MANAGING EXTREMES

Willis Re

1ST VIEW

Market Reshaping a Reality

1 January 2015

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Renewals – 1 January 2015

1st View

This thrice yearly publication delivers the very first view on current market conditions to our readers. In addition to real-time *eVENT Responses*, our clients receive our news brief, *The Daily Willis ReView*, periodic newsletters, white papers and other reports.

Willis Re

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For over 105 years, Willis Re has proudly served its clients, helping them obtain better value solutions and make better reinsurance decisions. As one of the world's premier global reinsurance brokers, with 40 locations worldwide, Willis Re provides local service with the full backing of an integrated global reinsurance broker.

Market Reshaping a Reality

After three years of relentless rate reductions, the January 1, 2015 renewal season has not offered reinsurers any respite. Yet again, buyers have held sway, driving prices down along with improved terms and conditions. Another below average year for large losses has flattered reinsurers' results and helped drive increases in their retained capital.

Tiering of reinsurers by buyers is gaining wider traction as cedents look for wider, cross-class relationships which they believe will prove to be more sustainable over time. This is putting real pressure on smaller reinsurers and mono line catastrophe writers who have the additional burden of competing with the capital efficient and highly competitive capital market-backed funds and sidecars. Their main area of interest still remains short-tail natural catastrophe, though some are moving into other classes. However, there is evidence of market changing structures where primary carriers directly access capital markets through sidecar-type structures, entirely bypassing the traditional reinsurance market.

Adding to reinsurer woes are the predictions that the global reinsurance market is only just managing to cover its cost of capital in 2014 and may fail to do so in 2015 as a consequence of continuing rate softening and low interest rates. Arguably, the continued lack of demand and oversupply of capital can only keep driving pricing down. Unlike other financial markets, the reinsurance market lacks depth with no secondary trading market to help absorb excess capacity.

In the face of these challenges, a reshaping of the market is starting in earnest. The business model of focused underwriting excellence in a limited number of lines has lost its luster. The new mantra is diversification. Whether this is by class or by geography – preferably both– reinsurers are being actively rewarded both by investors and buyers who see diversification as key to sustainability, along with size.

As a consequence, long-rumored M&A activity is now a reality, with some companies recognizing that any further delay is only likely to see further deterioration in their valuations. At the same time, with only a limited supply of attractive target companies , consolidators looking for scale and diversification are moving as valuations become more reasonable for both parties.

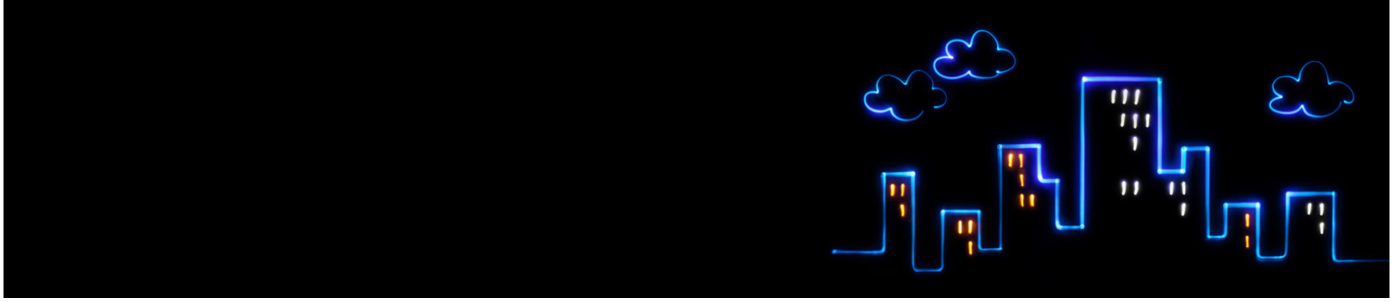
Against this picture of gloom not all reinsurers have been prepared to follow down pricing in addition to accepting wider terms and conditions – some are actively scaling back their reinsurance portfolios. This is particularly true of natural catastrophe where some reinsurers have declined offered terms on some placements with thin margins as a step too far and longstanding relationships have been severed. Many reinsurance underwriters are also going into 2015 with reduced budgets, which helps them to resist overly aggressive pricing and terms and conditions and has led to a reduction in some over placements. Similarly, a number of buyers have drawn back from breaking longstanding relationships with key partners and given firm order prices above the best market terms. Finally, the predicted influx of hedge fund-backed reinsurers appears to have abated for the time being, though this may be more closely related to rating agency hurdles than to current market conditions.

The very soft retrocession market is starting to encourage some arbitrage opportunities for skilled underwriters and buyers. This not only helps to feed the largely capital markets-backed retrocession market, but allows reinsurers to keep supporting their clients in a price-competitive market. Additionally, there is speculation that as a consequence of amendments to A.M. Best's BCAR model, increased volatility may be more punitively treated by way of increased capital charges which could result in a need to purchase additional reinsurance.

After such a long period of falling rates, benign loss experience, low investment returns and excess capital, many reinsurers recognize they can no longer hope for salvation through major market losses or increasing interest rates. Their only sustainable course of action is to change their business models, portfolio mixes and to strive for scale so they cannot be ignored by buyers. Those who are prepared to be bold are likely to find themselves better positioned over the medium term than those who hesitate at this critical point.

Peter C. Hearn
Chairman, Willis Re
1 January 2015

John Cavanagh
CEO, Willis Re
1 January 2015



Property – territory and comments

Asia

- Abundant capacity for most programs
- Pricing has fallen further in line with global trends
- Reinsurers seeking to defend their shares on programs and expand shares on target clients and territories
- Reinsurers and brokers have had to adapt to changes in Indonesian regulations, which has had a significant impact on placement strategies
- Terms and conditions, other than price, have remained stable year-on-year

Australia

- Rates continue to soften, however reductions are not as severe as January 1 last year
- Reinsurers' appetite continues to strengthen with significant capacity available
- Further deterioration of 2010/2011 New Zealand Earthquake reserves and the 27th November 2014 Brisbane Hailstorm loss are impacting some programs
- Reinsurers continue to seek out alternative strategies to defend against current soft-market conditions
- Market consolidation continuing – Allianz Australia acquisition of the general insurance business of the Territory Insurance Office ("TIO")
- Reinsurers have an increased appetite to write across programs, i.e., long-tail and short-tail classes

