Financial Review
April 23, 2012

2011 Losses Caused Minimal Squeeze on Capacity

Reinsurers Resilient Against Waves Of Catastrophes, Economic Uncertainty

In a word, "resilient" might best describe the financial position of global reinsurers, considering the volatile economic conditions and the frequent and severe loss events of 2011. The only year that produced larger cumulative insured catastrophe losses than 2011 was 2005, when hurricanes Katrina, Rita and Wilma (KRW), in combination with other, smaller events, produced about $125 billion in industry losses.

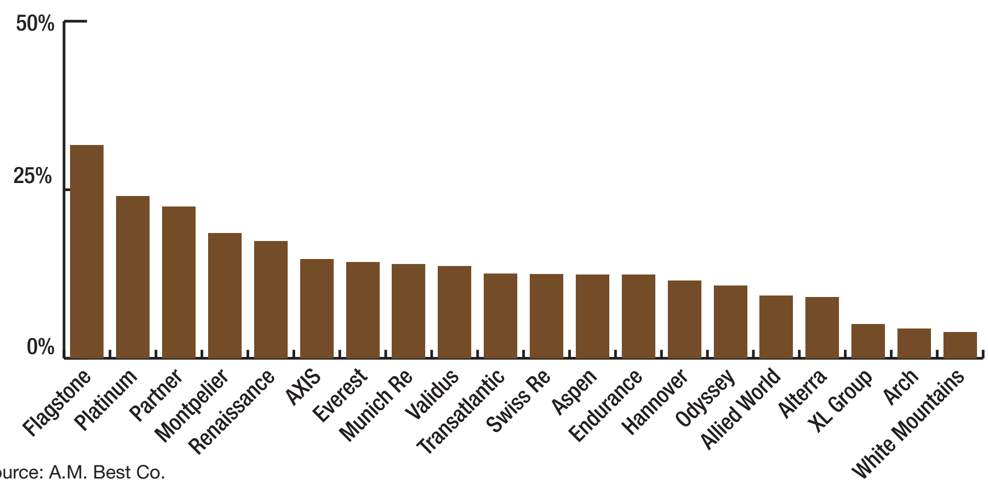
The numerous loss events of 2011 came very close to that tally with approximately $110 billion of losses. This time, however, the market responded without any significant dislocation or squeeze on capacity. The January and April 2012 renewals for the most part were orderly and timely. While pricing, terms and conditions improved for property catastrophe covers, the broader market benefited from a stable supply of reinsurance capacity, and pricing generally remained flat.

At the end of 2010, market observers questioned what it would take to turn the market. The April 2011 publication of A. M. Best's *Global Reinsurance Financial Review* posed the same question. The typical answer then was a significant loss of between $50 billion and $100 billion. Little did anyone know that 2011 would produce cumulative losses exceeding $100 billion.

Thank You, KRW

It is reasonable to ask why the market did not turn more broadly, considering all that 2011 offered: significant catastrophe losses, record low investment yields, uncertain financial markets and the downgrade of U.S. sovereign debt. The simple answer is that reinsurance capacity remained ample despite the magnitude of losses and unrelenting headwinds. Reinsurers absorbed their share of losses and ended the

Exhibit 1
Global Reinsurance – Major After-Tax Catastrophe Losses (2011)
As percentage of year-end 2010 shareholders' equity.



Source: A.M. Best Co.

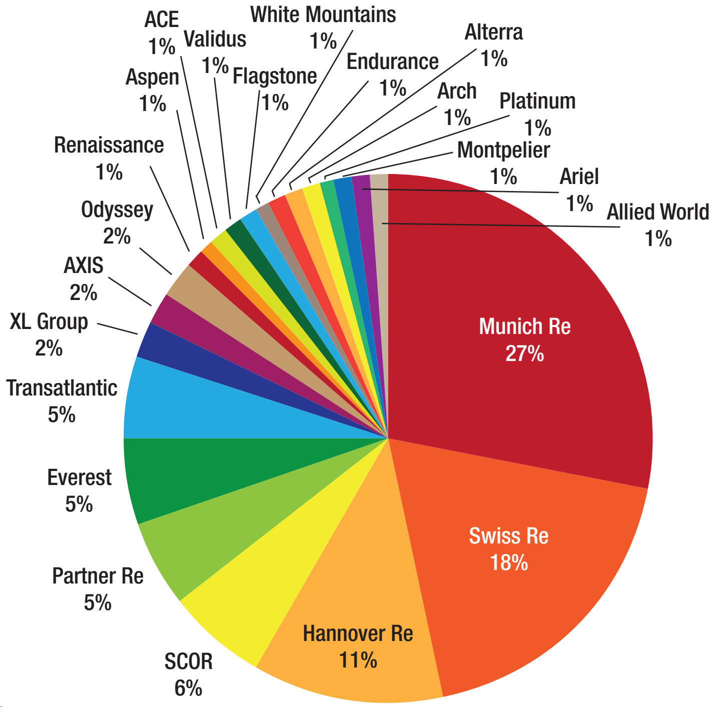
Analytical Contacts
Robert DeRose, Oldwick
+1 (908) 439-2200 Ext. 5453
Robert.DeRose@ambest.com

