

# GUY CARPENTER



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10<sup>th</sup> May 2010

## Under Pressure The Reinsurance Market in 2010

Chris Klein, London

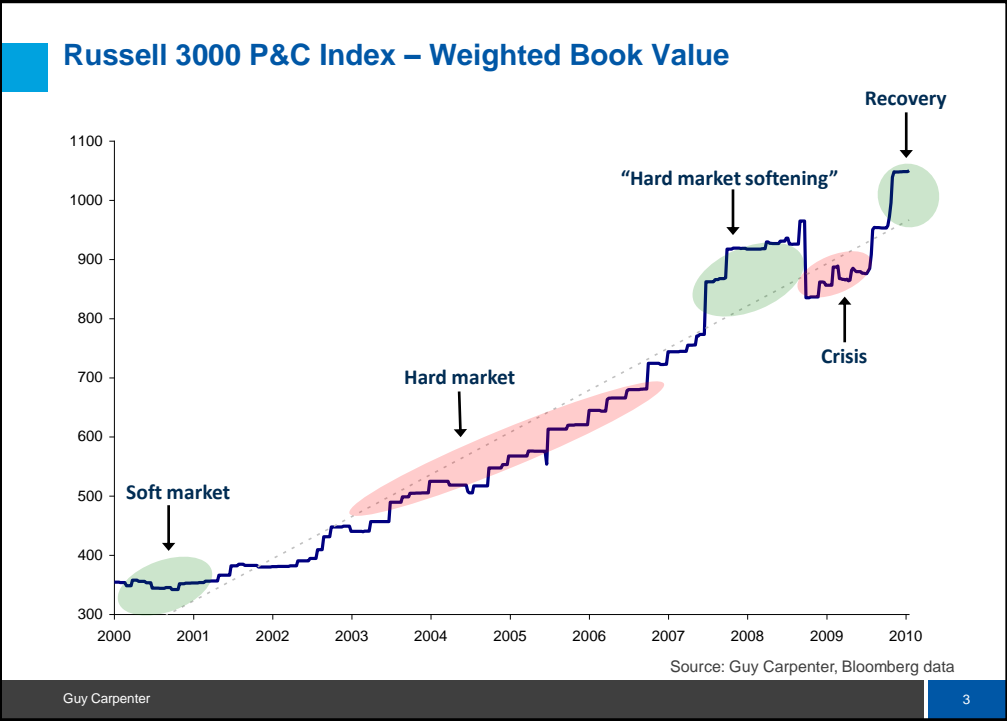
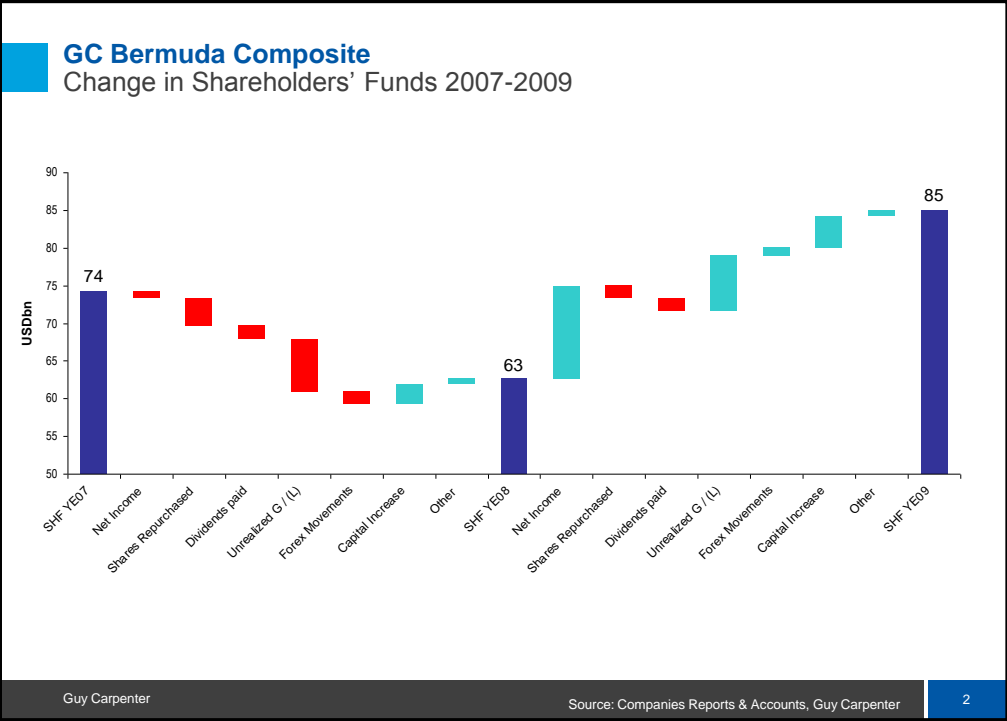
Global Head of Business Intelligence