Canada

- No reinsurance loss activity in Canada in 2014 on risk or catastrophe
- Reinsurers running attractive combined ratios in the 80s
- Buyers split on taking a relationship versus opportunistic approach
- Renewals have run late with the theory that opportunistic buyers can force reinsurers to authorize on late firm orders due to market conditions
- Top layer rates on line driven below perceived minimum of 2% but still a reasonable 1.8% as reinsurers hold the line

Caribbean

- Substantial increase in reinsurance capacity
- Reinsurance rates down
- In some territories, primary local rates are falling faster than reinsurance rates
- Reinsurers and cedents are looking for new lines of business to balance their portfolios

Central & Eastern Europe

- Market remains very competitive for catastrophe risk
- Capacity for the region has increased, both with new and existing players increasing their appetite
- Bulgaria catastrophe covers were impacted by 8th July 2014 Sofia Hailstorm, but all other catastrophe programs were loss free
- Pricing was reduced on all observed programs outside of Russia
- Property per risk programs saw some significant price decreases, despite modest losses in some cases
- Free reinstatements were introduced into a few catastrophe programs

China

- China-Risk Orientated Solvency System impact (C-ROSS) is starting to raise cedents' concern – shift of shares towards onshore reinsurers or well rated reinsurers, or requesting introduction of a security clause
- 2014 a good year following a bad 2013, induced cedents to be aggressive for improved terms
- Fierce competition for excess of loss leading terms, prudent support from following markets
- Good supply of capacity for adequately rated excess of loss programs and proportional treaties without too aggressive terms and condition changes

Colombia

- Virtually no standalone local programs renewed at January 1, 2015
- An even greater proportion of the local Property and Casualty market is in the hands of multinational insurers versus 12 months ago; therefore, a significant amount of Property reinsurance is written intra-group and reinsured from the center
- Catastrophe pricing (whether external or internal placement) is down around -5.0% to -7.5% on a true risk-adjusted basis
- As regards to the requirements for catastrophe purchasing, work is still progressing at the regulatory level on moving from a fixed minimum PML basis to a modeled-based one

Europe-wide

- Continued substantial downward pressure on loss free catastrophe and per risk programs in all countries and on global programs
- Single territory covers affected by losses over the past two years renewed at similar premium levels to last year
- Significant broadening of conditions has occurred with extensions of Hours clauses and the absorption of certain additional per risk exposures
- Pre-paid reinstatements have also become more popular which has helped clients' Solvency II calculations and assisted reinsurers to maintain premium spend
- Mainly stable panels of markets with major reinsurers protecting their market shares but over placements reduced as many reinsurers renewed their expiring signed lines and not their written lines

France

- The significant hailstorm Ela heavily impacted most catastrophe aggregate excess of loss contracts as well as some lower catastrophe event layers
- Standard catastrophe cover risk adjusted pricing saw large reductions, with over capacity from traditional markets
- ILS market made first real entry in some targeted programs
- Extended scope of cover – terror / conflagration / reinstatement premium protection were broadly included under main catastrophe excess of loss covers

Germany

- Continuation of the soft market from earlier renewal rounds in 2014 with a general trend for risk adjusted premium reductions
- Many insurers increased their property catastrophe limits with retentions unchanged
- The deterioration of 2013 catastrophe losses was an issue for many insurers, thus buyers put less pressure on rate reductions than some other territories
- Solvency II considerations became an influence in program design
- In addition to price, buyers optimized terms and conditions

Indonesia

- New Property tariff effective February 2014 with separate rates for each peril
- Additional proportional Property capacity available
- New regulation to be implemented effective January 1, 2015:
  - Encourage companies to increase their minimum retention per risk between 50% and 100% of current regulation

- Increase in priority local reinsurance cession to minimum 25% per treaty or USD 16M for proportional treaties or USD 14M for non-proportional treaties, whichever is the higher
- 100% priority local reinsurance cession for Motor, Personal Accident, Health, Surety, Credit, Life and Marine Cargo
- The leader of each treaty should be a domestic reinsurance company

Italy

- Catastrophe cover is driving overall reinsurer participations
- Larger Tier 1 reinsurers more aggressive than smaller Tier 2 markets
- Programs mostly over-placed with entry difficult for new markets
- Combined risk / event / motor own damage are increasingly widespread in the market

Korea

- Another catastrophe-free year but market has suffered with continuation of major fire risk losses
- Increased number of markets offering quotations on Property excess of loss; reinsurers trying to add further value to enhance signings
- Wide variance in risk adjusted pricing movement from company to company
- No significant change to contract conditions
- Risk excess of loss and pro rata slightly more challenging due to losses, although over-supply of capacity remains

Latin America

- Overall, insurance penetration still has a lot of room to grow:
  - Further investment in the region by multinational insurers, e.g. in Brazil and Colombia
  - Some local players also developing regional strategies (especially in Central America)
  - Various specific projects with micro-insurance
- Foreign reinsurance capacity available for the region is at an all-time high, although catastrophe prices are still at least double to that of the lowest point during the period 1995 to 1999
- Pricing is supported by a significantly more modeled approach to underwriting risk and low investment income
- There are very different approaches to writing reinsurance in the region, ranging from local offices with highly focused prospecting to those just looking at centralized, multinational buyers without much local knowledge or contacts

Middle East and North Africa

- Abundance of capacity has favored buyers consistently
- As a result, buyers have benefited with increased limits on pro rata, lower attachments on excess of loss
- Coverage has been widened in the majority of cases across the region

Netherlands

- Pro rata competitive although position varied by reinsurer, depending on profit potential of individual contracts
- Risk excess of loss saw some downward pressure, but programs containing losses are only slightly down
- Catastrophe excess of loss saw price reductions between 10% and 12.5% pre-paid reinstatements, widening hours clauses when requested, some clients purchased larger limit, 80% minimum and deposit premiums

Nordic Countries

- Core catastrophe programs remain loss free during 2014
- Norway experienced some conflagration losses and many clients experienced loss deterioration from the 2013 October and December events
- The summer cloudburst in Copenhagen was of significant magnitude but resulted in considerably smaller losses than the 2011 event; this was partly due to improvements made by the municipality, loss-prevention measures taken by the original insureds and stricter original insurance conditions
- Some property pro-rata treaties had loss ratios above expectations
- Capacities bought remain broadly the same with some companies increasing retentions

Philippines

- Majority of excess of loss placements now on a combined risk and catastrophe basis
- Significant risk-adjusted reductions on loss-free programs
- Very few proportional protections left in market
- Loss review clause on December 2014 Typhoon Ruby (Hagupit) applied

Spain

- Property excess of loss risk / event programs have seen modest rate reductions
- Proportional reinsurance conditions remain unchanged

Switzerland

- Continuation of soft market conditions with a general trend for risk-adjusted premium reductions
- Levels of price reduction determined by buyers rather than by reinsurers, however, overall capacity requirement taken into account
- Trend also towards an increase of Property catastrophe limits with (mostly) unchanged retentions but stable reinsurance budgets
- Minimal movement among the panel of reinsurers on placements: additional capacity requirements largely provided by existing participants
- Buyers focus on price and capacity rather than optimization of other terms and conditions (exclusions, reinstatements, loss event definition, etc.)