Greg Reisner, Oldwick
+1 (908) 439-2200 Ext. 5224
Greg.Reisner@ambest.com

Editorial Management
Brendan Noonan, Oldwick

Exhibit 2
Major Global Reinsurers – Market Share

Based on gross premium written for A.M. Best reinsurance composite (non-life only).



Source: A.M. Best Co.

year at approximately the same level of capital as they started. In fact, few reinsurers experienced cumulative loss impacts beyond their stated loss tolerances. For the majority of global reinsurers, the losses in 2011 amounted to nothing more then a negative earnings event.

Several factors contributed to this resilience. The overarching factors are the lessons learned from previous large catastrophic events. Since KRW, there has been a continuing evolution in enterprise risk management (ERM), which has strengthened overall risk management. It has encouraged prudent capital management strategies, which prepared companies for potential accumulation of risk, evidenced by the frequency of large losses occurring across geographically dispersed regions of the world.

Simultaneously, there have been advances in catastrophe and economic capital models. These tools significantly helped a reinsurer's ability to better allocate capital within complex risk portfolios. The models, while not perfect, helped keep both individual and cumulative losses in 2011 within stated risk tolerances for most of the global reinsurers. The recent changes in U.S. and European wind models give further evidence that reinsurers should not rely totally on models. The global reinsurers historically have taken a proactive approach to modeling, avoiding reliance on any one model and in many cases developing their own proprietary cat models. This has tended to result in a more conservative view of risk.

ERM's evolution will continue, and 2011 has offered some lessons as well. Historically, reinsurance companies have considered places such as Australia, New Zealand, and Thailand to be diversifying, nonpeak zones in relation to their peak zones. These zones, or "cold spots," were not expected to produce significant losses, and as a result

Exhibit 3

Global Reinsurance – Shareholders' Equity Movement Adjusted for Capital Management Activities (2011)

(USD Millions)