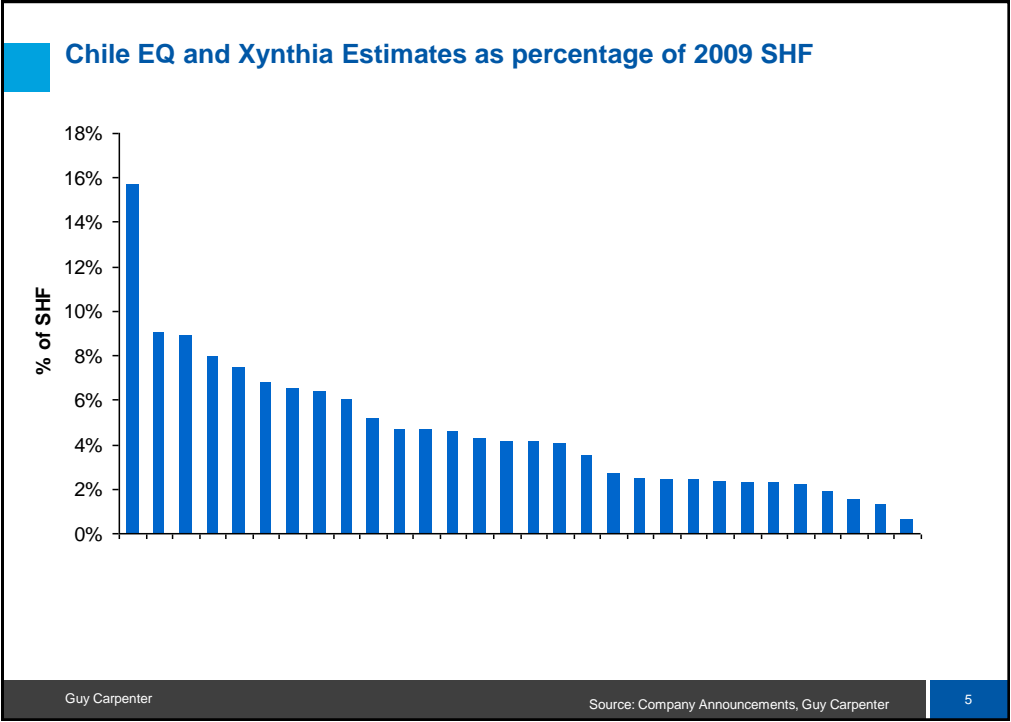
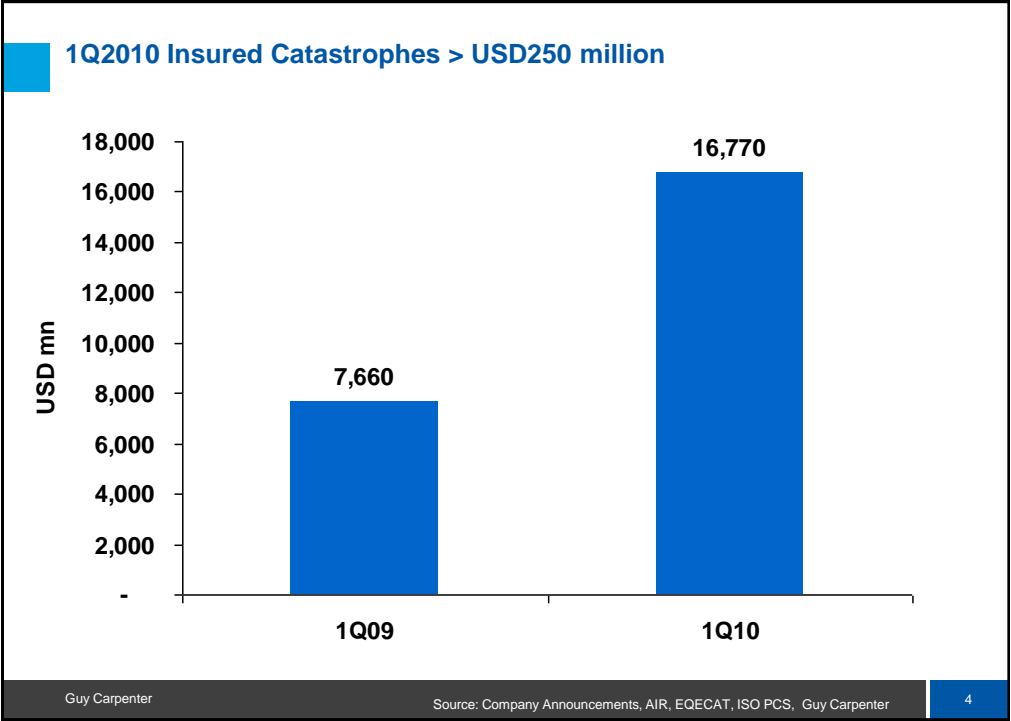
[www.guycarp.com](http://www.guycarp.com)