Turkey

- Soft market conditions
- Pro rata programs placed relatively easily with new capacity
- Catastrophe excess of loss programs heavily over-placed

United Kingdom

- Capacity remains plentiful with continued price reductions: most reinsurers have few, if any, U.K. losses in the last 5+ years
- Terms are also improving for buyers, e.g., more flexible hours clauses, prepaid reinstatements, fewer larger layers
- Better understanding of own risk appetite driving increased use by cedents of self-retention / captive / internal reinsurance vehicles and increased interest in aggregate protections
- ILS markets are more visible but struggling to make significant headway

United States

- Capacity continues to be abundant, driving competition in terms of both pricing and terms and conditions
- Most national accounts now have diversified panels of security from all sectors, including collateralized reinsurers, sidecars / managed funds and other non-traditional vehicles, as well as traditional reinsurers
- Non-standard reinsurance products, including aggregate protection and shared limit covers are becoming much more widely accepted
- Most recently, the market is working to respond to the non-renewal of TRIPRA with terrorism coverage being offered on a stand-alone basis as well as embedded within catastrophe covers; coverage for NBCR terrorism is proving the major restriction in terms of price and availability of capacity

Venezuela

- Currency control still exists in the country although there are moves to relax some of the restrictions; it is expected that this will allow foreign reinsurers to offer more proportional treaty and facultative support
- Capacity for per risk excess of loss treaty reinsurance at similar levels to last year
- Capacity for catastrophe excess of loss treaty reinsurance is up on last year
- High local inflation (partly fuelled by different rates of exchange being used) means that sums insured are being revalued at regular intervals
- Local Property and Casualty market still showing positive overall technical results in local currency

Vietnam

- Focus on Strikes Riots and Civil Commotion (SRCC) event definition post 2014 riots
- Event limit extended to apply to SRCC
- Sub limits on SRCC extensions
- Most programs on a combined risk and event basis

Rates

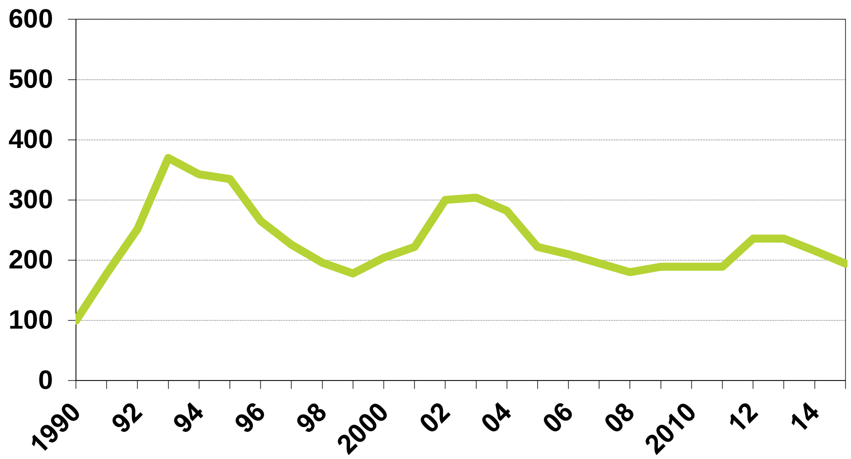
Property rates					
Territory	**Pro rata commission**	**Risk loss free % change**	**Risk loss hit % change**	**Catastrophe loss free % change**	**Catastrophe loss hit % change**
Australia	0% to +2%	0% to -5%	0% to +10%	-7.5% to -12.5%	0% to +5%
Canada	+4%	-10% to -20%	0% to -5%	-5% to -15%	-5%
Caribbean	+3% to +5%	-15% to -20%	-5%	-10% to -15%	-5%
Central & Eastern Europe	N/A	-5% to -20%	-5% to +10%	-5% to -15%	N/A
China	0% to +2.5%	-25% to -30%	N/A	-15% to -25%	N/A
Colombia	0% to +1.5%	0% to -7.5%	+5% to +20%	-5% to -7.5%	N/A
Europewide	N/A	-10% to -15%	0%	-10% to -15%	0%
France	N/A	0% to -5%	0% to +5%	-10% to -20%	-5% to +5%
Germany	0% to +2%	0% to -5%	0%	-2.5% to -10%	N/A
Indonesia	-1% to +5%	0% to -5%	0% to +5%	0% to -10%	N/A
Italy	N/A	-5% to -10%	0% to -5%	-5% to -15%	N/A
Korea	0% to -5%	N/A	0% to +20%	0% to -20%	N/A
Latin America	0% to +2%	0% to -12.5%	+5% to +20%	-5% to -10%	N/A
Middle East and North Africa	0% to +2%	-5%	0%	-10%	0%
Netherlands	+5% to -10%*	-5% to -10%	+2% to -5%	-10% to -12.5%	N/A
Nordic Countries	0%	-5% to -10%	0% to -5%	0% to -10%	N/A
Philippines	N/A	N/A	N/A	-10% to -15%	+5% to +10%
South Africa	0%	+5%	+7.5% to +10%	0%	+5%
Spain	0%	-5%	0%	N/A	N/A
Switzerland	0% to +2%	-5%	N/A	-5% to -15%	N/A
Taiwan	N/A	0% to -5%	N/A	-15%	N/A
Turkey	0%	-10%	N/A	-5% to -15%	N/A
U.K.	N/A	≥15%	0% to -10%	≥15%	N/A
U.S.	+2 to +3	-10% to -15%	-5% to +5%	-10% to -15%	N/A
Venezuela	0%	0% to -5%	+5% to +20%	0% to -5%	N/A
Vietnam	0% to -2.5%	N/A	0%	-5% to -10%	0%

Note: Movements are risk-adjusted.

