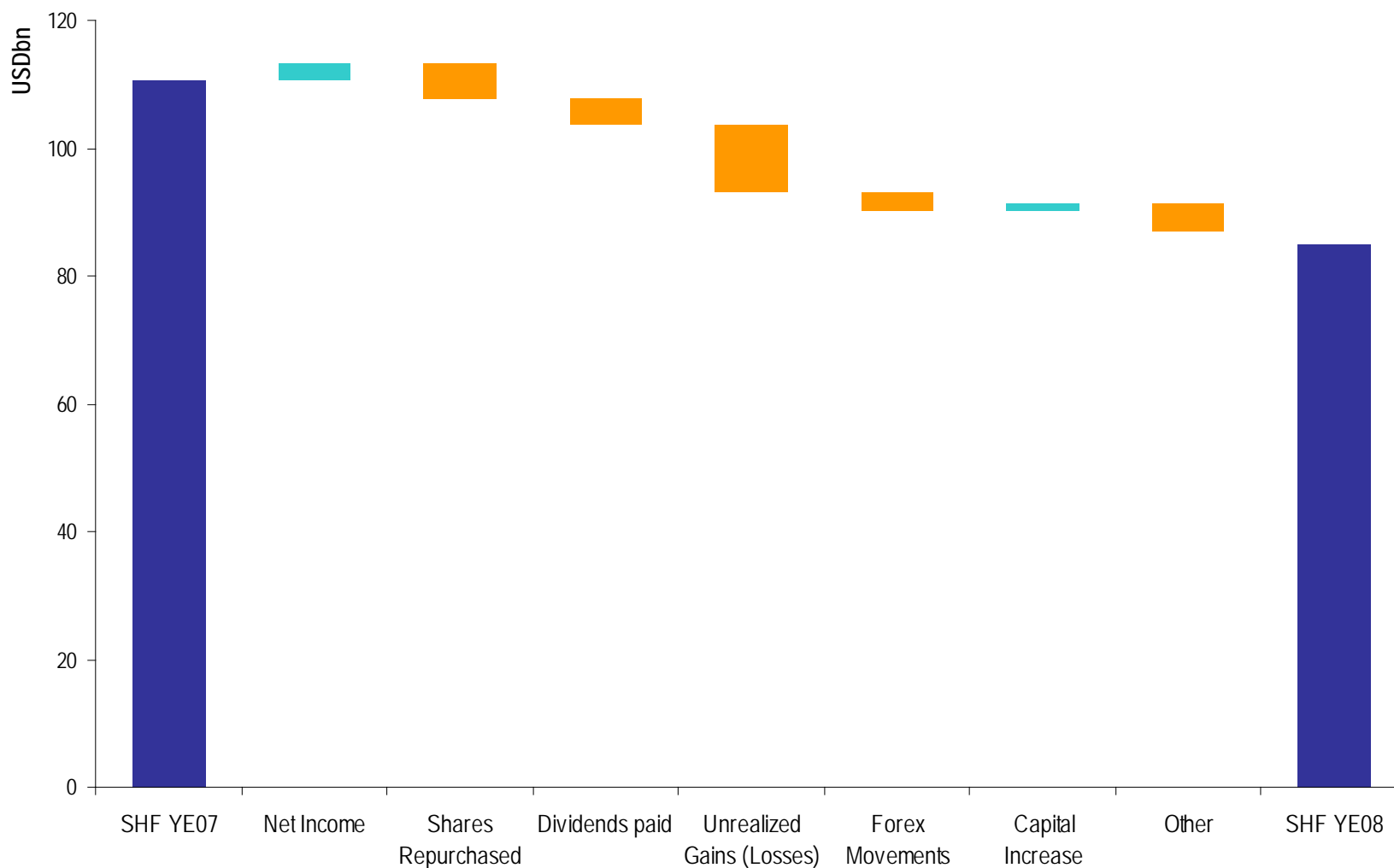
## The Financial Crisis A Greek Tragedy

- Hubris: The Bubble
- Nemesis: Collapse and Insolvency
- Catharsis: Purge and Recovery