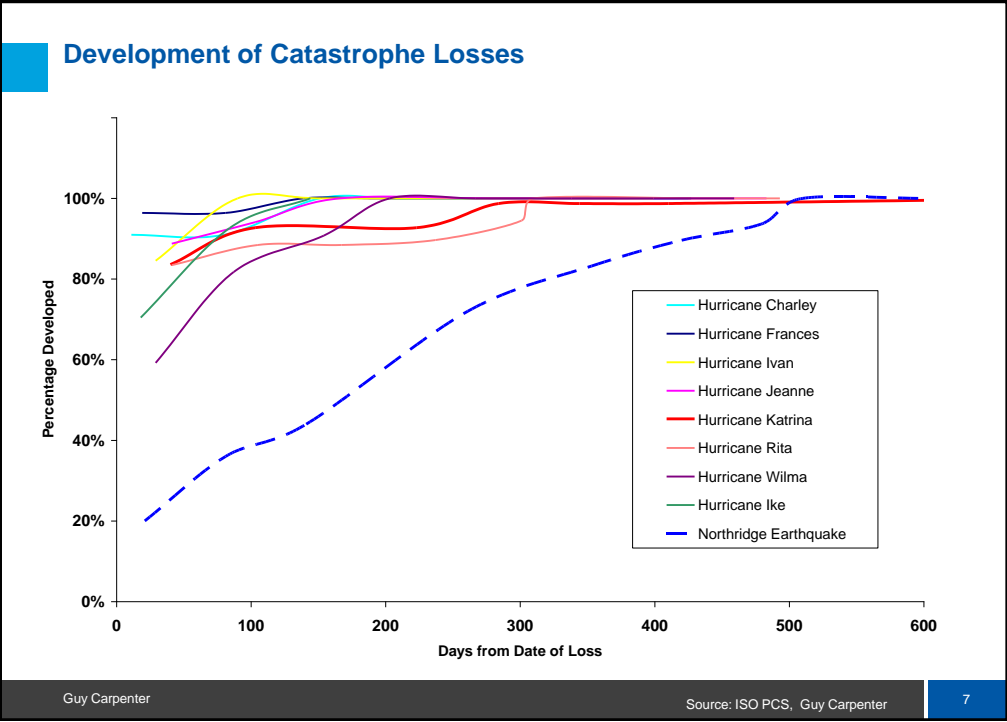
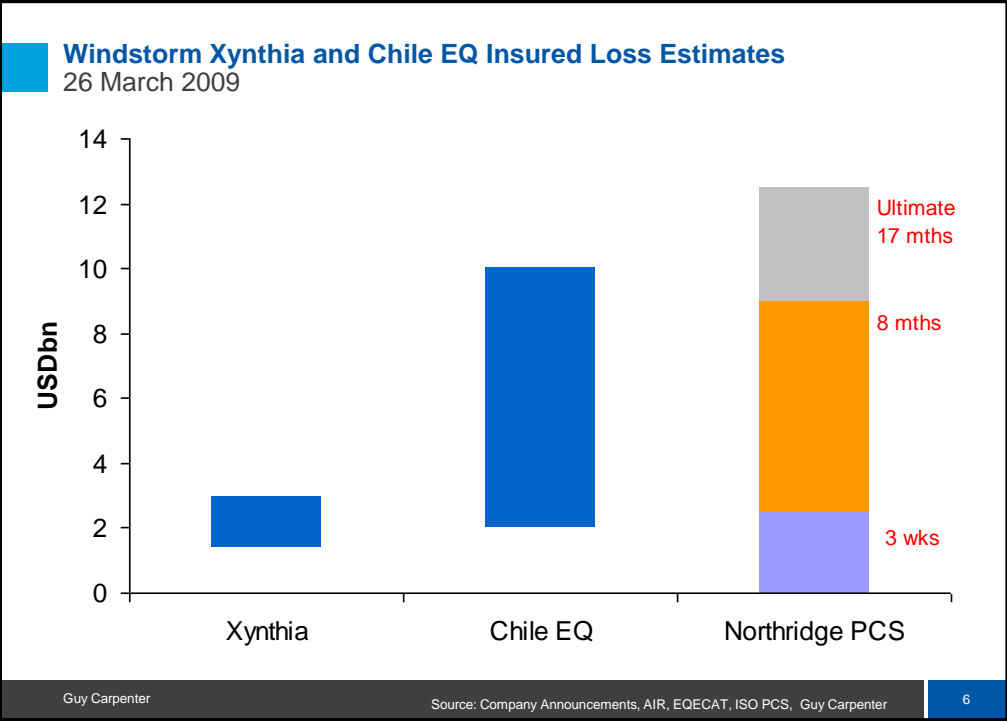
### The Financial Crisis A Greek Tragedy

