

WILLIS RE 1ST VIEW

1 APRIL 2009

CONSERVING CAPITAL

Willis

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RENEWALS – 1 APRIL 2009

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1ST VIEW

This thrice yearly publication delivers the very first view on current market conditions to our readers. In addition to real-time Event Reports, our clients receive our daily news brief, *Willis Re Rise 'n' shinE*, periodic newsletters, white papers and other reports.

WILLIS RE

Global resources, local delivery

For over 100 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.

CONSERVING CAPITAL

The issues we discussed in our January *1st View* have not disappeared. As anticipated, reinsurers reported poor investment results for 2008 but at the same time, the majority managed to produce some underwriting profit, resulting in overall positive results. Yes, 2008 was markedly down from 2007, but compared to the wider financial services community, reinsurance companies have performed well during a period of extreme turmoil. As a result, the reinsurance market stands out as the only capital market operating smoothly, and buyers remain able to access large quantities of contingent capital.

Investment performance remains a key ongoing challenge for the managers of reinsurance companies in 2009. Also, deteriorating Hurricane Ike losses and a growing need to increase prior year casualty reserves cannot be overlooked. These pressures on results and capacity are also compounded by the extreme volatility of currency rates of exchange. This has impacted capacity, particularly for those reinsurers reporting in Sterling – feeding pricing pressures in areas of peak demand.

Similar to other sectors, access to the wider capital markets still remains challenging for insurers and reinsurers. The few encouraging signs of fresh capital being raised remain modest – Lloyd's outperformed in recent months and has access to a wider range of investors, including private capital from names. The Catastrophe Bond Market, which stalled following the collapse of Lehman Brothers, has adjusted its product and reopened. A number of bonds expired towards the end of 2008 so existing investors need to redeploy their funds but it is not yet clear if any fresh capital has been attracted to the Catastrophe Bond Market.

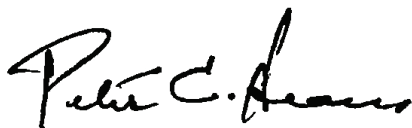
Buyers continue to want to better understand their reinsurance trading partners' financial security. While most reinsurers have responded by stepping up efforts to increase disclosure when reporting 2008 results, it has not reduced the buyers' desire to seek greater diversification in their reinsurer counterparties. At the same time, capacity and price continue to play key roles in buyer decision-making, the importance of which has only modestly diminished at 1st April renewals and have on occasion outweighed the desire for diversification.

Increasing reinsurance pricing is also leading to greater focus on original policy terms and conditions, as buyers and sellers try to match risk protection against expense constraints stemming from the global economic slowdown. In some niche markets, where exposures are particularly challenging, such as the Gulf of Mexico, there are signs that some clients are opting to drop cover, but as at 1st January, a reasonable balance seems to be prevailing in the main.

No commentary on the 1st quarter of 2009 can overlook the global clamor for heightened regulation. Increased impetus is being given to the various projects aimed at enhancing global insurance regulatory oversight and transparency. Since potential slippage in implementing project timetables is now less likely to be acceptable, the opportunity for debate around some of the more contentious aspects is likely to be curtailed.

Merger and acquisition activity in the 1st Quarter 2009 remained muted, largely due to the lack of access to financing. The basic business rationale, though, appears to be strengthening, indicating that traditional approaches may have to be revisited. The structure of the recently announced merger of Max Capital and IPC may point to a new approach more suited to today's capital-constrained world – an all-stock, no premium merger.

Despite the challenges facing the global reinsurance industry, the increased demand for reinsurance which started at 1st January, continues strongly to 1st April and shows no sign of diminishing. In the remainder of this report, we set out the movements in pricing and conditions by class and territory that have been observed by Willis Re teams over the 1st April 2009 renewal season.