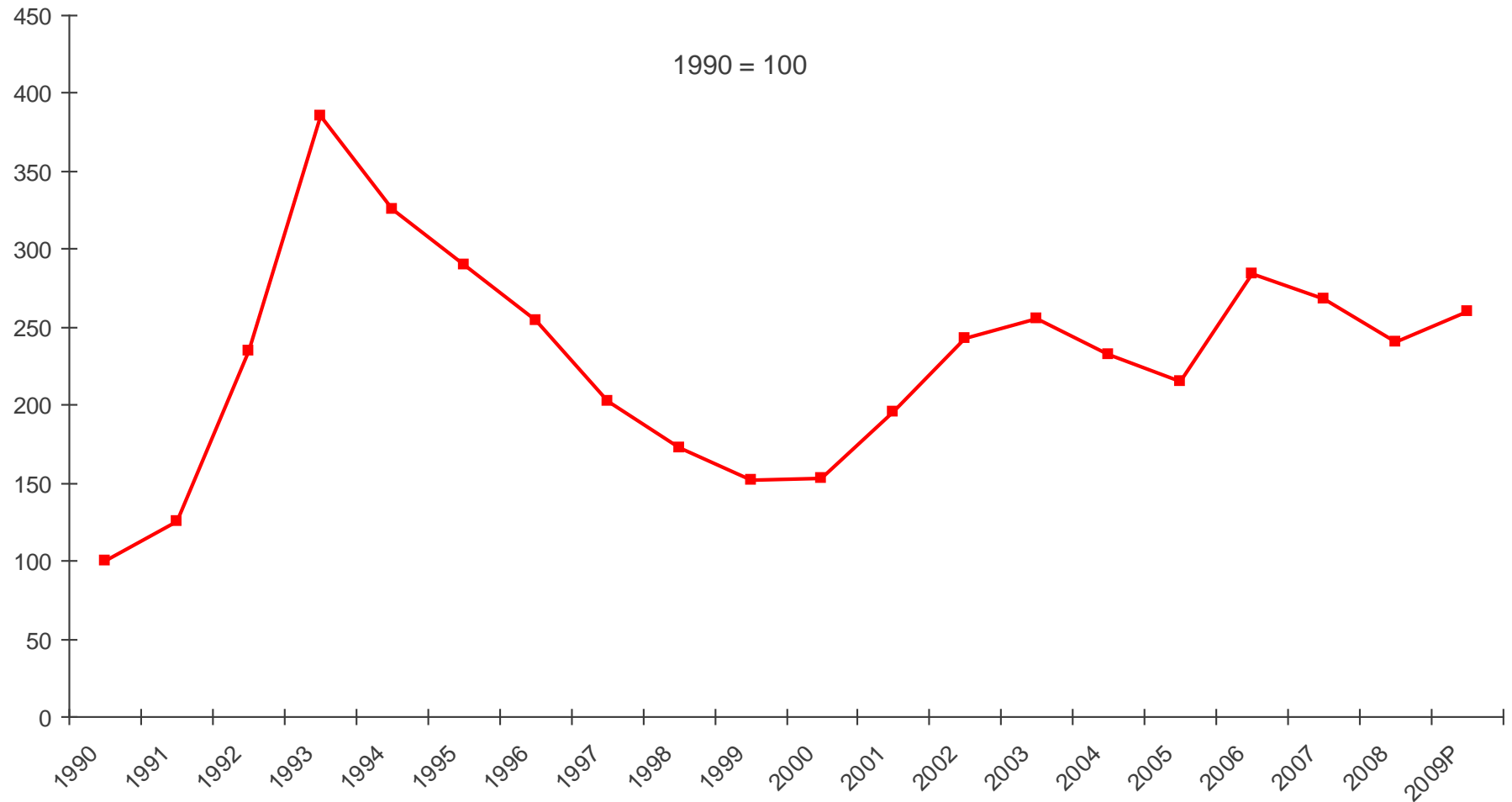
## Guy C Global Reinsurance Composite

### Change in Reported Shareholders' Equity in 2008

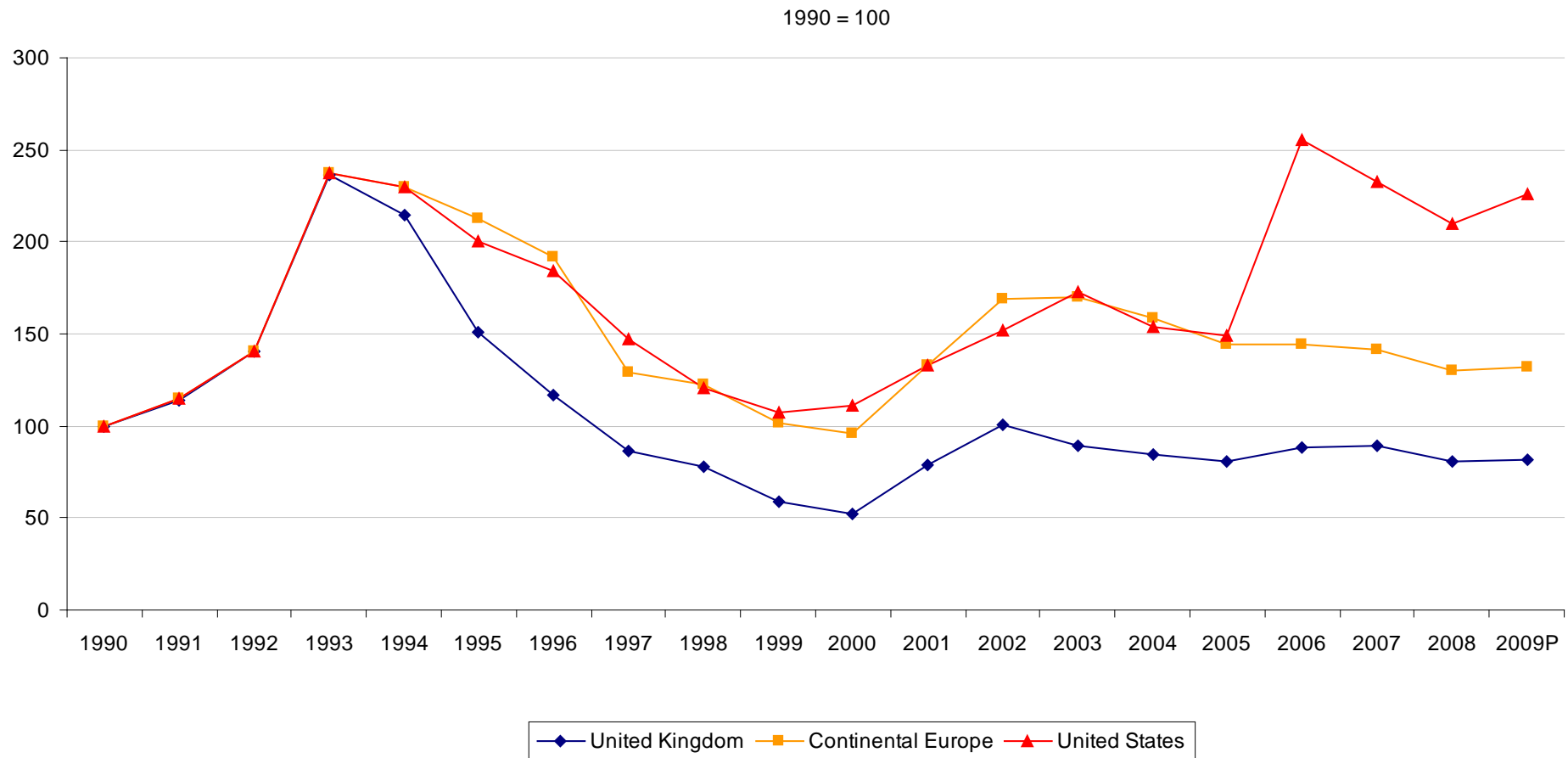


# 1 January 2009 Renewal

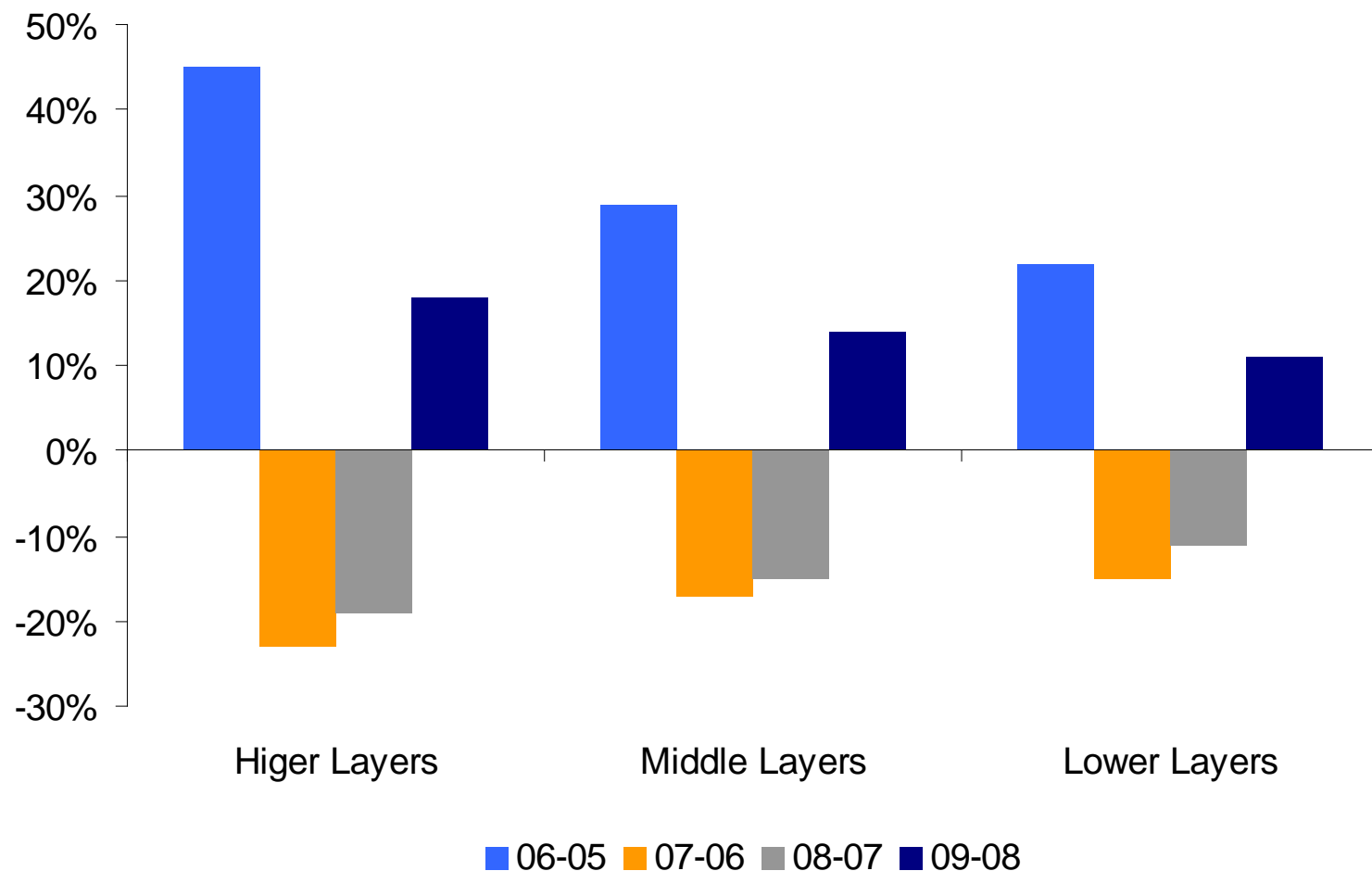
## Guy Carpenter World Property Catastrophe Rate-on-line Index