		Capital Management Activities							
Company	2011 Reported Sharehold-ers' Equity	Repurchase of Preferred, Common Stock & Options	Payment of Dividends (Common & Preferred)	Issuance of Common & Preferred	2011 Adjusted Sharehold-ers' Equity	2010 Reported Sharehold-ers' Equity	Adjusted Sharehold-ers' Equity Movement	Adjusted for Current Period Other Comprehen-sive Income (OCI)[1]	Adjusted Sharehold-ers' Equity Movement ex. Current Period OCI[1]
Flagstone	USD 789	USD (46)	USD (11)	USD 0	USD 847	USD 1,135	-25.4%	USD (6)	-24.8%
Odyssey	3,335	-	(2)	-	3,337	3,669	-9.0%	(10)	-8.8%
Partner Re	6,468	(414)	(206)	378	6,709	7,207	-6.9%	(17)	-6.7%
Montpelier	1,549	(88)	(31)	145	1,523	1,629	-6.5%	2	-6.6%
Platinum	1,691	(143)	(12)	-	1,845	1,895	-2.7%	171	-11.7%
Endurance	2,611	(344)	(73)	251	2,778	2,848	-2.5%	12	-2.9%
XL Group	9,425	(743)	(210)	926	9,452	9,611	-1.7%	482	-6.7%
Renaissance	3,605	(192)	(88)	-	3,885	3,936	-1.3%	(8)	-1.1%
Everest	6,071	(92)	(104)	-	6,268	6,284	-0.3%	35	-0.8%
Aspen	3,172	(8)	(65)	-	3,246	3,241	0.1%	105	-3.1%
Greenlight	803	-	-	-	803	793	1.2%	-	1.2%
Validus	3,448	(6)	(108)	-	3,562	3,505	1.6%	(1)	1.7%
SCOR	5,701	-	(260)	-	5,961	5,857	1.8%	(176)	4.8%
Munich Re	29,862	(418)	(1,449)	-	31,729	31,039	2.2%	1,312	-2.0%
AXIS	5,444	(66)	(243)	-	5,753	5,625	2.3%	(49)	3.1%
Transatlantic	4,083	(261)	(53)	-	4,397	4,284	2.6%	176	-1.5%
Ariel	1,261	-	(349)	-	1,611	1,545	4.2%	48	1.1%
Maiden Holdings	769	-	(21)	-	790	750	5.3%	10	4.0%
Alterra	2,809	(225)	(54)	-	3,089	2,918	5.8%	68	3.5%
Allied World	3,149	(140)	-	-	3,289	3,076	6.9%	(43)	8.3%
Arch	4,628	(288)	(26)	-	4,942	4,513	9.5%	(51)	10.6%
ACE	24,516	(195)	(459)	-	25,170	22,974	9.6%	317	8.2%
Hannover Re	7,260	-	(359)	-	7,619	6,899	10.4%	173	7.9%
Swiss Re	29,590	261	(1,035)	-	30,364	26,906	12.9%	2,780	2.5%
White Mountains	4,088	(253)	(62)	-	4,402	3,653	20.5%	(81)	22.7%
Total	**USD 166,129**	**USD (3,662)**	**USD (5,280)**	**USD 1,699**	**USD 173,372**	**USD 165,793**	**4.6%**	**USD 5,248**	**1.4%**

1. Current Period OCI is the difference between 2011 Accumulated Other Comprehensive Income and 2010 Accumulated Other Comprehensive Income.
Source: A.M. Best Co.

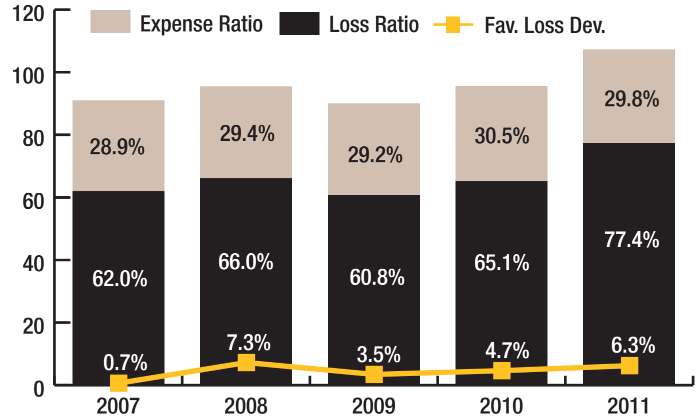
often were written at lower margins. That notion now has been challenged, and reinsurance companies have already responded by reallocating capacity and demanding higher rates.

Other factors also contributed to conservative capital management strategies. A. M. Best and the industry maintain rigorous capital stress tests to simulate the impact of catastrophic losses on a company's capitalization. Reinsurers have tended to maintain a capital cushion in excess of the capital stress hurdle to ease rating agencies' post-event concerns and maintain financial flexibility. This cushion enabled reinsurers to withstand the 2008 financial crisis, when asset values eroded, capital markets became constrained, and reinsurers were concerned about their ability to access capital markets. It also played a role in the curtailment of share repurchases despite continued low stock valuations.

Despite the tense financial environment of the past few years, highlighted by the European sovereign debt crisis, reinsurers' balance sheets actually benefited from the decline in interest rates, as unrealized gains helped to soften the erosion of capital from underwriting losses. By looking at the year-to-year change in accumulated other

Exhibit 4

Global Reinsurance – Combined Ratio & Loss Development (2007-2011)



Source: A.M. Best Co.

comprehensive income, A.M. Best gains some insight into the impact of unrealized gains/losses on shareholders' equity. In addition, capital management activities such as share repurchases, dividend payments and capital raises are monitored and, in certain analyses, are filtered out to view shareholders' equity movement through a different lens (see **Exhibit 3**).

