WILLIS RE 1ST VIEW

1 JULY 2009

CAPITAL SECURED

Willis

TABLE OF CONTENTS

RENEWALS – 1 JULY 2009

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.

CAPITAL SECURED

As memories of the challenging last six months of 2008 fade, so have the ambitions of many reinsurers for dramatic rate increases in 2009. Following the 1st January 2009 renewals, many commentators speculated that the global reinsurance market would see an acceleration in rate increases over the next 12 to 18 months as reinsurers sought to deliver solid underwriting margins to offset investment losses. While rate increases have been achieved at the 1st June and 1st July renewals in capital intensive classes, overall the reinsurance market is behaving in a more orderly fashion than anticipated by many, with buyers being able to fulfil their capacity requirements in virtually all areas.

Initial signs of recovery in the financial markets and a lack of major underwriting losses in the first two quarters of 2009 have worked in tandem to bring greater stability to the reinsurance market. In addition, when planning their 2009 underwriting, many reinsurers had anticipated negative pressures from exchange rate volatility and an even more difficult retrocession market. They took aggressive early steps to control their aggregates more tightly. These actions, allied with the lower open market purchasing by residual markets in Florida and Texas Wind Pool, eased the capacity squeeze in some of the most demanding U.S. peak property catastrophe zones.

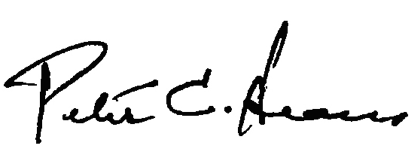
While the reinsurance rate increases remained measured through the property-intensive mid-year renewals, the lack of any signs of meaningful and universal rate hardening in the primary insurance market is a point of continuing concern. Many insurance companies are still struggling to address inadequate original pricing at a time when investment yields are falling and back year reserve releases have largely run out. Certainly, this state of affairs is exacerbated by the pressure exerted by the current economic climate on original insureds' ability to pay, but the limited price movement is a mounting issue, particularly in the U.S. Casualty markets where a number of start-up companies have recently entered the fray.

The U.S. Casualty market is not the only place where green shoots of new capital have appeared. A number of catastrophe bonds were recently renewed, accompanied by a few new Insurance Linked Securities issues, a modest reappearance of sidecars and some capital increases. With constraints remaining in the debt markets in particular, the price being charged to access new capital is still very high. At this stage of the recovery, it is encouraging to see that appetite still exists in the capital markets for new insurance related risk structures.

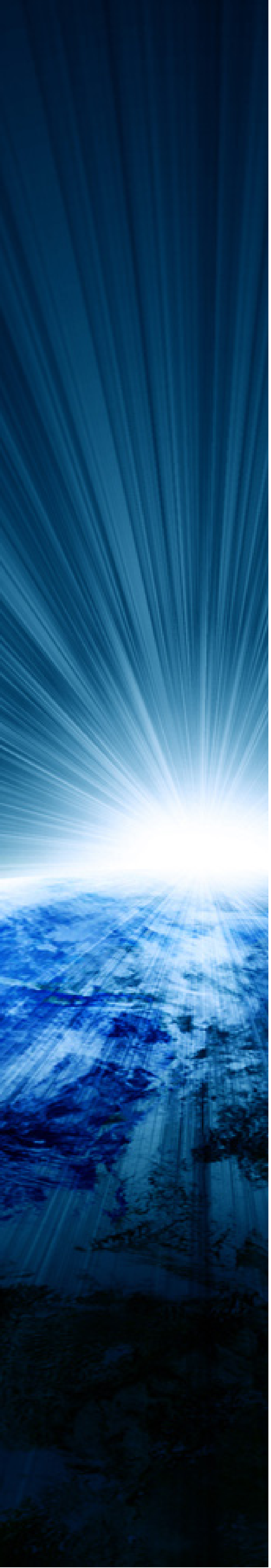
After a quiet first quarter, merger and acquisition activity has also picked up, as those with stronger balance sheets seek to adjust their portfolio mix and/or purchase platforms in markets acquirers previously found difficult to access. Availability of funding remains the key constraint on the mergers and acquisitions market and any further easing in global credit markets will undoubtedly spur further considerable activity.

As the last major renewal season of 2009 ends, it is clear that with very few exceptions, the reinsurance industry has managed to clear the hurdle of providing sufficient capacity at acceptable prices to their client base for this year. Nine months ago, this outcome was very much in doubt. Now, the continuation of this relative stability will largely hinge on whether positive pricing trends emerge in the primary insurance markets and, of course, the level of major catastrophe activity and investment losses.

As usual, we have outlined more specific market trends in the following sections of this report. As you read this, please accept my best wishes for safety and prosperity over the remainder of this year.