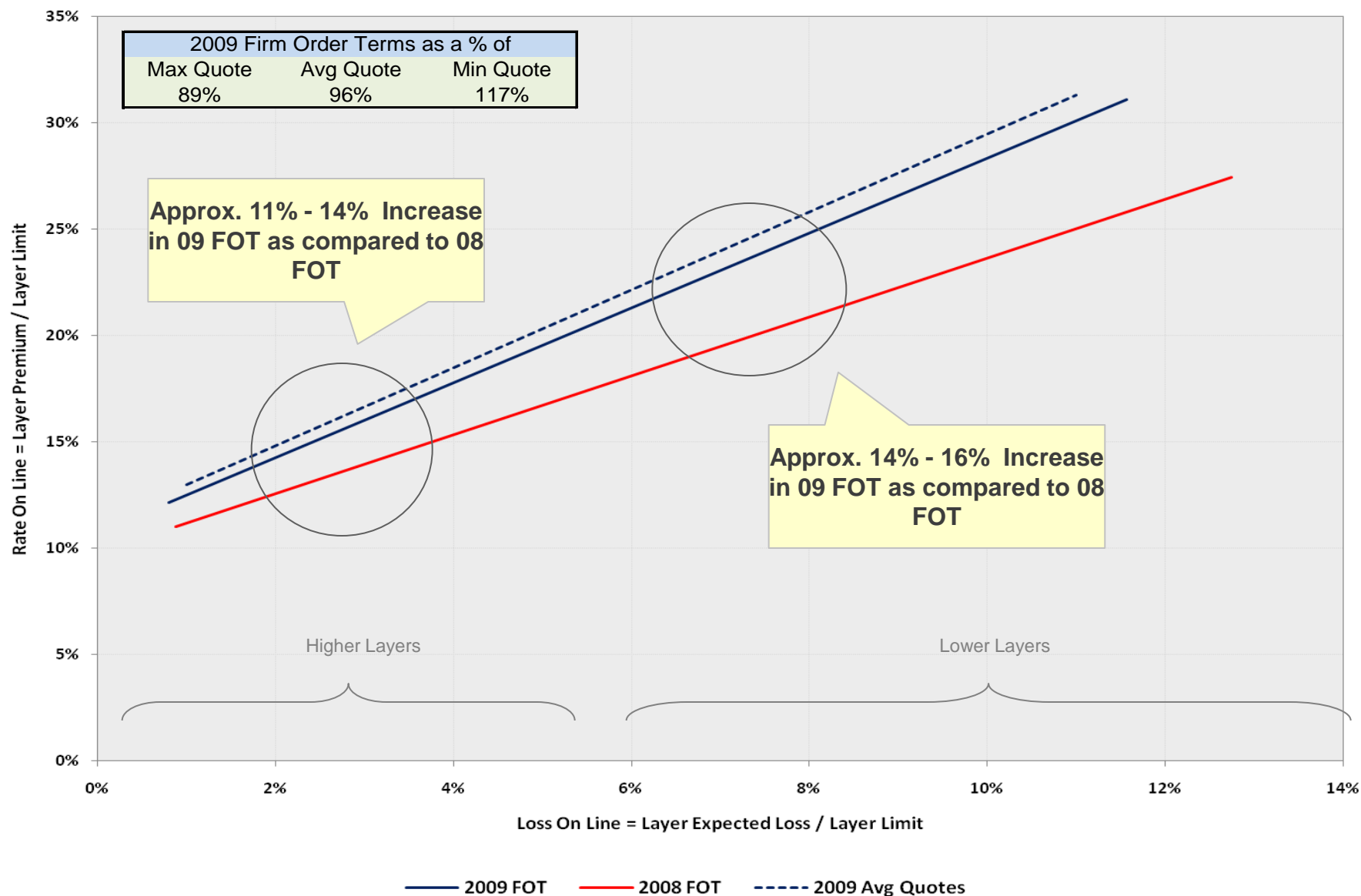
# 1 January 2009 Renewal Regional Property Catastrophe Rate-on-Line Indices