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

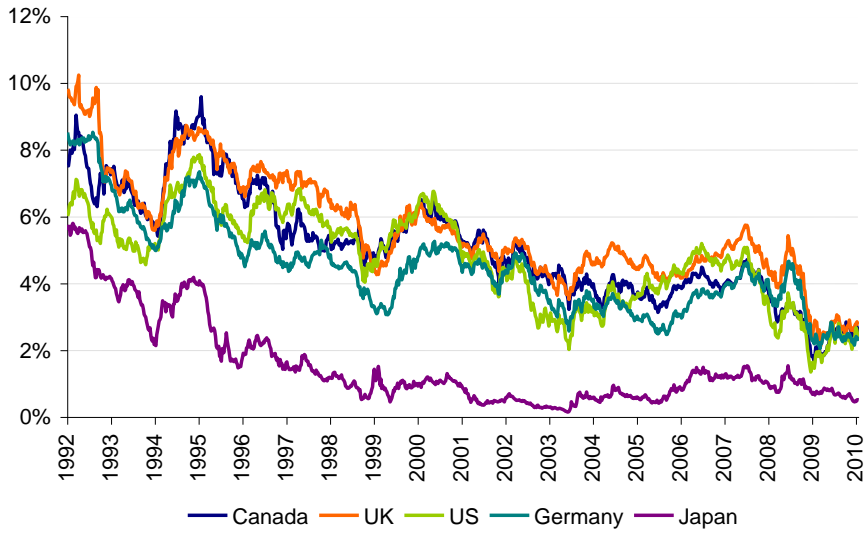








## Yields to maturity on “safe” assets at long-term lows

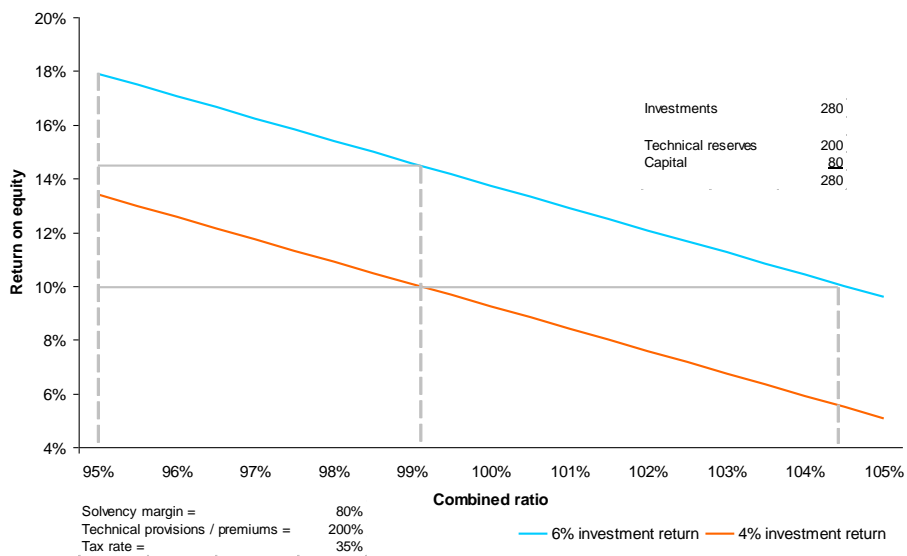