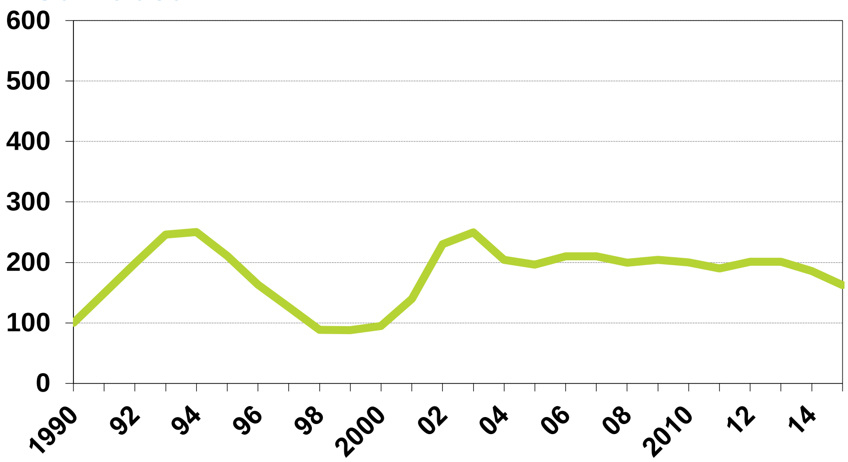
Property catastrophe pricing trends

The charts on these pages display estimated year over year Property catastrophe rate movement, using 100 in 1990 as a baseline.