## Florida 1 June 2009 Cat Price Changes

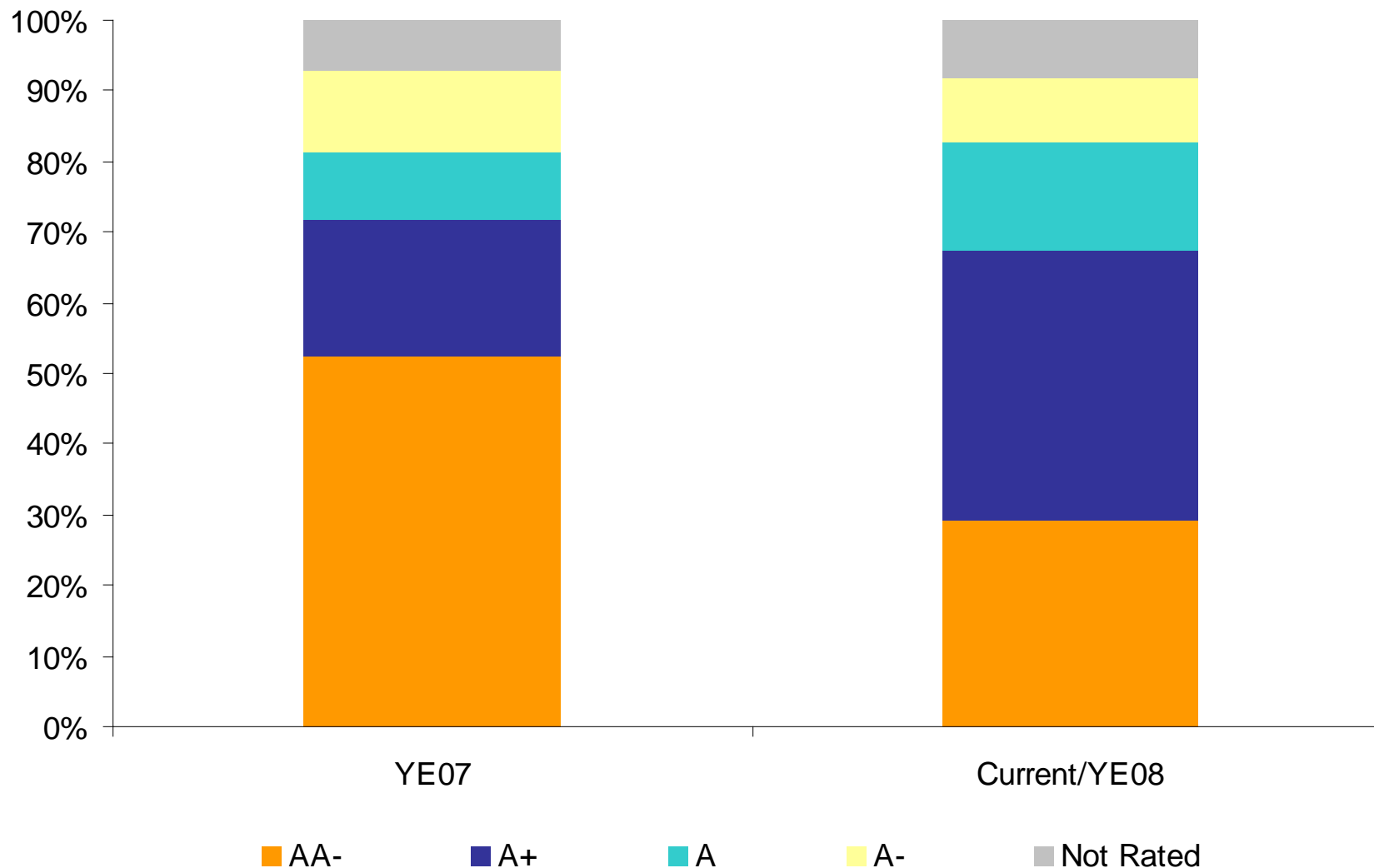


# 2009 Risk Adjusted Pricing US Nationals at 7.1 – 09 FOT vs. 08 FOT



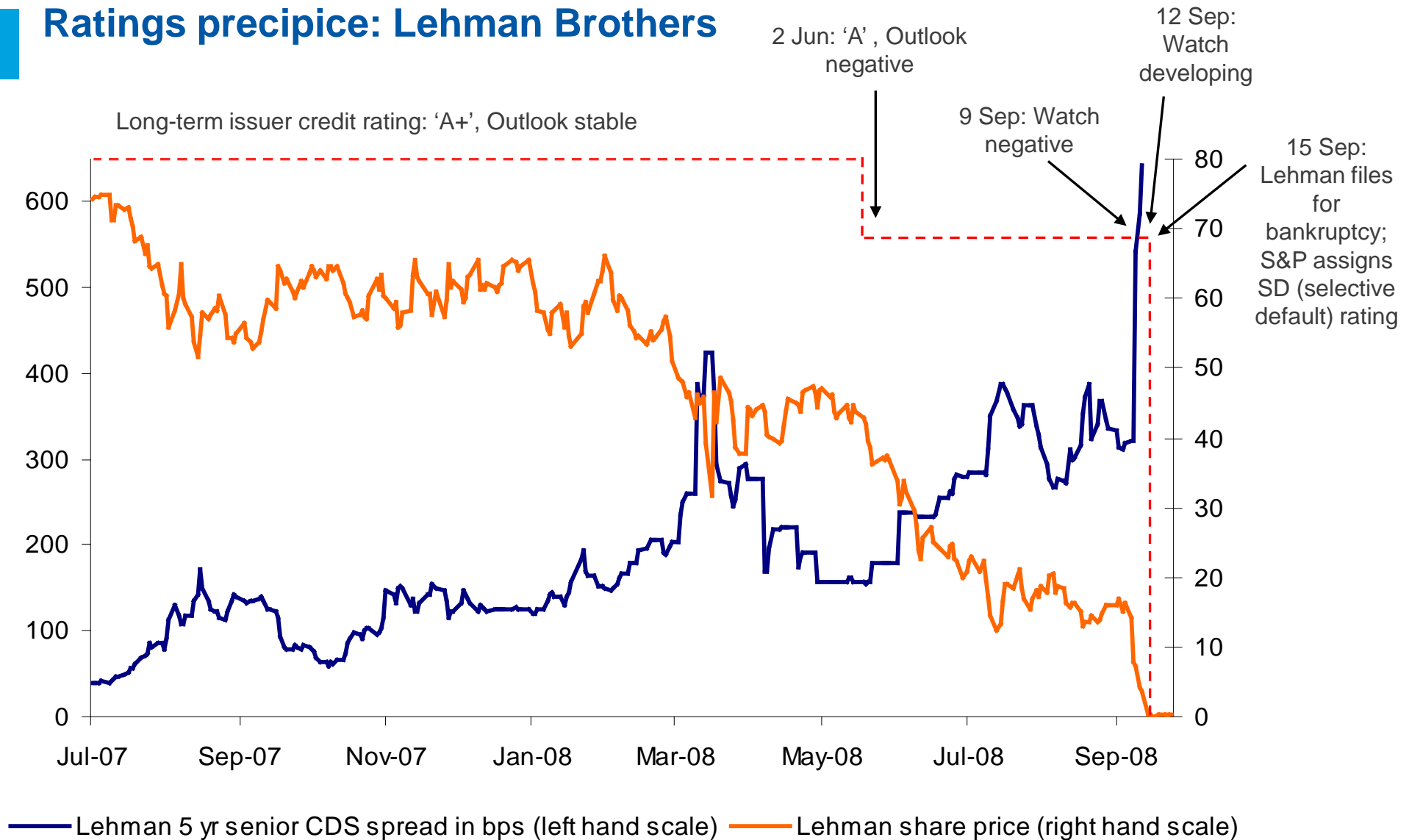


## “A” Brave New World S&P Reinsurance Ratings Distribution



Standard & Poor's rating distribution for 31 reinsurers based on shareholders' funds.

# Ratings precipice: Lehman Brothers



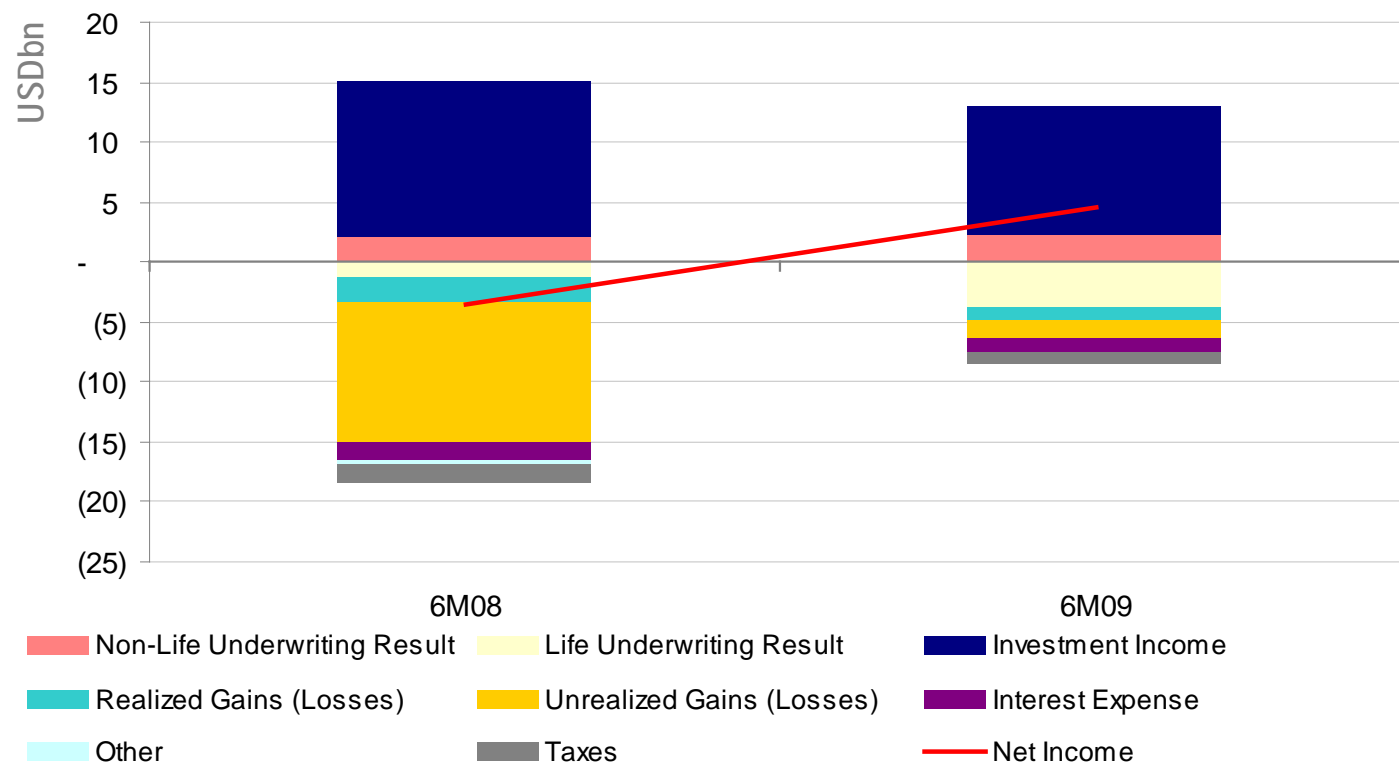
## A final act of hubris

“We don’t expect Lehman to fail . . . Lehman was pretty conservatively positioned all along, and in recent quarters, has added to surplus liquidity.”

-- Scott Sprinzen, Standard & Poor’s credit analyst, Friday 12 September 2008

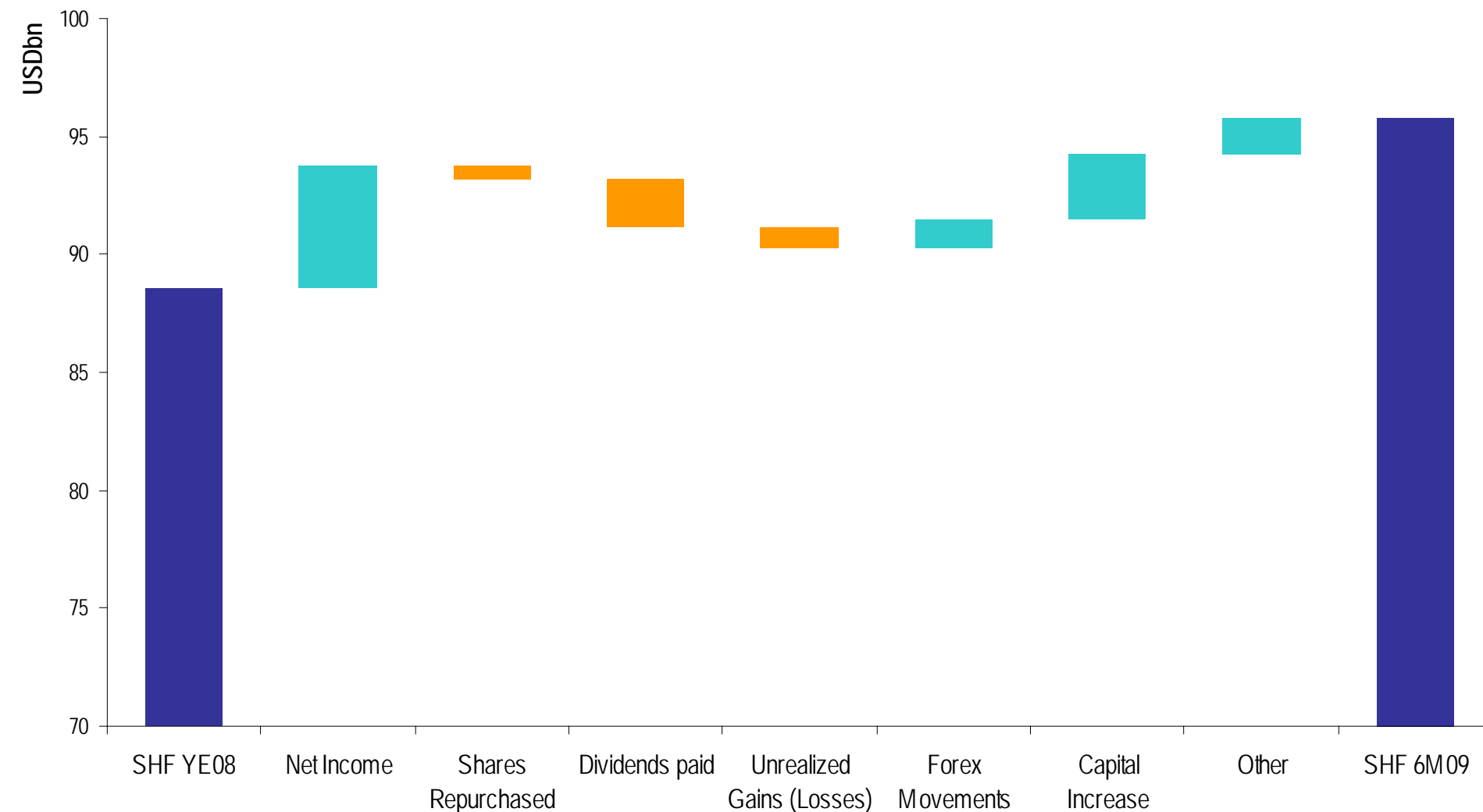
# Guy Carpenter Global Reinsurance Composite