Peter C. Hearn
Chief Executive Officer, Willis Re
31st March, 2009

CASUALTY

TERRITORY AND PLACEMENT TYPE

UNITED STATES – CASUALTY

- Risk Risk covers with better than average experience and no signs of loss development are experiencing slight rate increases to compensate for loss trends and three years of continuous rate decreases. Covers with losses or signs of loss emergence are experiencing more significant rate increases and some tightening terms and conditions.
- Cat or Clash Very little “true” casualty clash continues to be purchased, especially for larger companies. The more common casualty occurrence covers are experiencing the same results as the per risk covers above.
- Pro Rata Pro rata business with good loss experience and reasonable ceding commissions is being renewed at expiring with some slight decreases.

TERRITORY AND COMMENTS

JAPAN – PERSONAL ACCIDENT

- Pricing generally flat on a risk-adjusted basis.
- Sufficient capacity available despite rate of exchange issues.
- Stable renewal.

JAPAN – LIABILITY

- Certain leading markets insisting on tighter coverage.
- Distinction between domestic exposures and those contracts with significant overseas coverage.

KOREA

- Underlying portfolios generally flat in light of deteriorating economic outlook.
- No change in loss patterns currently discernable.
- Ample reinsurance capacity leading to flat renewals.

UNITED STATES – CASUALTY

- Conditions remained relatively unchanged from 1st January renewal with conditions in the casualty insurance market more competitive than those in the reinsurance market.
- Much of the new casualty capacity that entered the market looking for reinsurance support is either still trying to complete placements or is accepting very restrictive terms and conditions.
- We believe the casualty insurance market will continue to remain challenging throughout 2009.

RATES

| TERRITORY | Pro Rata Commission | XL – No Loss Emergence % Change | XL – With Loss Emergence % Change |
|---------------|------------------------|---------------------------------------|---|
| India | N/A | +10% | N/A |
| Japan | N/A | 0% to +7.5% | 0% to +25% |
| Korea | N/A | 0% to -5% | N/A |
| United States | 0% to -2% | 0% to +5% | +10% to +30% |

SPECIALTIES

LINE OF BUSINESS AND PLACEMENT TYPE

ENGINEERING

- Risk Prices have remained flat in spite of in force exposure increases from previous underwriting years.
- Cat or Clash Upwards pressure on price with prices increasing by up to 5%.
- Pro Rata Pressure on commissions with reductions negotiated when results do not satisfy actuarial pricing.

MARINE – JAPAN

- Risk Marine reinsurers are looking for a stable trend and, while taking into account reduced exposures, reductions are not common.
- Cat or Clash See above.

LINE OF BUSINESS AND COMMENTS

AEROSPACE

- Aviation Reinsurance rating continues to show some signs of firming, with pricing differentials against expiring ranging from, at best “as before” to modest levels of increase.
- The Colgan Air loss of 12th February 2009, with 49 fatalities, has again shown the increase in severity of loss as the current liability reserve is US\$ 335 million.

CAPITAL MARKETS

- Catastrophe bond market reactivated – structural concerns have been addressed and investor markets settled-down.
- Active market in private transactions, both on Ultimate Net Loss and Industry Loss Warranty bases.
- Investors driven by return and thus focused on U.S. perils.
- Equity and debt markets remain difficult for re/insurers; growth anticipated in merger and acquisition activities.
- The markets are looking for an increase of 25% to 30%.

CREDIT AND BONDS – JAPAN

- Capacity more restrictive due to economic downturn.
- Rate of exchange impacting reinsurers’ ability to accept larger special limits while concerns about the Japanese economy are increasing the focus on the performance of SME business.
- A small number of new market entrants assisting with the provision of replacement capacity.



ENGINEERING

- Increase in pro rata capacity has been resisted by reinsurers.
- Pro rata treaty actuarial “pricing” remains critical relative to accumulation control and cycle management.
- Upwards pressure on XOL rates on combined risk / event programs.

MARINE – JAPAN

- Pro rata – recent years’ treaty results have necessitated commission reductions and improved methods of risk and claims management.
- Excess of loss – economic crisis has had major impact on cargo premium income generation and therefore exposures. Rates are steady as the reinsurers seek to maintain rating levels. Allowance has been made for decreased exposure.

