

# Insurance Brokers

## June 1 Reinsurance Renewal Update: Upward Bias, but Market Turn Still in Question

### Overall summary:

With a good number of reinsurance programs pricing in the last few days, we have more clarity on the status of June 1 renewals. The market tended to have significant variation of renewal pricing. It is a challenge to discern a true average given that, in addition to price changes, there was also material movement in layers and retention. In comparison to January 1 renewals (rates were -5% to -10%), there was definitely an upward bias to rates, although the movement was not uniform. The median range (i.e., there are extremes at either end) appears to be down 5% to up 10%, with data spread across the range.

### A few highlights from conversations:

- Florida-focused homeowners'*: These companies were supposedly under significant pressure from RMS changes. However, we learned in conversation with one of the larger Florida insurers that its renewal rate was actually flat with expiring policies. The company reduced exposure from the prior year and was in need of less capacity. Some of the Florida-only competitors that added business during the year, and thus need additional capacity, were incurring material rate increases.
- Prior-year level of pricing*: On an anecdotal basis, several larger programs that had relative low market prices in the last renewal were brought closer in line with the market. This resulted in 5%-plus rate increases. This had more to do with relative pricing and less to do with underexposure related to RMS.
- Citizens and TWIA add to market*: Several large programs added over \$1 billion of limit placed into the market in comparison to the last renewal period. This is good and bad news for the market. The placement of these programs should add additional premiums for the reinsurers and fees for reinsurance brokers. However, it also shows that capacity is still sufficient given that reinsurers had to extend material amounts of additional limit.
- Large Europeans*: Munich Re and Swiss Re participate in June 1 renewals on a selective basis. These reinsurers tend to provide capacity to the larger, more established risks. Despite major international earthquake losses, these reinsurers continue to be focused on maintaining relationships with core clients.
- Retro/ILW market*: Early indications are that the retro and ILW (where reinsurers buy protection) markets have been materially firmer than the core reinsurance market. This market will likely heat up in the next several weeks after June 1 renewals are fully placed.

### Financial | Insurance Brokers

May 31, 2011

#### Arthur J. Gallagher & Co.

Stock Rating: **Market Perform**  
 Company Profile: **Established Growth**  
 Symbol: AJG (NYSE)  
 Price: \$28.62 (52-Wk.: \$24-\$32)

#### Aon Corporation

Stock Rating: **Outperform**  
 Company Profile: **Established Growth**  
 Symbol: AON (NYSE)  
 Price: \$51.37 (52-Wk.: \$35-\$55)

#### Brown & Brown, Inc.

Stock Rating: **Market Perform**  
 Company Profile: **Established Growth**  
 Symbol: BRO (NYSE)  
 Price: \$26.08 (52-Wk.: \$19-\$27)

#### Marsh & McLennan Companies, Inc.

Stock Rating: **Market Perform**  
 Company Profile: **Established Growth**  
 Symbol: MMC (NYSE)  
 Price: \$30.76 (52-Wk.: \$20-\$31)

#### Willis Group Holdings Public Limited Company

Stock Rating: **Outperform**  
 Company Profile: **Established Growth**  
 Symbol: WSH (NYSE)  
 Price: \$41.05 (52-Wk.: \$29-\$42)

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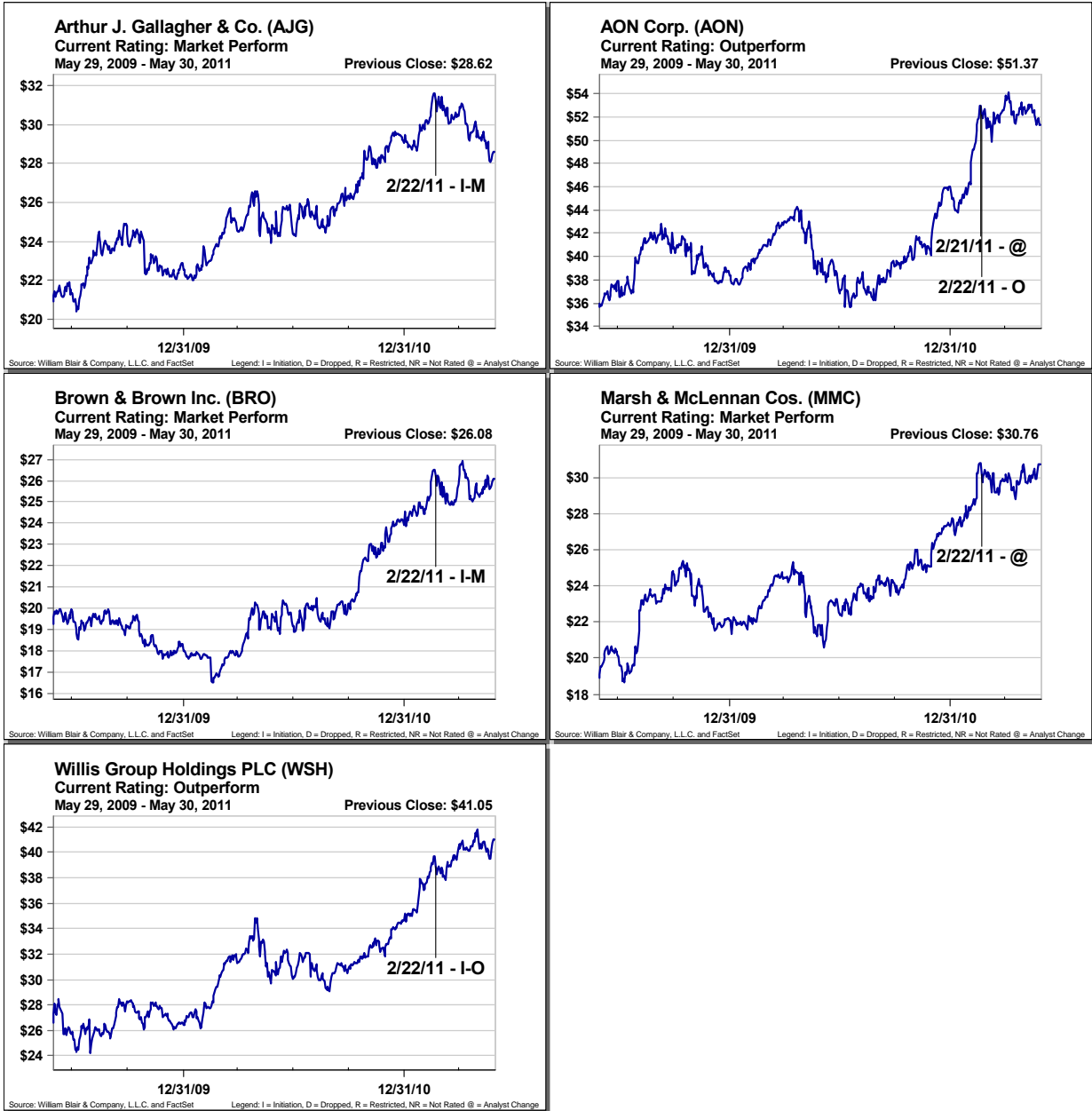
**Bottom line:**

While the market appears to have shifted to an upward bias, a significant level of reinsurance capacity appears to be restraining a full market turn. January 1 is the next significant data point for direction of pricing. With the market apparently in a state of flux, the extent of hurricane season will likely have a material impact in January. Warm ocean temperatures and lack of El Niño suggest it could be another active season.

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Outperform (Buy)	58	Outperform (Buy)	8
Market Perform (Hold)	31	Market Perform (Hold)	2
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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