## 1<sup>st</sup> Half 2009 Earnings



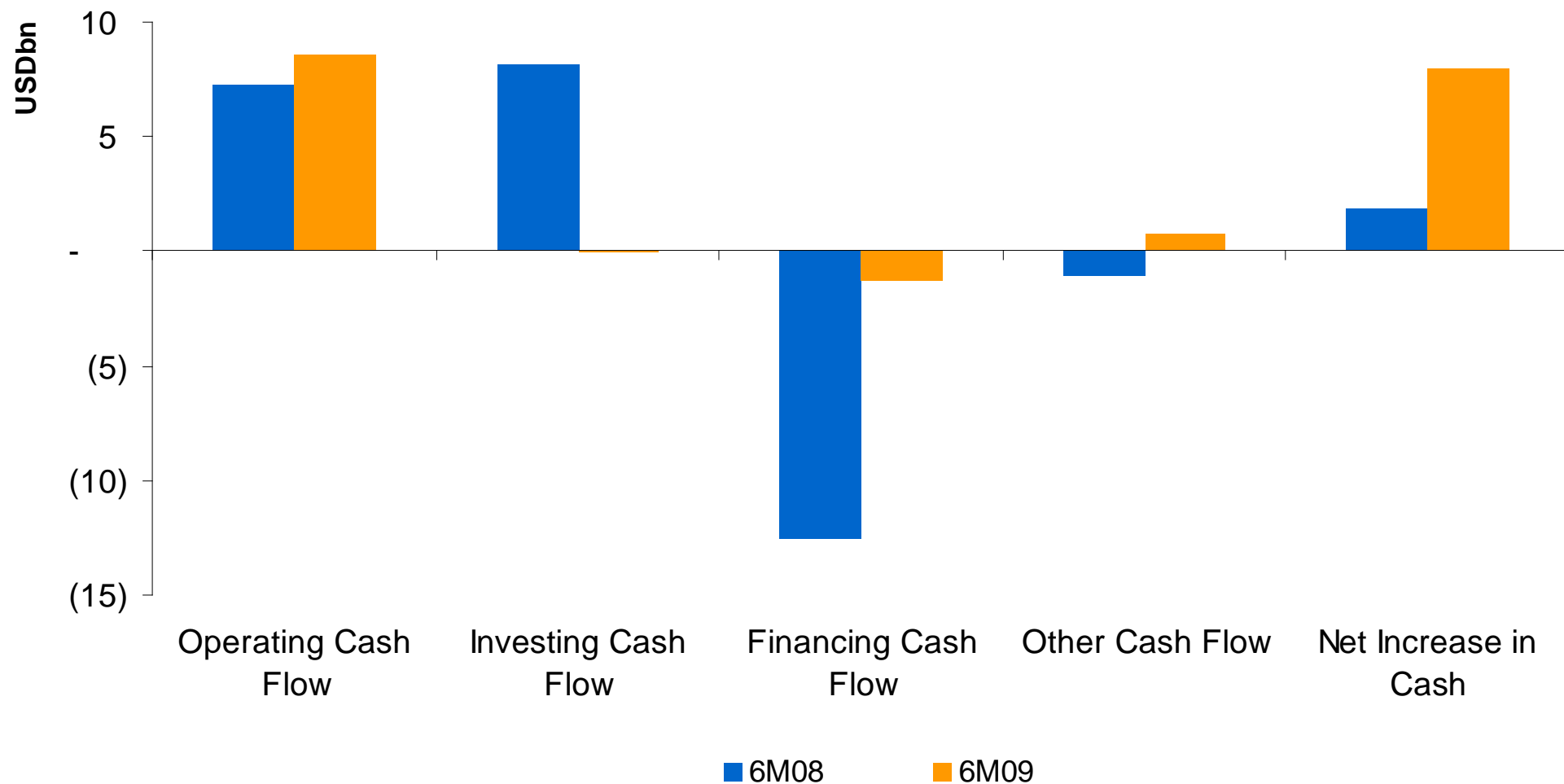
# Guy Carpenter Global Reinsurance Composite

## Change in Shareholders' Funds 1<sup>st</sup> Half 2009



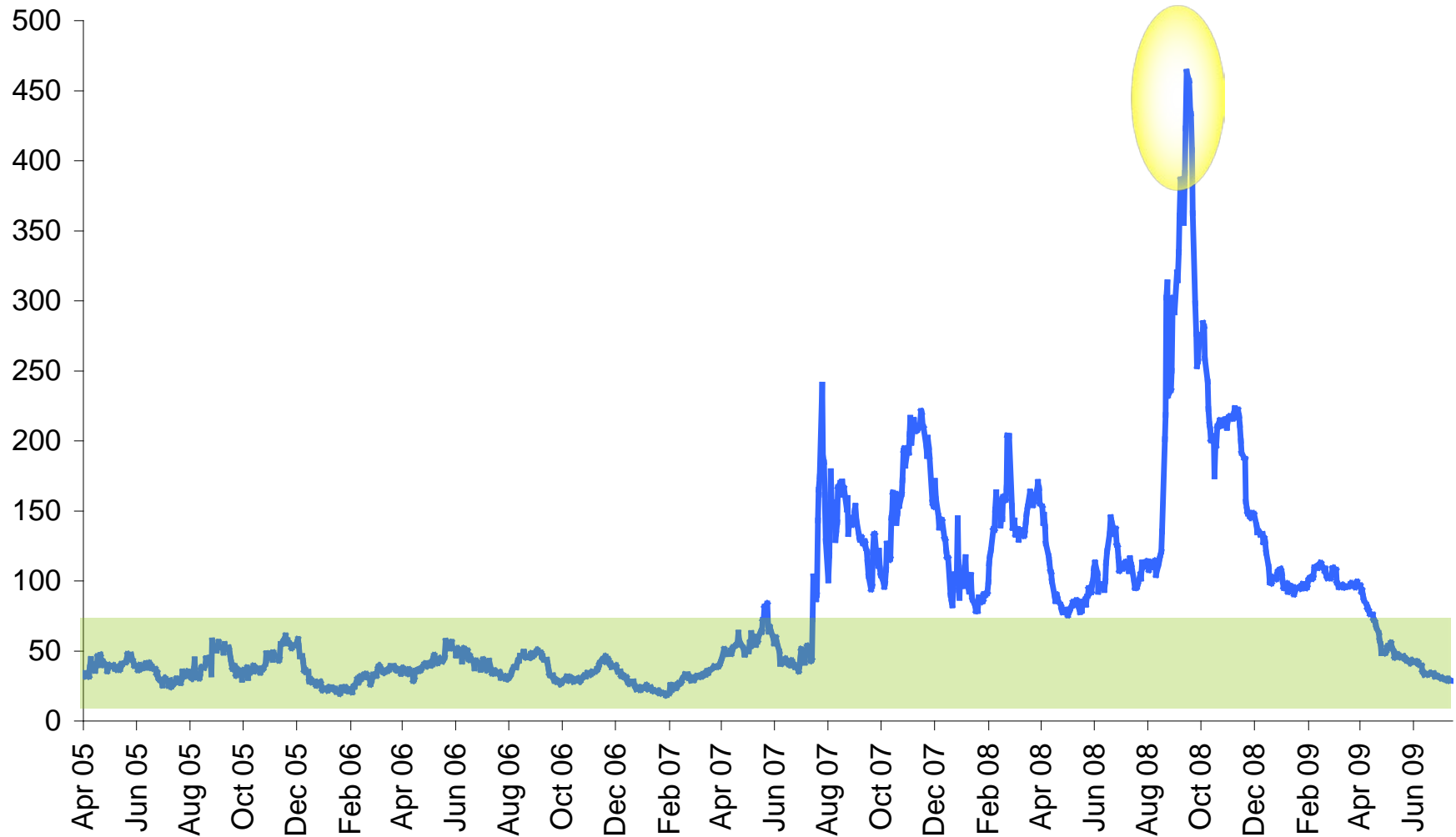
Note: Provisional showing 16/20 companies. The “Other” category is likely to include unrealised gains and will be updated when more detained accounts are disclosed.