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Source: Guy Carpenter, Bloomberg data

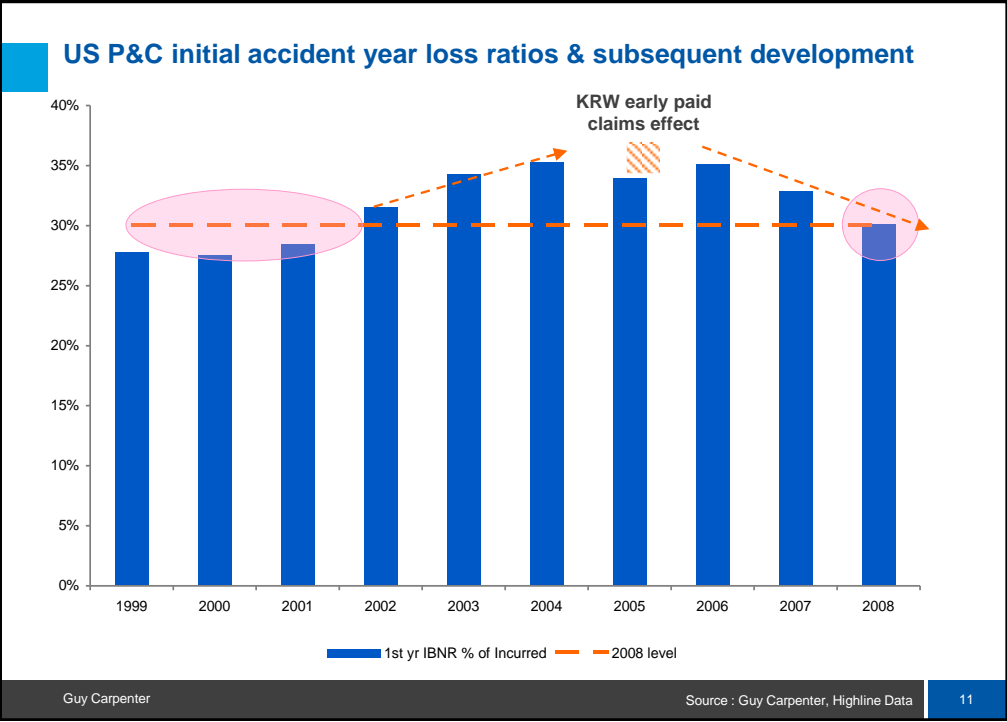
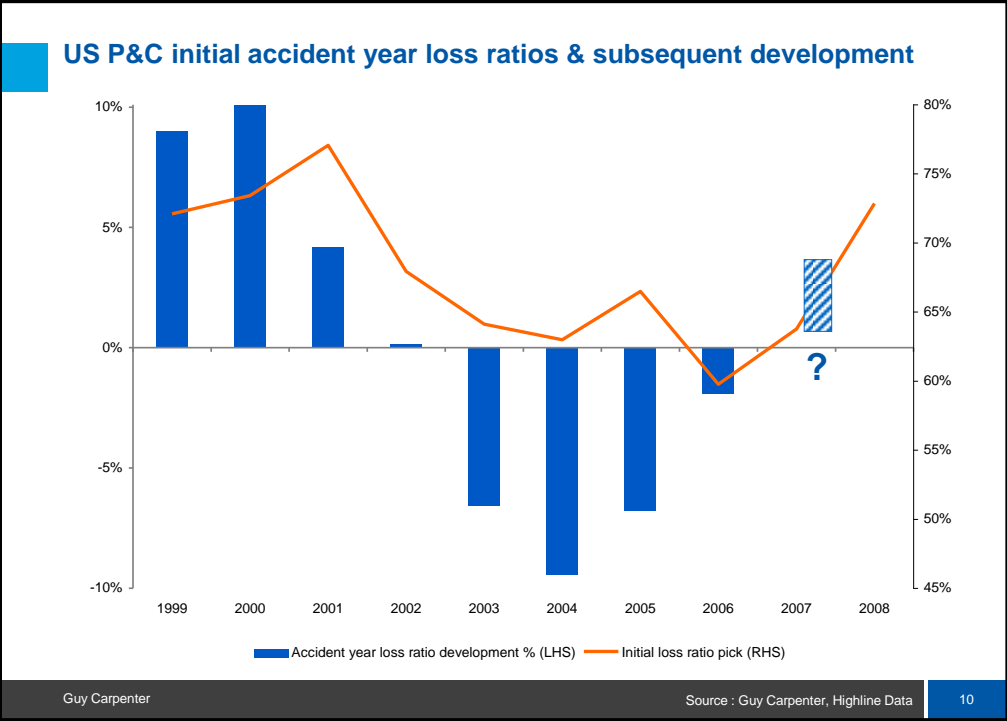
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## Low Yields = Underwriting Stretch