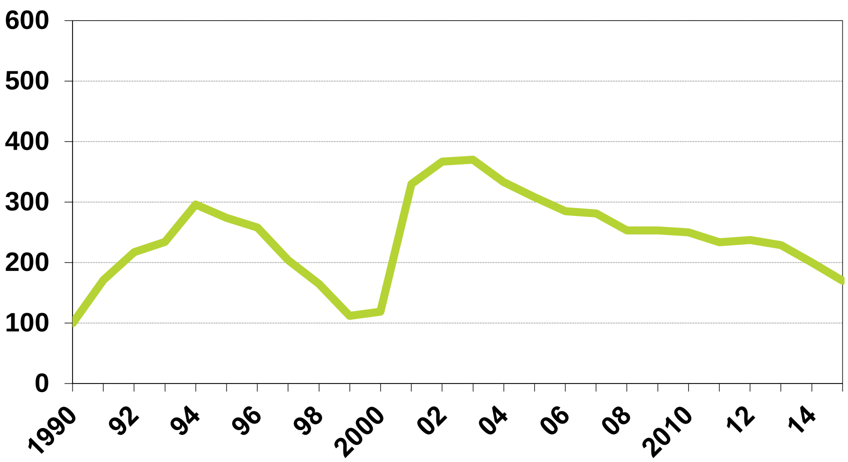
Australia

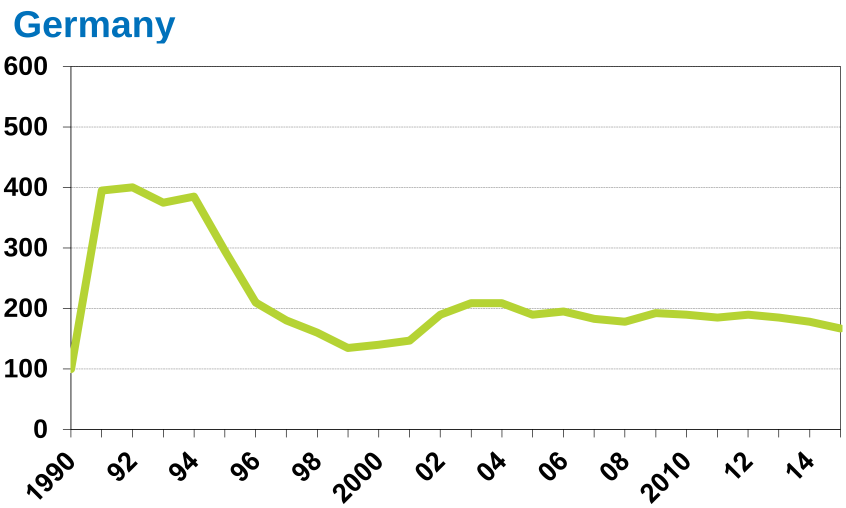


Caribbean



France

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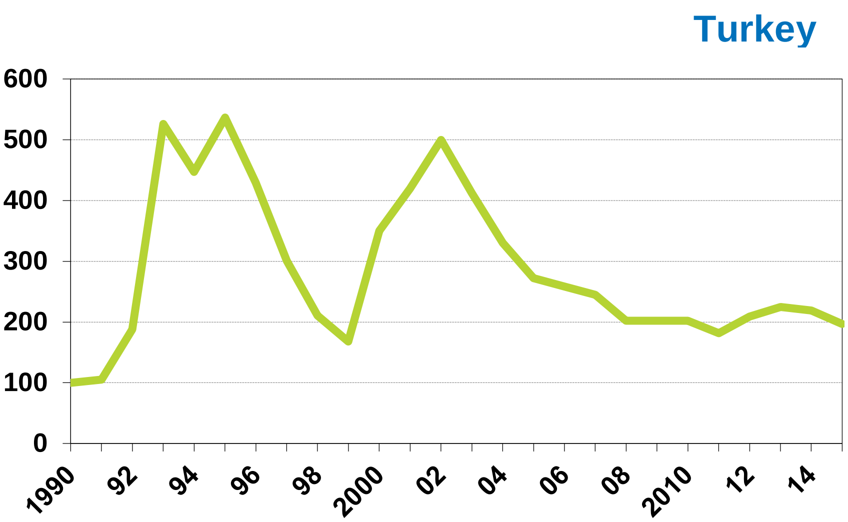
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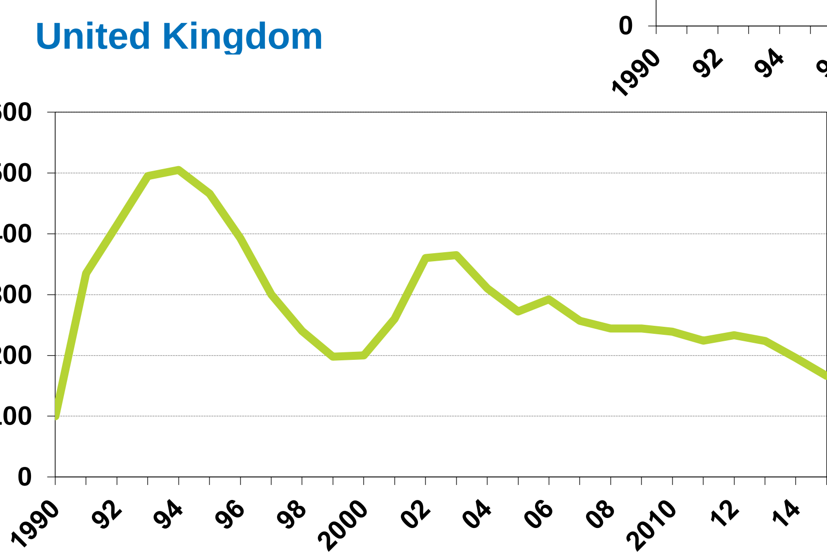
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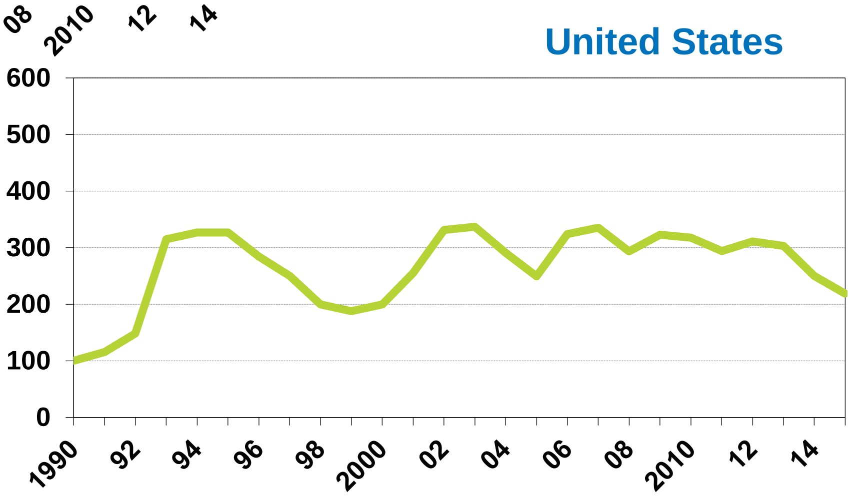
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Casualty – territory and comments

Australia

- Appetite for Casualty business remains very strong with an abundance of reinsurance capacity
- Rates have continued to soften but coverage, terms and conditions are increasingly more relevant to buyers who are willing to put more risk into their programs rather than concentrate on price in isolation
- Buyers prefer APRA-approved reinsurers, however there is increasing willingness to expand marketing in order to broaden the price-discovery process and enhance competitive and creative dynamics
- Cyber Liability continues to be a point of discussion with insurers looking for insurance solutions for their customers
- Privatization of statutory classes (Workers' Compensation / CTP Motor) flagged by insurers as an opportunity for growth

Canada

- Casualty market continues to soften with good underlying insurance and reinsurance results
- Ontario auto reform seems to be working although there are skeptics in the market with a backlog of low reserved claims in the system
- Cedents raising retentions above C$2M for Ontario auto on a consistent basis removing reinsurance premium from the market
- Specialty classes buying more reinsurance

China

- Risk-adjusted price reduction for excess of loss contracts with positive balances in 2014, price increase for contracts with negative balances
- Significant growth on underlying liability exposure during 2014
- Very soft Casualty market with plenty of capacity, fierce competition for leading terms, some treaties got excessively over-placed
- C-ROSS impact starts to raise cedents' concern – shift of shares towards onshore reinsurers or well rated reinsurers, or requesting introduction of a security clause

Europe – General Third Party Liability

- The reinsurance market is competitive for European Casualty business
- Many new reinsurers are expressing serious interest in these lines, however clients remain discerning about counter parties given the duration of liability business while welcoming the opportunity to broaden panels
- Multi-year deals are available
- Loss activity from U.S. exposures remains a discussion point
- Somewhat counter-intuitively given both primary and reinsurance market conditions, some increases in priority / retentions used to further retain additional premium / income

Europe – Motor

- The reinsurance market is competitive for European Motor business
- Many new reinsurers are expressing serious interest in these lines, however clients remain discerning about counter parties given the duration of liability business while welcoming the opportunity to broaden panels
- There is some interest in purchasing Solvency Relief quota shares
- Discount rates and long-tail claims settlement influencing reinsurance solutions and reinsurer appetites

- A lower "capitalization" rate in Norway has prompted Europe-wide debate about the use of "Acts in Force" and "Change in Law" clauses and the need for contract certainty

France

- Low interest rates keep an upwards pressure on prices
- No major decrease, with stable outcome for both excess of loss and pro rata; capacities and structures bought have remained stable
- There is an increased appetite from reinsurers; existing reinsurers have been asking for increased lines while new players are entering the market in search of diversification
- Regarding terms, there have been qualitative discussions on loss definitions and cyber exposure
- Coverage of inflation in the reserves is a topic of interest for several companies with innovative solutions now available
- New covers for construction serial losses are under discussion

International – General Third Party Liability

- Favorable reported results continue to serve as the prevailing backdrop and underpin market dynamics
- Buyers retain as broad a choice, both in terms of structure, terms and conditions and counter-parties as at any time in the past decade
- Notwithstanding the above, reinsurers are responding appropriately to long term clients and cedents broadly reciprocating by maintaining continuity (where possible) given the duration of Casualty business
- In terms of pricing, excess of loss rates continue to drop in the face of favorable reported results and excess capacity on the supply-side
- Tactically, continued focus by clients to consolidate and globalize placements and reduce the silo'd class of business approach to reinsurance purchasing; the inherent economic benefits are material as clients reclaim diversification benefits for themselves
- Strategically, discernible shift in client focus to improve Casualty risk management, better calibrate downside risk metrics and improve quantification of accumulation and/or systemic exposures.