## Guy Carpenter Global Reinsurance Composite Cashflow 1<sup>st</sup> Half 2009 v 1<sup>st</sup> Half 2008

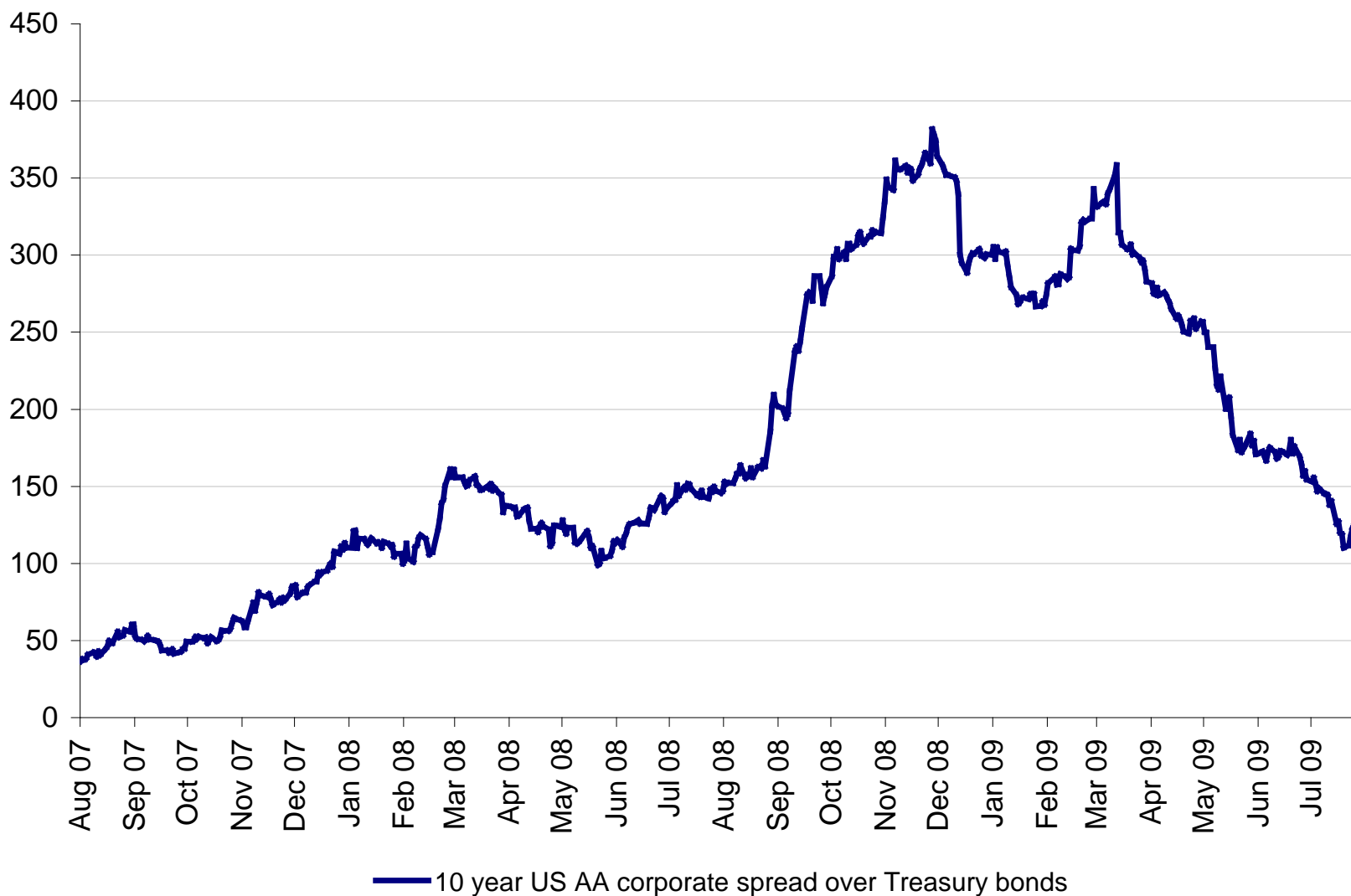


## OIS Spread below 30 bps

Debt financing unavailable

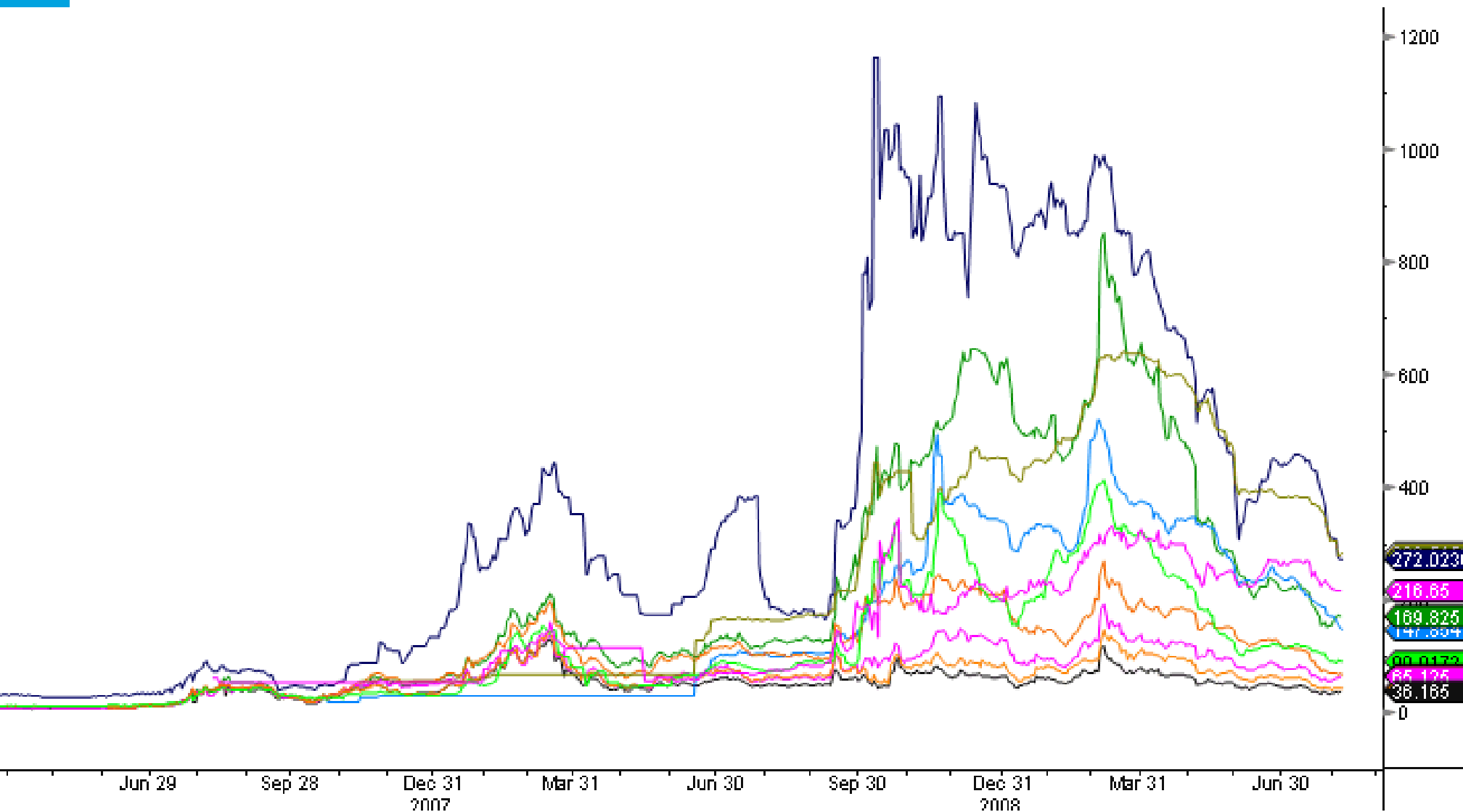


## US 10 year AA corporate spreads approaching 100 bps

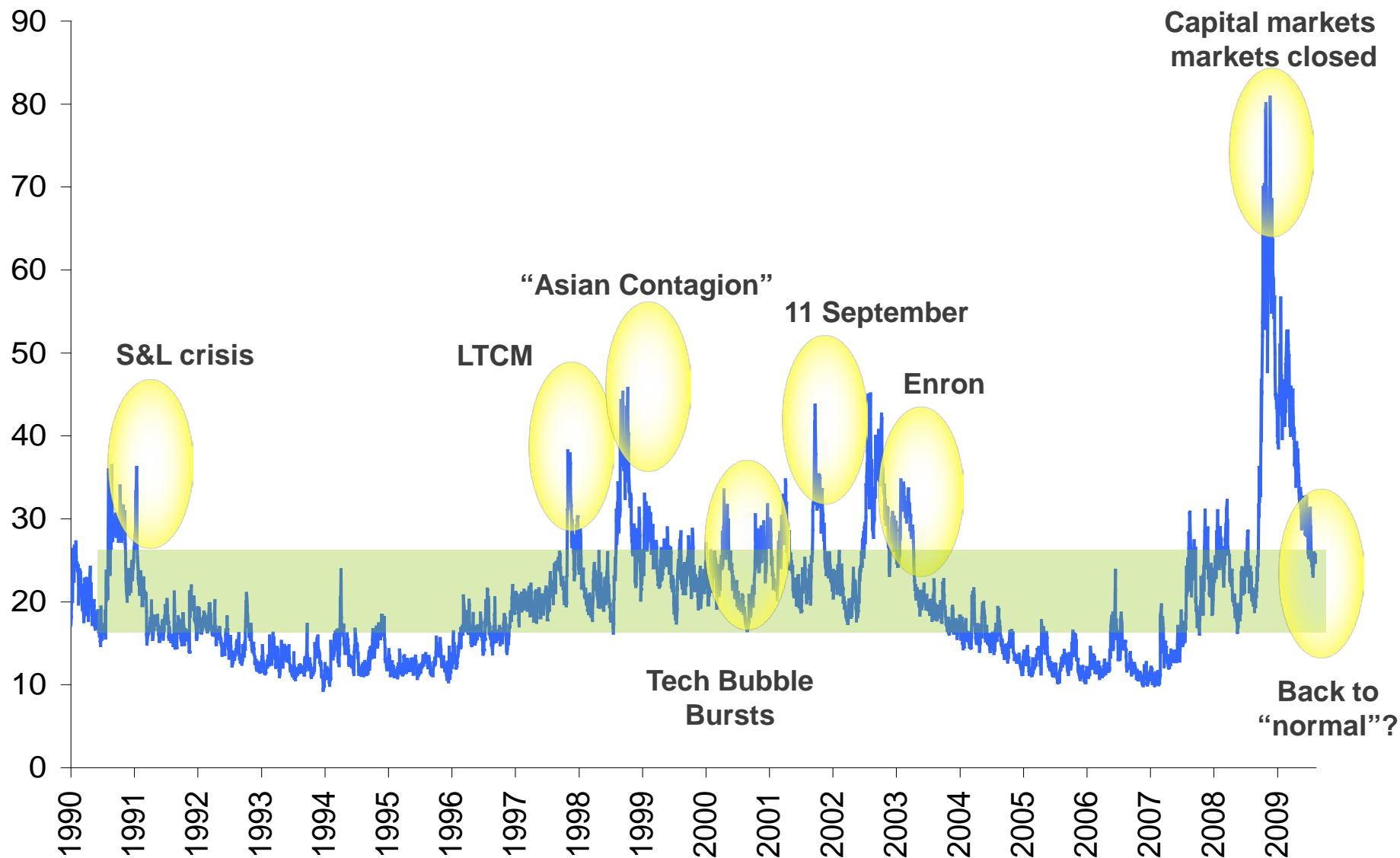




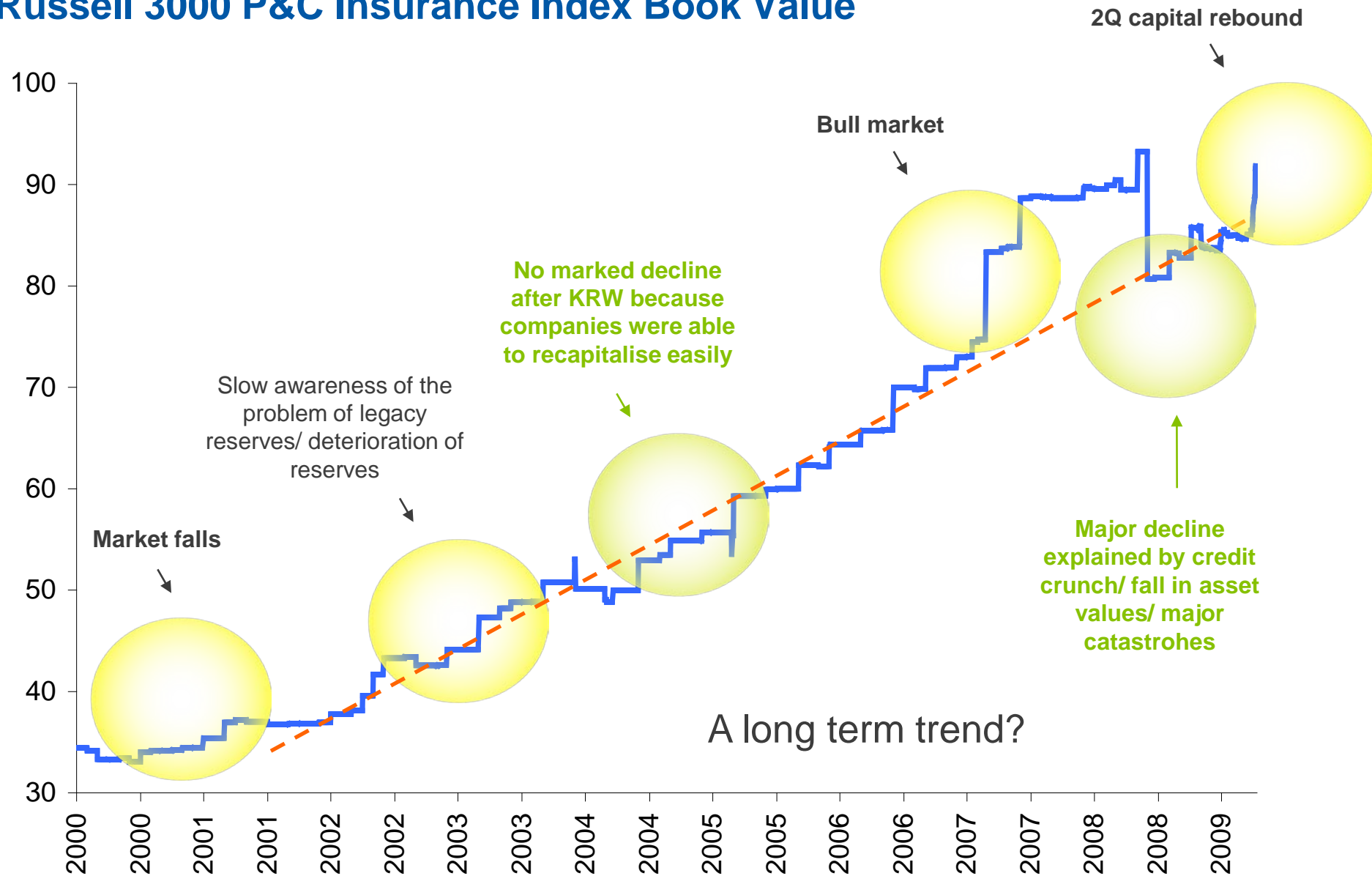
## CDS spreads tightening



## VIX Index - a measure of implied stock market volatility



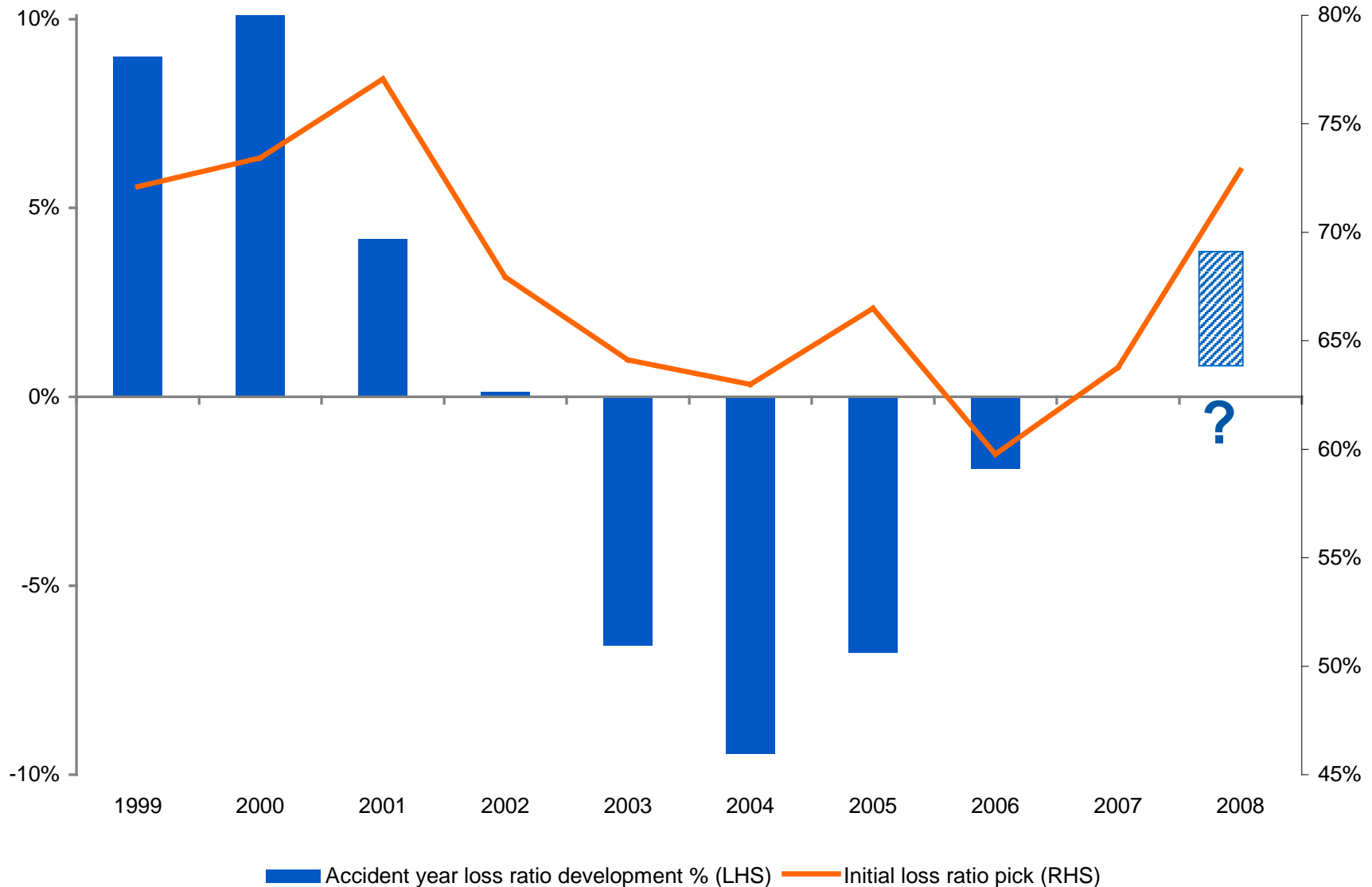