Reserve adequacy, perhaps better characterized as "redundancy," also played a role. Here, the reinsurers have benefited significantly as prior accident years run off favorably. Accident years 2003 to 2006 have produced significant favorable reserve development, which reinsurers have been able to harvest over the past several years to offset the more recent compression in underwriting margins. In 2011, the pace of favorable reserve development surprisingly persisted and helped to soften the blow of the current year's losses, although not nearly enough to produce an underwriting profit.

To a meaningful extent, this trend of favorable reserve development has helped prolong the softening pricing environment that existed going into 2011. If nothing else, this past year's losses compound the need for hardening in rates. While pricing for nonpeak zones has improved after the losses, even with the improvement, it will take years for reinsurers to earn back their underwriting losses. Without the continued benefit of favorable reserve development, future underwriting margins in casualty business will be inadequate to cover the cost of capital, given the current interest rate environment.

Is the Game Changing *Enough*?

Over the past several years, reinsurers generally have experienced declining demand for capacity as primary companies have increased retentions across the board. There is increasing speculation that this trend is about to change. The recent spike in global catastrophe activity, along with an increased level of conservatism in catastrophe models, appears to have changed the perception of risk for many primary companies, particularly in the United States. However, that perception is still being shaped. As primary companies try to get their arms around the varying outputs of catastrophe models, in some cases they are purchasing reinsurance based on budgeted dollar amounts rather than exposures. This pattern of behavior has muted a more dramatic increase in pricing, but a day of reckoning could be coming.

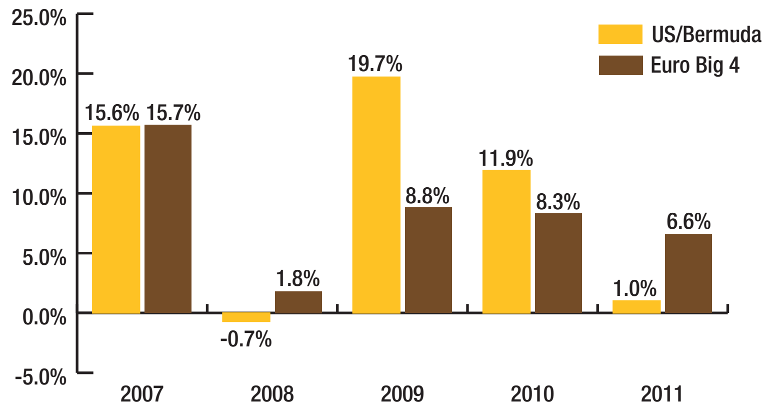
Some improvement in property catastrophe rates occurred at the January 2012 renewals. As of this writing, July renewals are expected to continue that trend. However, some reinsurers are reconsidering catastrophe limits exposure for what are considered nonpeak zones. Generally speaking, models are more uncertain or nonexistent for noncore regions, and by extension, adequacy of pricing can be questionable. Therefore, while catastrophe pricing has improved in certain regions, companies are reducing exposures as opposed to crowding into markets for larger shares. While diversification can be beneficial to a company, heavily diversifying to low-margin zones can be problematic when the larger losses occur. This has prompted primary carriers in Japan and Thailand to recognize the need for higher quality, more transparent data. Reinsurers need to get a better handle on exposure and loss aggregation, and they will try to make the pricing reflect any uncertainty.

Casualty classes also appear to have hit bottom, as deteriorating investment yields have made it increasingly difficult to achieve an economic profit on longer tail classes of business. Nevertheless, it is still unknown as to how long the market will bump along at the bottom. The global reinsurers are awaiting the inevitable change, which is very much needed to generate sufficient returns to cover the cost of capital. Until that time, the reinsurance market is expected to continue exhibiting a high standard of underwriting discipline and to remain focused on classes of business that afford reasonable rates of return.

Exhibit 5

Global Reinsurance – Return on Equity (2007-2011)

U.S./Bermuda vs. European "Big 4."[1]