Italy – General Third Party Liability

- There is less uniform competition than other lines of business, as unlike Motor this is a class of business that is very dependent on the underlying company's portfolio
- Consolidation of Casualty programs (Motor and GTPL) is a trend driven by some international groups and now being implemented by some local groups

Italy – Motor

- Programs very well placed with competitive terms offered by leading reinsurers
- Reinsurer panels unchanged, but participations across the board increasingly achieved as companies move towards global relationship management

Korea – General Third Party Liability, Motor and Personal Accident

- Capacity remains abundant for all Casualty lines in Korea due to good historical performance
- On average, most cedents obtained risk-adjusted price reductions for excess of loss
- Placement of Personal Accident quota share treaties remained challenging, although in some cases terms improved as buyers looked to offer reinsurers payback

Lloyd's and London Market

- Favorable reported results both gross and net despite competitive primary (Insurance) market dynamics fuelled by continued market dislocation
- Plentiful capacity for all lines of Casualty business leading to broader choice of structures, reinsurers and pricing options, however majority of clients thoughtfully balancing continuity and new capacity
- Consolidation a major theme as clients / syndicates seek to optimize the diversification in their portfolios and derive the resultant economic benefits

- Concerns over Financial lines are abating post the global financial crisis and relatively modest and manageable insured loss arising therefrom
- Improvements in coverage, notably removal of event caps or expansion of coverage for catastrophe-exposed perils such as bush fire
- Some increases in retention but majority of clients prefer to optimize price and coverage

Netherlands – Motor

- Reductions available for loss free proportional & non-proportional programs
- However, flat renewal terms required for loss free portfolios showing little profit margin

Nordic Countries

- Reinsurance market is competitive for Nordic Casualty business
- Many new reinsurers are expressing serious interest in these lines
- Loss activity from U.S. exposures a discussion point
- A newly lower "Capitalization" rate in Norway has prompted debate about pricing and the use of "Acts in Force" and "Change in Law" clauses

United Kingdom – Motor

- Reinsurers generally keen to maintain client relationships and reinsurers prepared to entertain modest rate decreases where a credible, evidence-based picture of exposure reduction exists
- Some markets have pulled away from non-capitalized capacity during 2014, but continuing capacity remains committed to the product
- Appetite for non-capitalized cover has strengthened among continental based reinsurers
- Increased flexibility of traditional capitalized only markets to examine non-capitalized lower layers if the rate is adequate
- Increasing buyer interest in long time horizon Capitalization clauses
- Periodic Payment Orders (PPOs) propensity continues to maintain stability year on year

United States – General Third Party Liability

- Loss trend assumptions have decreased, leading to lower loss cost estimates in reinsurer pricing
- The above translates to improved pricing in all lines of business
- Continued consolidation of silo'd reinsurance programs towards whole account Casualty programs
- More capacity for all structures but notably for excess of loss on excess Casualty portfolios
- Cedents requiring reinsurers to quote to be considered for participation at firm order terms
- Ceding companies remain willing to broaden reinsurance panels in principle but remain discerning about counter-parties given the long tail nature of Casualty business

United States – Motor

- Personal auto pro rata reinsurance has generated significant interest from both traditional reinsurers and alternative capital; there have been reductions in net reinsurer margins for profitable accounts
- Loss-free excess of loss personal auto reinsurance rates have decreased -5% to -15%; some accounts with loss activity have been able to remain flat although most have seen modest increases in rate
- The primary personal auto market has seen continued pricing segmentation, competition among standard carriers and some bleed over into the Non-Standard Auto market
- Commercial auto continues to be a challenging class of business due to adverse loss activity and intermittent profitability; reinsurance rates are heavily dependent on actual loss experience and hazard profile
- A.M. Best recently noted negative rating pressure in the U.S. Non-Standard Auto market; Texas results have improved as primary rates have risen; improvements in Florida personal injury protection legal environment has led to improved profitability; California has seen consolidation with a heavy focus on distribution
- Reduced Property rates have led some reinsurers to re-evaluate their appetite for lower volatility Casualty business and are dipping their toe into the Personal Auto market for the first time

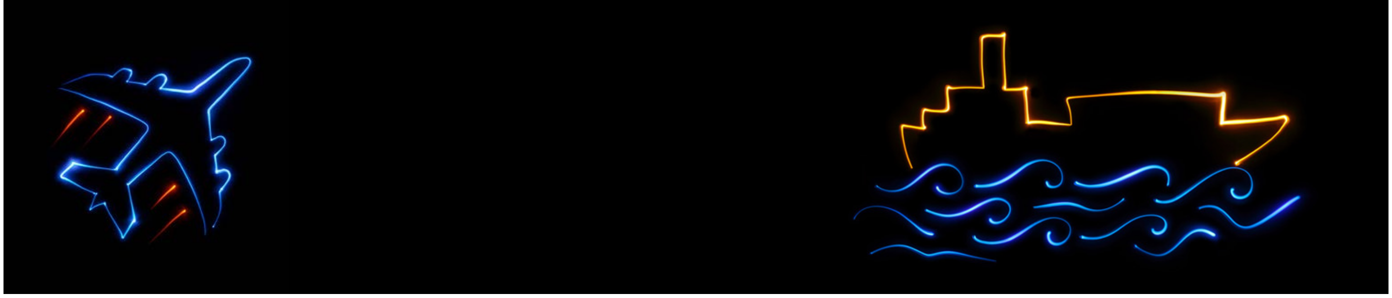
United States – Professional Liability

- Reinsurance capacity is plentiful with additional new entrants and revived appetite from the largest global reinsurers as fear of catastrophic fallout from global financial crisis (GFC) has receded
- As a result reinsurance pricing is favorable and very attractive by historical standards for cedents with a credible strategy and track record of navigating the profitable results of the last decade for the global financial lines.
- A heightened scrutiny on cyber liability, however, the reinsurance market is generally supportive of the original policy coverages being offered by carriers
- Insurance rates are flattening or slightly down in most lines and any increases are harder to come by as results have been broadly profitable since the financial crisis

Rates

Casualty rates			
Territory	**Pro rata commission**	**XL – No loss emergence % change**	**XL – With loss emergence % change**
Australia	N/A	-5% to -10%	0% to -2%
Australia – Professional Liability	N/A	-5% to -10%	0% to -2%
Canada – General Third Party Liability	+4%	-10%	-5%
China	N/A	N/A	+10% to +30%
Europe – General Third Party Liability	0%	-2.5% to -5%	+5% to +15%
Europe – Motor	0%	-2.5% to -10%	0% to +5%
France	0%	0% to -3%	0% to +3%
Italy – General Third Party Liability	+1% to +2%	N/A	0% to -5%
Italy – Motor	N/A	0% to -20%	0% to -10%
Korea	0% to -2%	0% to -5%	N/A
Lloyd's and London Market	N/A	-10% to -15%	0% to -5%
Netherlands – Motor	0% to -10%	-5%	N/A
Nordic Countries	0%	-2.5% to -5%	+5% to +15%
South Africa – General Third Party Liability	0%	0%	+5% to +10%
U.K. – Motor	0%	0% to +5%	+5% to +15%
U.S. – General Third Party Liability	+2% to +7%	-5% to -20%	+5% to -5%
U.S. – Motor	0% to +5%	-5% to -15%	0% to +10%
U.S. – Professional Liability	+2% to +5%	-5% to -15%	0% to -5%

Note: Movements are risk-adjusted.