# Russell 3000 P&C Insurance Index Book Value



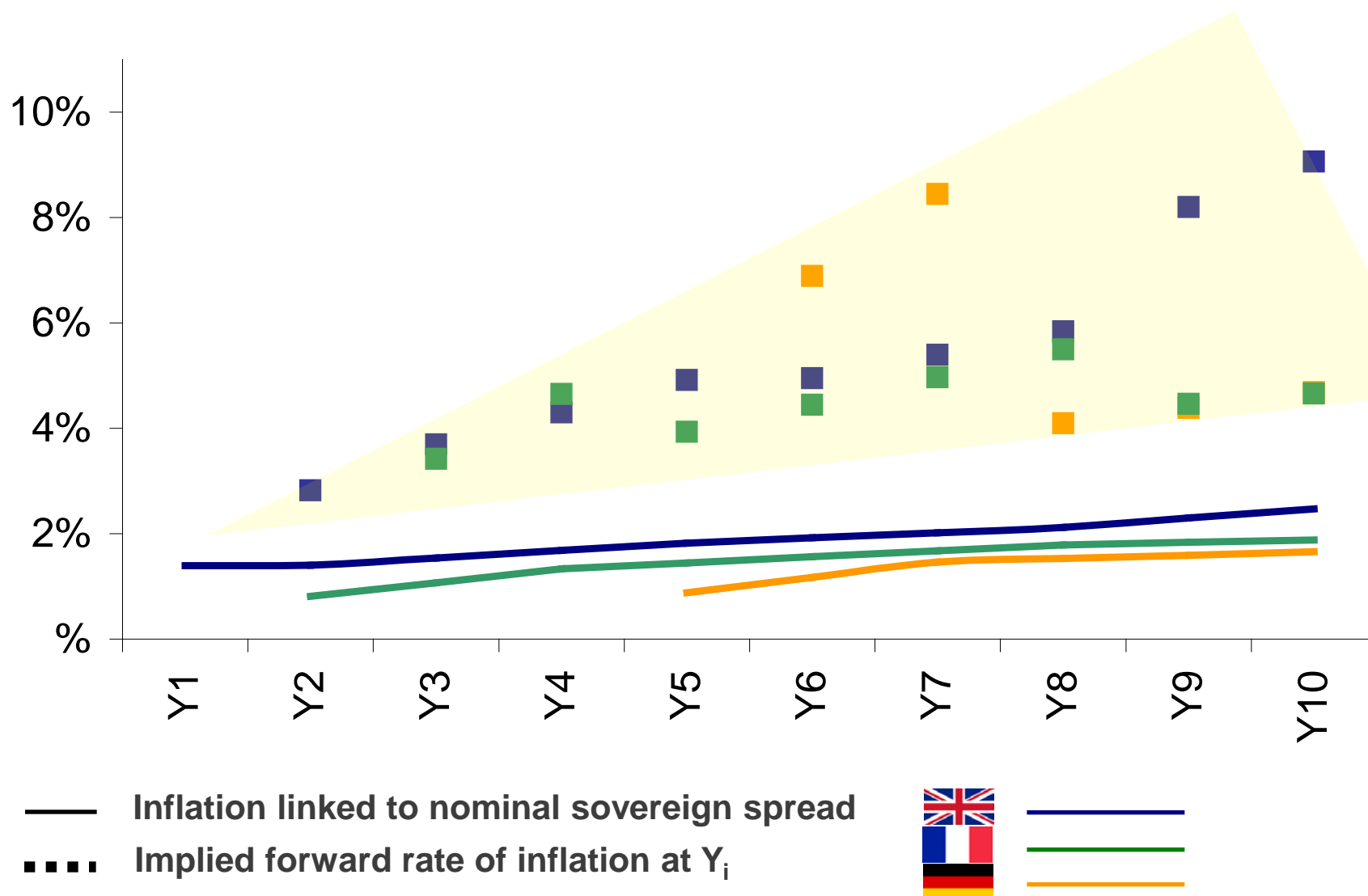
Source : Guy Carpenter, Bloomberg data

## Long-tail clouds on the horizon?

### US P&C initial accident year loss ratios & subsequent development



# EU inflation expectations



## Outlook - absent shocks

- Asset value recovery
- Balance sheet restoration
- Generic single “A” market
- Capital markets thawing:
  - Cheap debt
  - Stabilising stock markets
  - Buoyant catastrophe bonds
- Capital: returns or retirement
- Long-tail cloud

Ample Capacity = Market Drift

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**“Capitals are increased by parsimony, and diminished by prodigality and misconduct.”**

**Adam Smith, The Wealth of Nations, Book II, Chapter III**

## Important Disclosure

The information contained in this presentation provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues.

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