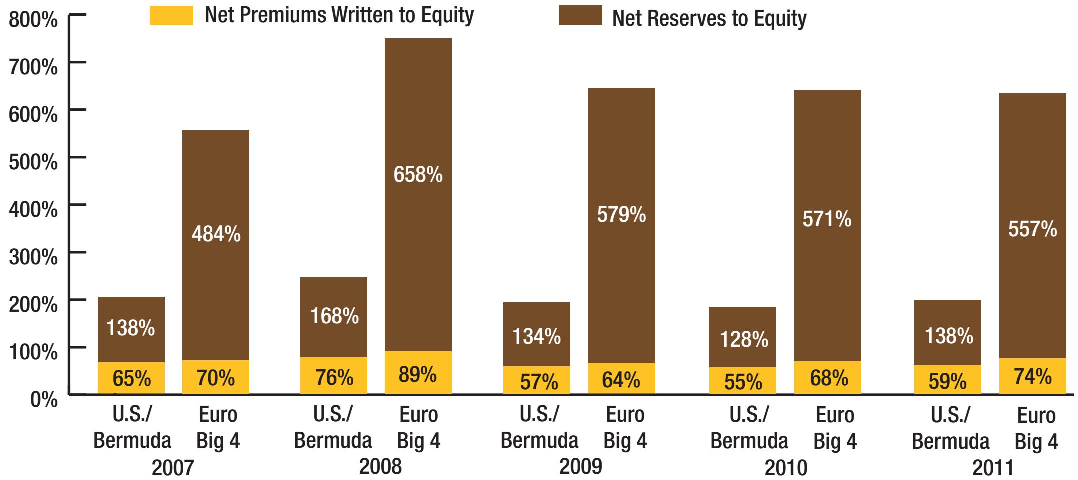
1. Munich Re, Swiss Re, Hannover Re and SCOR
Source: A.M. Best Co.

Financial Performance: Walking the Tightrope

The composite analysis of global reinsurers illustrates the sector's financial resilience through one of the more costly catastrophe years in history. While the sector produced an underwriting loss for 2011, overall earnings were breakeven, and capital came through the year flat. In measuring underwriting performance, the composite calendar-year combined ratio of 107.2 included nearly 20 points of catastrophe losses, and slightly more than six points of favorable reserve development (see **Exhibit 4**). Net investment income and modest realized capital gains offset underwriting losses to produce a small overall profit for the year. Unrealized capital gains attributed to declining interest rates against fixed portfolios also helped to stabilize the composite's capital position. Capital management strategies in the form of share repurchases continued, but to a lesser degree as compared with prior years. However, given the low share price to book valuations, many reinsurance companies continue to see share repurchases as very attractive.

Dissecting the performance between the "Big 4" European reinsurers – Munich Re, Swiss Re, Hannover Re and SCOR – and those operating in Bermuda and the United States draws some distinct parallels and differences. Overall, European reinsurers' capitalization seemed to hold up better as compared with those in Bermuda. Underwriting performance across both segments was eerily consistent. At first, this would seem unlikely, given that two-thirds of 2011 catastrophe losses occurred outside the United States. While the European reinsurers do have better penetration in Asia, they also benefit from significantly larger capital bases and greater global diversification in business classes. In particular, the European reinsurers have significant life operations, which serve as ballast for their income streams and capital bases. Bermuda, while a market for a broad spectrum of risks, is still predominantly a property catastrophe market and therefore more prone to the impact from catastrophe shock losses, regardless of where

Exhibit 6
Global Reinsurance – Underwriting Leverage (2007-2011)
U.S./Bermuda vs. European "Big 4."[1]



1. Munich Re, Swiss Re, Hannover Re and SCOR
Source: A.M. Best Co.

they occur. So, while underwriting performance for both segments was comparable, the impact on capital by company indicates that Bermuda-based companies absorbed a larger relative share of shock losses in 2011 than did the Europeans.

Over the past several years, the reinsurance sector has benefited from favorable loss-reserve development emanating from the hard market of 2003 to 2006. This trend continued in 2011, as favorable development averaged more than six points on the combined ratio. Favorable development was particularly noteworthy for Swiss Re, which benefited from the release of $1.7 billion in 2011. This enabled the company to report a calendar-year combined ratio of 101.5 – an outstanding accomplishment, particularly when contrasted against the composite average. Favorable reserve development has been running at about six points on the combined ratio for the Bermuda players for the past several years. This compares with about 2.9 points for the European players over the recent five-year period. Expectation is building that this degree of favorable reserve development will not hold. Without this benefit, there will be increased pressure on underwriting margins to generate earnings, as long as investment yields remain lackluster.

Regarding investment yields, with U.S. Federal Reserve Chairman Ben Bernanke maintaining his pledge to keep the federal funds rate near zero until at least late 2014, and the European Central Bank holding its key interest rate at a record low, companies are planning for a low rate environment while risk managing for a potential spike in rates. So with the trifecta of low investment yields, unsustainable loss-reserve development and less than robust pricing power, the reinsurance sector and the global insurance industry as a whole are walking a tightrope. Several years into this, the rope appears to be miles long.