Specialties – line of business and comments

Aerospace

- Following significant loss activity in 2014, the direct airline market briefly hardened; however, more recent renewals have been as expiring on a monetary premium basis, and there have been numerous reductions on a risk adjusted basis
- The hull war market, which has picked up the largest proportion of the losses in 2014, has not reacted as much as initially expected by underwriters and brokers; despite some markets withdrawing from this segment, capacity has increased overall which has minimized any increases in premium volume
- Reinsurance capacity remains abundant and loss-free programs continue to be competitively priced; although there have been modest rate increases on non-proportional layers that have sustained large losses
- Aviation retrocession pricing continues to remain stable, with capacity again being in plentiful supply; continuity of relationship, combined with the positive experience of catastrophe exposed layers has resulted in moderate pricing reductions

Engineering

- Over capacity in both the Engineering and Construction direct and reinsurance markets
- Softening in reinsurance conditions driven by over capacity and a lack of natural peril losses
- Improvements in treaty terms negotiated for both proportional and non-proportional covers
- Market consolidation and composite cover purchases have impacted the Engineering and Construction reinsurance market
- A "game-changing" renewal with extreme testing of some long-term relationships

Global – Trade Credit

- Continuing good performance by major Credit insurers
- Continuing downward pressure on original rates, terms and conditions
- Quota share commissions at historic high levels
- Strong appetite from reinsurers not satisfied due to reduction in ceded premiums
- Reinsurers have been able to take on increased levels of exposure
- Largest market loss: O W Bunker, estimated at USD 150M

Marine

- 2014 was another benign underwriting year for losses
- The 2012 Protection and Indemnity loss from Costa Concordia has now deteriorated to circa USD 1.43B
- Over-capacity exacerbated by a fear of more consolidation of programs and reduced reinsurance purchasing by core clients
- An already soft market has been driven lower by reinsurers quoting competitively in order to get on business that would otherwise be maintained with the expiring panel
- Attitudes towards coverage have become markedly more flexible, Clause 380 (the cyber attack exclusion) has been a market talking point but overall stance on this appears to have eased

Non-Marine Retrocession

- Surplus capital and another benign loss year have led to additional price reductions
- Buyers able to tailor their retro purchasing with a further shift to worldwide / aggregate / pillared / composite programs
- No indications of a slowdown in investors seeking uncorrelated assets in ILS, despite falling returns
- Both peak and, to a greater extent, regional retro enjoying double digit reductions
- ILW volumes holding up on account of attractive prices and ease of purchase / deployment

Personal Accident / Life Catastrophe

- An environment of no major catastrophes involving insured loss of life since 2001 continues to drive further compound rate reductions and widening of conditions
- The softening trend is evident in the direct and facultative market as well as the reinsurance market
- Retentions and vertical coverage limits remain largely unchanged despite substantial reductions in premium spend
- The retrocession market has started to soften having stood firm for the last two renewal seasons with reductions in the region of -10%
- Capacity is abundant with five new London markets entering the class in 2015 though interest in the class from ILS funds remains limited

Political Risk

- Downward pressure remains on renewal pricing despite great uncertainty for both insurers and reinsurers as regards potential losses from Ukraine and Russia, should Russia default in retaliation to the ongoing impact of the West's sanctions on Russia
- If Russia defaults, then this will have a significant impact not only on the Lloyd's and London market but on all insurers and reinsurers involved in these lines of business, given the dominance of Russia within most Political Risk underwriters portfolios
- The majority of new writers who entered the market 12 months ago have had a good to moderate start with the majority achieving their original 2014 income projections with most now looking to buy increased risk limits and country aggregates protections for 2015
- Both insurers and reinsurers are chasing business and renewal terms differ from lead reinsurer to lead reinsurer

U.S. – Healthcare

- Medical Professional Liability (MPL) insurers are facing a highly competitive environment resulting in rate level moderation and challenges to top line growth and expense ratios
- Reinsurance capacity remains plentiful for the MPL lines and reinsurers are supportive of comprehensive and efficient reinsurance program structures
- Reinsurers have generally acknowledged that MPL claims experience has shifted / improved in terms of frequency and severity
- Placements are becoming more leveraged as carriers' balance sheet strength stand at unprecedented levels
- Ceding commissions are increasing reflective of higher expense ratios and program profitability
- Reinsurers have been supportive of new products required by carriers to meet their insureds' needs in the changing healthcare environment

U.S. – Medical Excess

- Excess Medical reinsurance capacity continues to grow
- New market entrants in 2014/2015
- Continued increases in large medical claim frequency and severity driving excess medical pricing up. Increases in large claims countered by competition and capacity, keeping price increases in check
- Continued uncertainty regarding impact of health care reform, in particular, business sold through the health exchanges