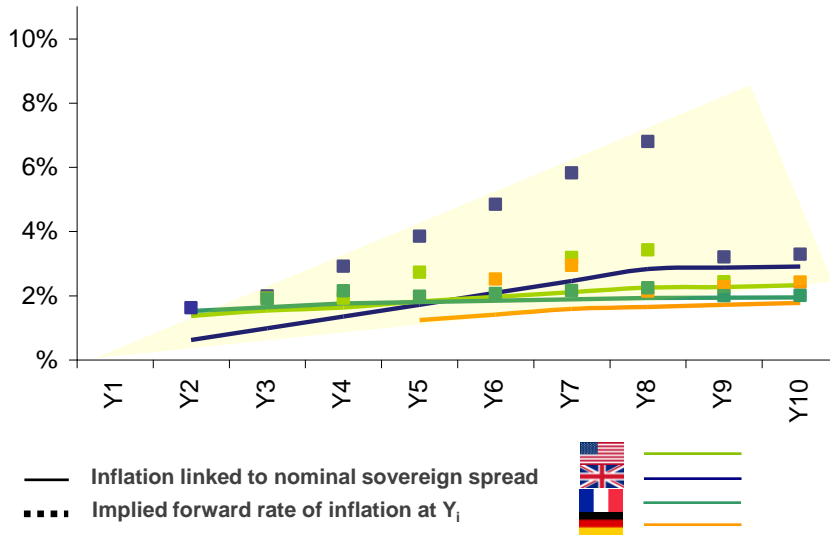


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## Western economies' implied forward inflation expectations



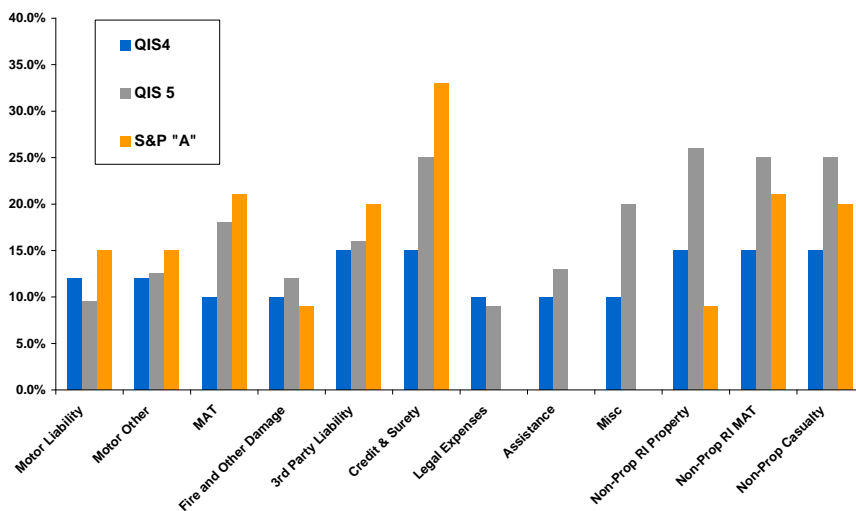
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Source: Bloomberg data, Guy Carpenter