RATES

| TERRITORY | Pro Rata Commission | XL – No Loss Emergence % Change | XL – With Loss Emergence % Change |
|--------------------------|------------------------|---------------------------------------|---|
| Aerospace | 0% | 0% to +10% | N/A |
| Credit and Bonds – Japan | 0% to -2% | N/A | N/A |
| Marine – Japan | 0% to -5% | 0% | 0% |



PROPERTY

TERRITORY AND PLACEMENT TYPE

INDIA

- Risk Companies continue to buy similar risk programs as last year. No significant change apart from higher prices.
- Cat or Clash Quotes more reflective of increased exposure. Clients buying higher limits.
- Pro Rata Commissions down, terms and conditions tightened. Capacity hard to find. GIC still the key market.

JAPAN – PROPERTY

- Risk Risk XL capacity remains plentiful with reinsurers continuing to seek diversification for their catastrophe acceptances. However, natural perils exposures within per risk programs continue to pose issues for reinsurers.
- Cat or Clash Rate of exchange movements have restricted capacity for both typhoon and earthquake, particularly for sterling denominated carriers. In addition, shortage or cost of retrocession has impacted reinsurers' ability to underwrite additional shares. Increased cost of capital has put more pressure on the low Rate on Line top layers.
- Pro Rata Commissions have remained stable. Fire pro rata results have improved for 2008 and earthquake proportional contracts have renewed smoothly with little movement in exposures.

KOREA

- Risk Stable pricing, but reinsurers increasingly focused on non-Korean exposures which have been driving rate increases.
- Cat or Clash Stable pricing, but reinsurers increasingly focused on non-Korean exposures which have been driving rate increases.
- Pro Rata Non-Korean exposure less of an issue as compared to excess of loss covers.

NON-MARINE RETROCESSION

- Risk Significant frequency of large risk losses keeping pressure on risk pricing.
- Cat or Clash Significant shortage of capacity and capital causing price increases.
- Pro Rata Any catastrophe-exposed contracts still difficult, with significant pressure on occurrence caps and commissions.

U.S. PROPERTY NATIONWIDE

- Risk Capacity increases and pricing improves significantly when layers are placed excluding critical catastrophe.
- Cat or Clash Reinsurers holding Terms & Conditions in a hardening market.
- Pro Rata Occurrence limits are being pulled back by reinsurers as they have limited catastrophe capacity to deploy.

U.S. PROPERTY REGIONAL

- Risk Capacity is generally readily available.
- Cat or Clash Hurricane Ike-impacted programs are seeing major price increases, especially in Texas
- Pro Rata Reinsurers likely to have less Florida pro rata capacity given the increased returns available on catastrophe excess of loss business.

TERRITORY AND COMMENTS

CARIBBEAN

- Trend for greater reinsurance underwriting discipline set at 1st January 2009 continuing.
- Reinsurance capacity sufficient, but price elasticity reduced.
- Global recession impacting premium growth estimates.

INDIA

- Detariffed market has meant increase in exposure not reflected in similar increase in Premium Income.
- Market Surplus Treaty has gone, but GIC compulsory cession still kept at 10%. This has meant decrease of automatic capacity in the Indian market.

NON-MARINE RETROCESSION

- Very little new capacity entered at 1st January, and some significant withdrawals. Demand for conventional continues to increase putting further pressure on price. Hurricane Ike losses stabilized, showing big variations, depending on extent to which wind pools were supported. Lack of available capital continues to be an issue, adding to price pressure.

U.S. PROPERTY NATIONWIDE

- Continued lack of critical catastrophe capacity especially for accounts with SE and Gulf wind.
- Reinsurers generally reserving capacity for renewal business, but wanting very high pricing for new business.
- Very little new pro rata capacity, although a hardening original market could attract some new capacity.

U.S. PROPERTY REGIONAL

- Many Florida renewals have come to the market early, but it is too soon to establish pricing trends.
- Demand for NE has seen pricing continue to increase.
- Some reinsurers are moving away from low single-digit Rates on Line as the returns are inadequate for the cost of capital.