U.S. – Surety

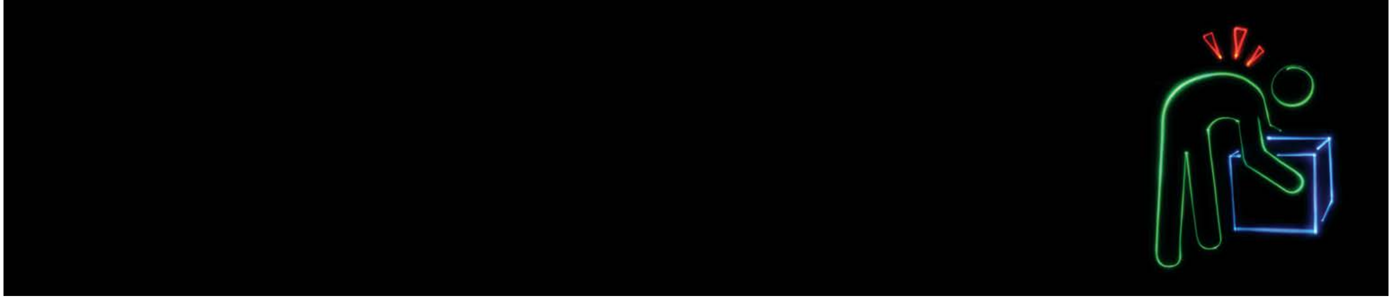
- Excess market supply contributed to meaningful rate concessions and, in some areas, expansion of terms and conditions; benign loss activity compounded market softening while inflows of capital continue to increase available capacity
- Price competition was largely driven by existing market participants seeking to maintain their market position; reinsurers, unwilling to cede longstanding positions to new entrants, continue to assume a defensive posture to maintain their level of participation
- Distressed programs were required to make economic concessions in order to achieve desired capacity; placements, where existing markets exited or reduced levels of participation, successfully found replacement capacity with relative ease
- Despite much speculation about economic scenarios that could change current market dynamics, the reality of any change remains elusive and uncertain; the industry continues to report exceptional results through the third quarter of 2014

Rates

Specialty rates

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	+5% to +10%	0% to -7.5%	0% to +20%	0% to -7.5%	N/A
Engineering	+5% to +7.5%	-15%	-5%	-20%	0%
Global – Trade Credit	+2%	-20%	-5%	-10%	N/A
Marine	0%	N/A	N/A	Varies	Varies
Non-Marine Retrocession	0%	Varies	N/A	Varies	N/A
Personal Accident / Life Catastrophe	0%	-15% to -25%	N/A	-15% to -25%	N/A
U.S. – Healthcare	0% to +5%	N/A	N/A	N/A	N/A
U.S. – Medical Excess	0%	0% to +10%	+10% to +30%	N/A	N/A

Note: Movements are risk-adjusted.



U.S. Workers' Compensation

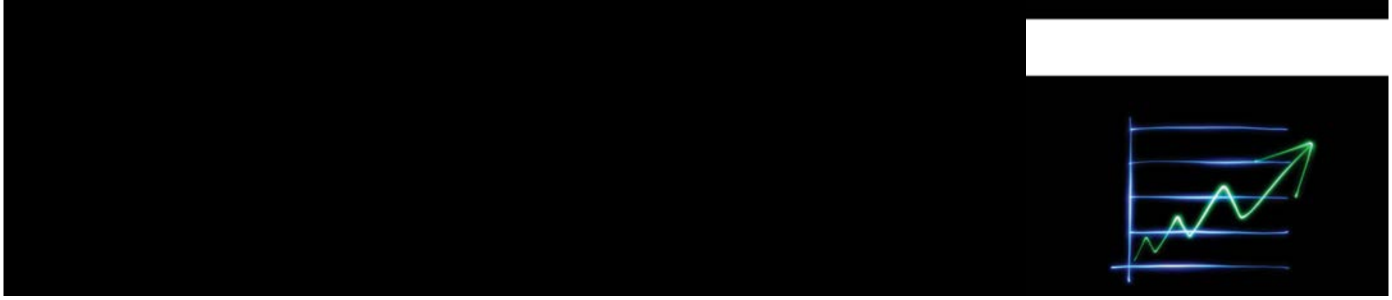
- Working Layer: the primary market is most likely peaking in the fourth quarter 2014 -combined ratios are good and rates have gone up. In general, reinsurers want to hang on to premium dollars. The primary working layers face mild headwinds with modestly rising loss costs and going into 2015 there is a general downward trend in manual rates. The interest rate environment is squeezing returns for traditional insurers and reinsurers.
- Below USD 2M attachment points the market has been relatively stable depending on the company's individual claim development
- Within the USD 8M in excess of USD 2M range, pricing has been stable and terms and conditions have widened
- Catastrophe pricing remains in the softening trend that has been continuous since 2002; overall rates are down 10% to 15%. California earthquake rates are down even further. Contributing to the California drop in rates are changes to the catastrophe models. RMS in particular significantly decreased the loss calculations in locations that are further away from the epicenter. This change has greater impact on larger modeled earthquake events and therefore the pricing decrease is more evident at higher return periods.
- The quota share market is quite active and relatively aggressive as alternative capital is looking to deploy their capital in this space. Alternative capital is assuming they can make a 5% to 7% return on investment which allows them to be more aggressive in their terms and conditions.

In response to Congress adjourning December 16th without renewing TRIA:

- There are many companies in the market looking for capacity on top of their existing programs. The majority are smaller firms and state funds, but some of these are looking for large stretches of capacity. A.M. Best is driving a good proportion of this buying. Most of this additional buying is Terror only and not an extension of the all perils catastrophe program.
  1. Pricing seems to be centering around the 1.25% to 2.0% Rate On Line range depending on size and geographic footprint of the exposure
  2. Early cancellation provisions are common with minimum premiums generally at two or three month minimums
  3. Coverage are both including and excluding Nuclear, Biological, Chemical and Radiological
- Reinsurers are being asked to absorb a significant amount of aggregate capacity. We are seeing the available capacity beginning to tighten up in some geographic locations (New York and California) although these programs are filling out at the time of writing. As available capacity tightens, rates will be impacted. If TRIA renewal discussions progress favorably, we do not see additional rating pressure developing.

Rates

Workers' Compensation rates			
Territory	**Pro rata commission**	**Catastrophe XL – % change**	**Per life XL – % change**
United States	+2% to +5%	-3% to -8%	0% to +10%



Capital Markets

- Catastrophe bond spreads have declined 15% to 20% year over year
- 2014 has been a record-breaking year for non-life catastrophe bond issuance with approximately USD8 billion of issuance this year; collateralized reinsurance also continues to grow; although the rate of growth may not be as pronounced in 2015, there are no signs of growth abating
- Secondary trading has picked up with the end of the benign hurricane season and the robust new issue activity
- Investors have increasingly strong interest in sidecars and quota shares structures
- M&A activity has recently accelerated as carriers continue to look for increased scale to combat competitive market pressures.
- Smaller underscale carriers lacking competitive differentiation are beginning to evaluate their strategic alternatives

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