Cycle Management: A Balancing Act

Cycle management remains the most important key to long-term success. Global reinsurers have executed this strategy in recent years, but it was not all that long ago when it seemed nonexistent. Some twists occurred in this area in 2011, but overall the concept remained intact, which is very good news. The heavy catastrophe losses early in the year presented some concerns to management as to the amount of excess capital that would be available to support share-repurchase authorizations. At that point, the potential for a significant U.S. hurricane and a continued volatile economic and investment climate were looming threats. Companies acted appropriately to conserve capital by curbing share buybacks and larger dividends – despite low stock valuations – until the dust settled.

As it turned out, reinsurers did not end the year searching for ways to boost capitalization as they had at the end of 2008, but rather found themselves in a relatively solid capital position and with only limited new business prospects going into 2012. This solid capital position, coupled with depressed valuations, led some companies to indicate a stronger potential for the resumption of more aggressive capital management strategies in 2012, should sound underwriting opportunities not emerge.

In terms of access to capital, 2011 did bring the formation or recapitalization of a few sidecars, intended to take advantage of emerging opportunities in retrocessional reinsurance brought about by the losses in Asia (see **Exhibit 7**). This form of capacity has proved to be well suited to the Bermuda market, where the sponsors have the talent and infrastructure to seize an opportunity, but not necessarily the willingness or capacity to undertake the magnitude of risk against their own balance sheets. There was also some new capacity entering this segment of the market, backed by hedge fund capital. As with any market opportunity, there will always be sources of new capital chasing short-lived opportunities, which become even shorter lived as capacity floods the space.

The low interest rate environment, while a drag on the ability to earn a sustainable level of investment income, did present the opportunity to cut the cost of capital by

Exhibit 7

2011 Special Purpose Vehicles (SPV) and Capital Inflows

Currency in millions.

Company/Sponsor	SPV/Capital Instrument Description	Date	2011 Amount
U.S. Dollar Transactions			
Swiss Re America	Successor X Ltd. (Series 2011-2)	February 2011	USD 305
Munich Re	Queen Street II Capital Ltd	March 2011	100
Alterra Capital Group Limited	New Point IV	April 2011	210
Validus Holdings Limited	Alpha Cat Re 2011, Ltd	April 2011	180
Lancashire Holdings Limited	Accordion Reinsurance Limited	May 2011	250
Montpelier Re Holdings Ltd.	Preference Shares	May 2011	150
Endurance Specialty Holdings	Preference Shares	May 2011	230
DaVinci Re Limited	Equity capital	May 2011	100
Argo	Loma Reinsurance Ltd 2011-1	June 2011	100
Partner Re Ltd.	Preference Shares	June 2011	325
Munich Re	Queen Street III Capital Ltd	July 2011	150
XL Group Ltd	Senior Notes	September 2011	400
XL Group Ltd	Preference Shares	October 2011	350
Munich Re	Queen Street IV Capital Ltd	October 2011	100
Swiss Re	Successor X Ltd. (Series 2011-3)	November 2011	130
Third Point Re	Hedge Fund Backed start up	December 2011	700
Argo Re	Loma Reinsurance Ltd 2011-2	December 2011	100
SCOR Global PC	Atlas VI Capital	December 2011	270
USD Total			**USD 4,150**
Euro Transactions			
Munich Re	Subordinated Bonds	March 2011	EUR 1,000
SCOR	Contingent capital facility drawdown	June 2011	75
SCOR Global PC	Atlas VI Capital	December 2011	50
EUR Total			**EUR 1,125**

Source: A.M. Best Co.