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## Regulatory Squeeze – more capital, better capital

Solvency 2: QIS4, QIS5 and S&P "A" Non-life Reserving Factors



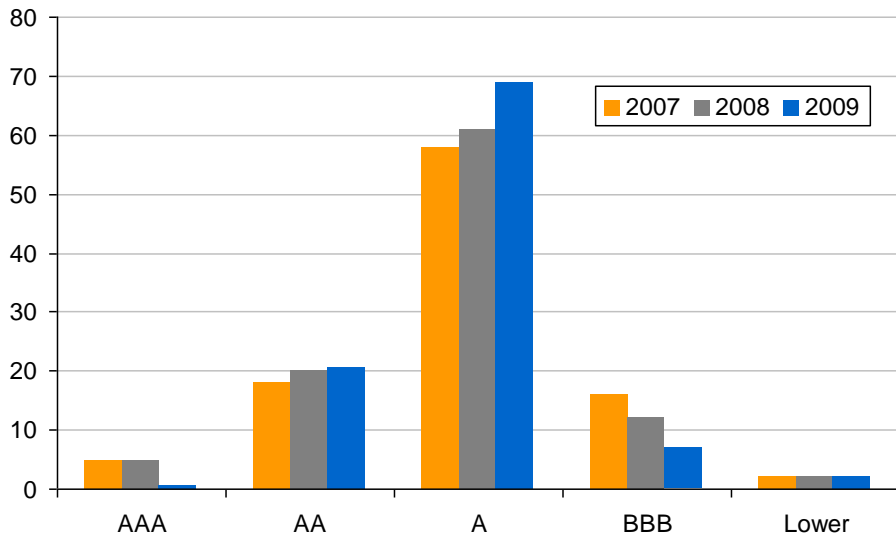
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Source: CEIOPS, Standard & Poor's

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All As are Equal...

S&P Ratings Distribution: Global Reinsurance

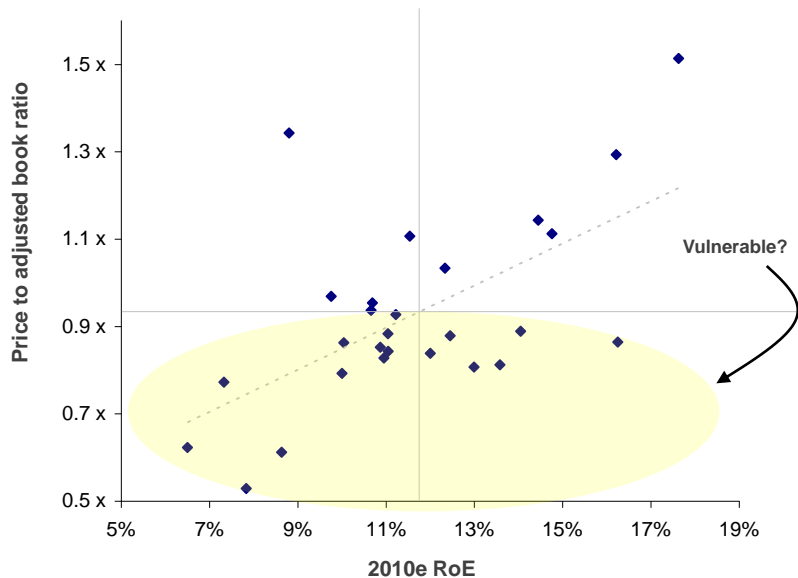


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Source: Standard & Poor's, Guy Carpenter

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Valuation dispersion could lead to additional M&A



Source: Guy Carpenter, Bloomberg data

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## 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

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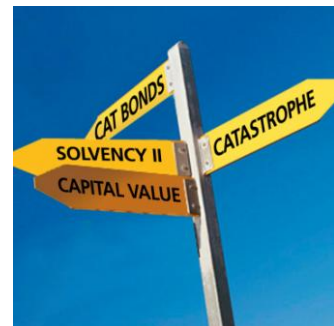
- **Pressure on returns:**

- Lower valuations
- Consolidation
- Return capital
- Medium-term price rises



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

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



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