

Insurance Industry

Japan Earthquake Update: Potential Impact on Reinsurance Renewals

AIR Worldwide has estimated that property losses should range from \$15 billion to \$35 billion. The key question is how the earthquake and tsunami affect the status of reinsurance renewals and prices.

April 1 Japan renewal

Reinsurance programs were in discussion when the earthquake hit. Pricing for Japanese catastrophe programs has been consistently down by 5%-10% for the last several years. Reinsurance pricing in Japan could go up more than 20%-30%, or it could rise by multiples of previous levels. One major factor is whether the working layer will be redefined. Previously, many Japanese reinsurance programs had relatively high attachment points, and programs were priced at a high excess basis. If the earthquake losses are perceived as a frequency event, then reinsurance could be priced at a working layer level. This would translate into premium increases that are multiples of previous levels. One potential issue is that many of the programs are based on long-standing relationships, which could help to hold down rate increases.

International markets

Japan's earthquake is the third major event in less than a year. There is a good chance that reinsurers will review how zonal exposures are underwritten and priced. The large European reinsurers have significant influence on this market and will likely drive any potential change in these markets. International programs (excluding Japan) typically renew at year-end. We will have to wait until after summer renewals to get a clearer picture on the outlook for these programs. There is a low probability that there will be a significant increase in pricing, but there is more of a chance of stabilization. However, a lot can happen between now and year-end.

June 1 and July 1 renewals

Summer renewals are mainly focused on the American Southeast, and in particular, Florida. Renewal discussions typically do not become meaningful until after April 1. There is less of a chance that the Japanese earthquake will have a significant impact on summer renewals. Reinsurance capital strength will likely remain adequate even after the earthquake and tsunami. Stabilization of pricing is a possibility.

Financial | Insurance Brokers

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Aon Corporation

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: AON (NYSE)
 Price: \$51.25 (52-Wk.: \$35-\$53)

Arthur J. Gallagher & Co.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: AJG (NYSE)
 Price: \$30.85 (52-Wk.: \$23-\$32)

Brown & Brown, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: BRO (NYSE)
 Price: \$25.42 (52-Wk.: \$18-\$27)

Marsh & McLennan Companies, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: MMC (NYSE)
 Price: \$30.27 (52-Wk.: \$20-\$31)

Willis Group Holdings Public Limited Company

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: WSH (NYSE)
 Price: \$38.82 (52-Wk.: \$29-\$40)

Adam Klauber, CFA
 312.364.8232
 aklauber@williamblair.com

John Thomas
 312.364.8430
 jthomas@williamblair.com

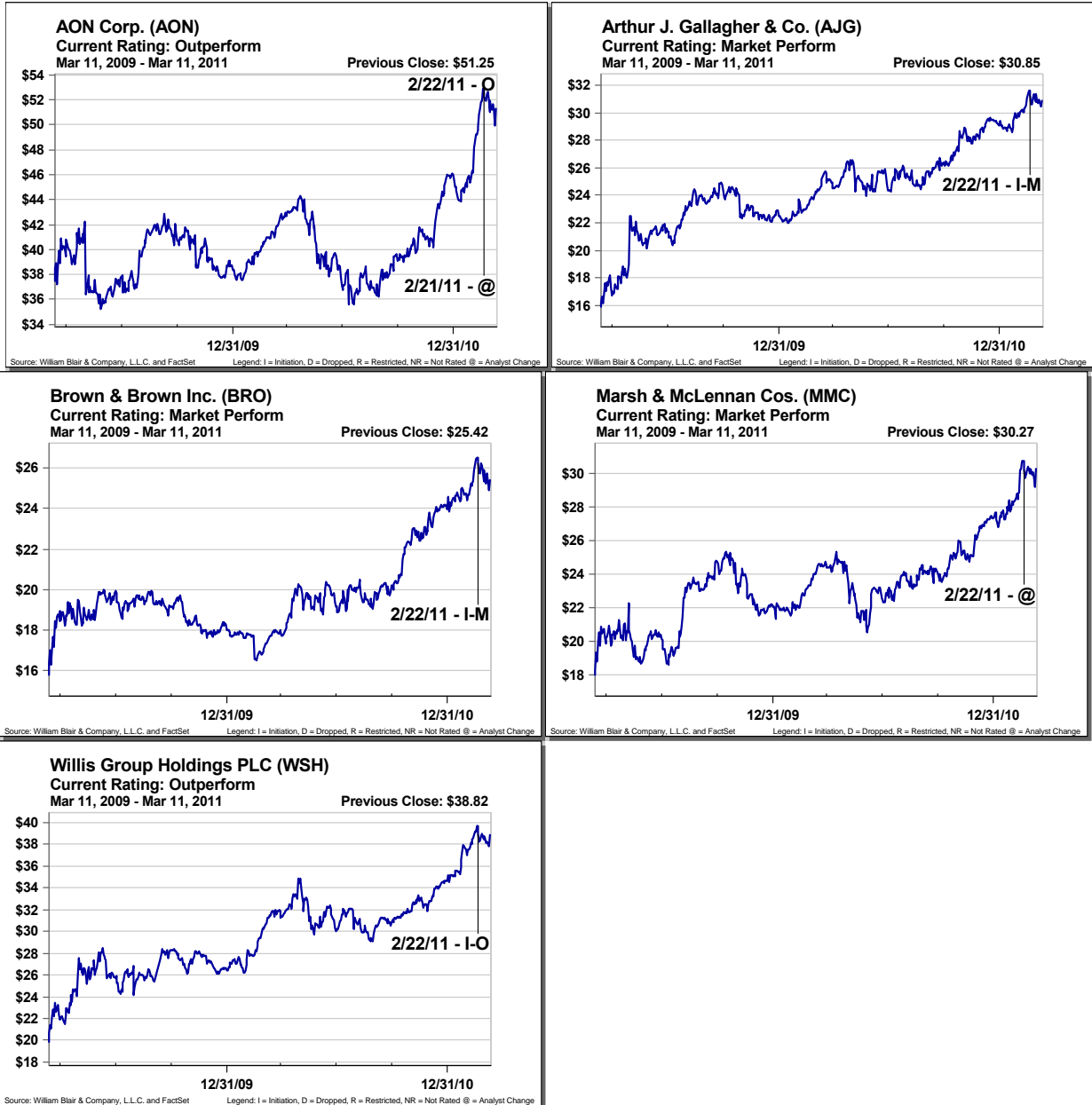
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Coverage Universe

	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	65	Outperform (Buy)	9
Market Perform (Hold)	34	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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