Exhibit 8

Global Reinsurance[1] – Trend Summary (2007-2011)

(USD Billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 101.6	USD 99.0	USD 93.5	USD 100.7	USD 108.4
Net Premiums Earned (Non-Life only)	101.6	97.0	101.2	100.3	105.4
Net Investment Income	19.6	24.5	28.1	22.4	24.6
Realized Investment Gains/(Losses)	0.5	-12.3	-4.2	10.6	2.3
Total Revenue	181.5	153.8	176.5	198.4	196.9
Net Income	22.4	0.7	17.9	16.9	5.7
Shareholders' Equity (End of Period)	151.1	120.9	155.4	165.8	166.1
Loss Ratio	62.0%	66.0%	60.8%	65.1%	77.4%
Expense Ratio	28.9%	29.4%	29.2%	30.5%	29.8%
Combined Ratio	90.9%	95.4%	90.0%	95.6%	107.2%
Loss-Reserve Development	-0.7%	-7.3%	-3.5%	-4.7%	-6.3%
Return on Equity	15.6%	0.5%	12.8%	10.4%	3.4%
Return on Revenue	12.4%	0.4%	10.2%	8.5%	2.9%
NPW (Non-Life Only) to Equity (End of Period)	67%	82%	60%	61%	65%
Net Reserves (Life & Non-Life) to Equity (End of Period)	301%	384%	326%	317%	320%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	339%	428%	359%	348%	344%

1. The Global Reinsurance composite combines the U.S. Reinsurance & Bermuda market (**Exhibit 9a**) and the European "Big 4" reinsurers (**Exhibit 9b**).
Source: A.M. Best Co.

refinancing existing debt. A few companies have taken advantage of this opportunity, mostly by going to market for preference shares. Proceeds for the most part have been used to pay down costlier debt.

With the prospects for improved profitability in 2012, but only limited opportunities for growth, management of capital will be critical to balance investors' demands with capital requirements from regulators and rating agencies. Additionally, the role of the

Exhibit 9a

U.S. Reinsurance & Bermuda Market – Trend Summary (2007-2011)

(USD billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 51.6	USD 51.6	USD 50.3	USD 52.6	USD 55.0
Net Premiums Earned (Non-Life only)	52.0	52.1	51.1	52.4	54.4
Net Investment Income	8.9	7.6	8.2	8.1	7.6
Realized Investment Gains/(Losses)	0.3	-6.0	0.8	2.2	-0.1
Total Revenue	**62.0**	**55.9**	**63.1**	**65.7**	**64.6**
Net Income	**11.7**	**-0.5**	**12.4**	**11.2**	**0.9**
Shareholders' Equity (End of Period)	79.9	67.6	88.4	95.1	93.7
Loss Ratio	57.9%	64.2%	56.1%	61.8%	77.3%
Expense Ratio	28.8%	29.4%	29.7%	30.9%	30.0%
Combined Ratio	86.7%	93.6%	85.8%	92.7%	107.3%
Loss-Reserve Development	-4.2%	-7.3%	-6.1%	-6.2%	-6.0%
Return on Equity	15.6%	-0.7%	16.0%	11.9%	1.0%
Return on Revenue	18.9%	-0.9%	19.7%	17.1%	1.5%
NPW (Non-Life Only) to Equity (End of Period)	65%	76%	57%	55%	59%
Net Reserves (Life & Non-Life) to Equity (End of Period)	138%	168%	134%	128%	138%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	178%	215%	167%	158%	169%

Source: A.M. Best Co.

Exhibit 9b

European “Big 4” Reinsurers[1] — Trend Summary (2007-2011)

(USD Billions)

	2007	2008	2009	2010	2011
Net Premiums Written (Non-Life only)	USD 49.6	USD 47.4	USD 43.1	USD 48.1	USD 53.4
Net Premiums Earned (Non-Life only)	49.6	44.9	50.2	47.8	51.0
Net Investment Income	10.8	16.9	19.9	14.3	17.0
Realized Investment Gains/(Losses)	0.2	-6.3	-5.0	8.3	2.4
Total Revenue	**119.5**	**97.9**	**113.5**	**132.7**	**132.3**
Net Income	**10.7**	**1.1**	**5.5**	**16.9**	**4.7**
Shareholders’ Equity (End of Period)	71.2	53.4	67.0	70.7	72.4
Loss Ratio	66.4%	68.1%	65.5%	68.8%	77.5%
Expense Ratio	29.1%	29.3%	28.8%	30.0%	29.5%
Combined Ratio	95.4%	97.4%	94.3%	98.8%	107.0%
Loss-Reserve Development	3.0%	-7.3%	-0.8%	-3.1%	-6.5%
Return on Equity	15.7%	1.8%	8.8%	8.3%	6.6%
Return on Revenue	8.9%	1.2%	4.8%	4.3%	3.6%
NPW (Non-Life Only) to Equity (End of Period)	70%	89%	64%	68%	74%
Net Reserves (Life & Non-Life) to Equity (End of Period)	484%	658%	579%	571%	557%
Gross Reserves (Life & Non-Life) to Equity (End of Period)	520%	697%	612%	604%	570%

1. Munich Re, Swiss Re, Hannover Re and SCOR.
Source: A.M. Best Co.

capital markets within the context of a (re)insurance organization’s capital structure remains fluid. It will ebb and flow not only with underwriting cycles but also over the short term with overall, global economic conditions.