RATES

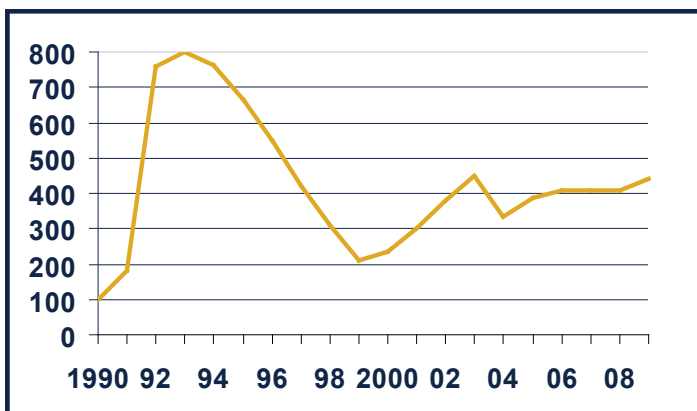
| TERRITORY | Pro Rata Commission | Risk Loss Free % Change | Risk Loss Hit % Change | Cat Loss Free % Change | Cat Loss Hit % Change |
|--------------------------|------------------------|-------------------------------|------------------------------|------------------------------|-----------------------------|
| Caribbean | 0% | 0% | N/A | +5% | N/A |
| India | 0% to -2% | +10% | +15% | +15% | N/A |
| Japan – Property | 0% | +5% to +10% | N/A | +5% to +10% | N/A |
| Korea | 0% to -2% | +5% | +15% | 0% to +5% | N/A |
| Non-Marine Retrocession | 0% to -5% | +10% | +25% | +15% | +25% |
| U.S. Property Nationwide | 0% to -10% | +15% | +25% | +20% to +25% | N/A |
| U.S. Property Regional | 0% | +5% | +15% | +5% to +10% | +15% to +30% |



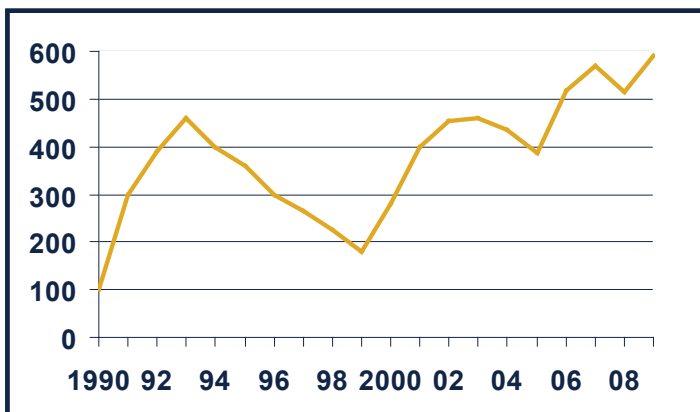
PROPERTY CATASTROPHE PRICING TRENDS

The charts on this page display Estimated Year-to-Year Property Catastrophe Rate Movement.

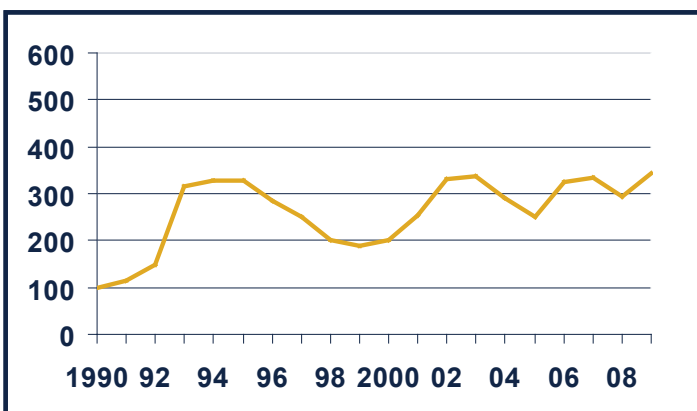
JAPAN



NON-MARINE RETROCESSION



UNITED STATES



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