Furthermore, funding from the capital markets after an extreme event cannot be totally relied upon, and companies that manage capital too aggressively may put themselves at risk if post-event funding is needed but not available. Addressing this risk and managing capitalization prudently are fundamental tenets of a strong ERM framework. This includes a thorough evaluation of the capital markets’ role within a business strategy to ensure the most efficient and cost-effective measures are used to support the ERM framework.

Global Reinsurance Outlook

Despite numerous challenges, A.M. Best’s rating outlook on the global reinsurance segment remains stable, supported by continued strong, risk-adjusted capitalization; prudent ERM practices; and an improving pricing environment across a broadening spectrum of business. A.M. Best believes these strengths should enable reinsurers to successfully navigate future obstacles that may arise from the changing market environment, and to take full advantage of opportunities that may emerge from gradual stabilization in global macroeconomic conditions.

From a capital perspective, the overall global reinsurance sector remains well capitalized and capable of absorbing significant losses from a combination of sources. While the financial crisis in the Eurozone has improved somewhat, residual uncertainty remains. Over the past year, most industry participants have taken decisive actions to reduce or contain their direct and indirect exposure to peripheral Eurozone government debt. A.M. Best and reinsurance companies themselves have performed various capital stress scenarios to gain assurance that companies are capable of managing their current portfolios of risks through various potential accumulations of losses from both underwriting and investment activities.

The numerous catastrophic events that occurred around the world in 2011 inflicted approximately USD 50 billion of losses on the global reinsurance sector. These loss events proved to be manageable from a capital perspective. Previously in 2008, the financial crisis contributed to a material yet temporary decline in capacity. Despite these adversities, as of Dec. 31, 2011, the sector's overall capacity was flat as compared with the start of the year, but well in excess of 2007 levels. This speaks to the strength of the segment's risk management capability and the market's resilience to withstand and rebound from live stress events.

Over the past five years, reinsurers generally have experienced declining demand for capacity, as primary companies have increased retentions across the board. The recent spike in global catastrophe activity; the potential for more volatility in assets; and changes in catastrophe models have brought about some change in primary companies' perception of risk. This, combined with increased regulatory pressures on solvency margins, appears to have turned the tide on reinsurance demand, especially in loss-prone regions of the world. This increasing demand has helped to bolster current pricing for property cat related businesses.

Shorter tail classes of business generally have maintained more attractive pricing compared with casualty classes. However, it also appears casualty pricing may be reaching bottom, as reserve margins come under pressure and interest rates remain stubbornly low. A. M. Best believes these dynamics will support a low double-digit return on equity in 2012 and continue to support reasonable organic growth in capital, assuming a normal level of global catastrophe losses.

A.M. Best remains concerned, however, that positive momentum in reinsurance pricing may be short lived. History has shown that the market has a short memory, and if the sting of recent loss events quickly fades, the soft market may continue. In that scenario, the segment's capital strength would slowly erode, and A.M. Best would consider revising the ratings outlook to negative, as pressure on ratings would be expected to mount.

Contributors List

Robert DeRose, Oldwick
Greg Reisner, Oldwick
Scott Mangan, Oldwick

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A.M. BEST COMPANY
WORLD HEADQUARTERS
Ambest Road, Oldwick, N.J. 08858
Phone: +1 (908) 439-2200

NEWS BUREAU
830 National Press Building
529 14th Street N.W., Washington, D.C. 20045
Phone: +1 (202) 347-3090

A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.
12 Arthur Street, 6th Floor, London, UK EC4R 9AB
Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
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A.M. BEST – MENA, SOUTH & CENTRAL ASIA
Office 102, Tower 2
Currency House, DIFC
PO Box 506617, Dubai, UAE

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For press inquiries or to contact the authors, please contact James Peavy at (908) 439-2200, ext. 5644.

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