Peter C. Hearn
Chief Executive Officer, Willis Re
30th June, 2009



CASUALTY

TERRITORY AND COMMENTS

AUSTRALIA – AUTO / MOTOR

- Price increases due to falling investment returns.
- Still attracts significant reinsurer interest / appetite / capacity.

AUSTRALIA – GENERAL / EMPLOYERS' / PROFESSIONAL LIABILITY

- Pricing increase in response to falling interest rates.
- Still attracts significant reinsurer interest / appetite / capacity.
- Unlimited reinsurer capacity no longer available. Programs in general placed to AU $200 million limit.
- Suppressed economy increases Professional Indemnity claims, hence reduced appetite from reinsurers.
- Price increasing most in occupations susceptible to economic downturn.

AUSTRALIA – PERSONAL ACCIDENT

- Personal Accident catastrophe market is loss free.
- Renewal flat, although some markets undercutting to get on business and providing good size capacity.

SOUTH AFRICA – AUTO / MOTOR

- Conditions in wordings are tightening up.
- Becoming harder to purchase combined Own Damage and Liability covers.
- Rates remain static.

UNITED STATES – CASUALTY

- Reinsurers remain disciplined in a very challenging market.
- More start-ups have emerged and those that are obtaining reinsurance support are getting it at very restrictive terms and conditions.
- Original pricing still very competitive with no signs of relief in the immediate future.
- Diversification and syndication are the prevailing trends in the large account casualty market segment.
- The casualty reinsurance market is looking for partners to ride out the soft market and will be more competitive for those clients with a proven track record of profitability and/or more focused and realistic business plans.

RATES

TERRITORY	Pro Rata Commission	XL – No Loss Emergence % Change	XL – With Loss Emergence % Change
Australia – Auto / Motor	N/A	+5% to +10%	+5% to +15%
Australia – General / Employers' / Professional Liability	N/A	+5% to +7.5%	+5% to +10%
Australia – Personal Accident	N/A	+0% to +5%	N/A
Caribbean – Auto / Motor	0%	0%	+5%
South Africa – Auto / Motor	N/A	0%	+15%
United States	0%	-5% to -10%	+10% to +30%

SPECIALTIES

LINE OF BUSINESS AND COMMENTS

CAPITAL MARKETS

- The Catastrophe Bond market has resumed business after a lull to reassess ways to deal with structural weaknesses exposed by the collapse of Lehman Brothers.
- Around $1.4 billion of issuance in 2009 so far, expected to reach $3 billion for the year.
- Issuance is dominated by U.S. perils and primary companies.
- Pricing, or “spread” on bonds, has increased substantially with very little issuance at spreads of less than 10%. This has deterred issuance among some sponsors who have preferred either cheaper reinsurance alternatives or have trimmed exposures appropriately.
- Sidecars have been scarce, despite significant demand amongst sponsors – investors have generally balked at risk profile and demanded very high expected returns. This is hard to achieve in a world without easy leverage, but Ren Re managed to place a small U.S. wind facility a few weeks ago. There are signs that investors are loosening up a bit, but significant progress is unlikely until late this year / early next year.
- The subordinated debt market is dead for now and public equity markets largely closed to (re)insurers.

ENGINEERING

- Pressure remains on pro rata terms and conditions.
- Reduced Investment income has meant reinsurers apply stricter price criteria on pro rata and excess of loss programs to achieve their ROE goals.
- The global economic downturn has led to fewer new project orders. Debate continues with regard to the nature of coverage offered for mothballed projects and appropriate premium to be charged for risk extensions.
- No new writers of Engineering and Construction have entered the market during 2009.
- Reinsurance cover for Engineering risks in U.S. critical catastrophe areas continues to be scarce.
- Principal specialist construction reinsurers are looking to write more Regional accounts rather than increase their global catastrophe exposures further.

GROUP LIFE – UNITED STATES

- Capacity possibly on the verge of major contraction.
- Rates currently stable.

HEALTHCARE – UNITED STATES

- Falling investment income driving increased pressure on original rates.
- Reduction in the positive effects of prior year reserve releases.
- Continued good loss performance offsets some of the pricing pressure.
- Fear of plaintiff-friendly developments to current tort reforms remains a real concern.
- An ever-increasing awareness of systemic risk is evident in the marketplace.

MARINE

- As the Hurricane season approaches, there is a sense of disconnect between buyers and sellers over the pricing of Gulf of Mexico energy-exposed business.
- There is an increasing trend towards co-insurance and/or higher retentions as a strategy to deal with the Gulf of Mexico pricing disconnect.
- There is still inconsistency across the market with considerable variation between the reinsurers over the correct levels of rating.
- There is an adequate supply of capacity for non-Gulf of Mexico business but reinsurers are actively seeking to move away from attritional losses.
- In general, the depressed shipping sector and lower cargo volumes have yet to show through to the reinsurance market.

MEDICAL EXCESS – UNITED STATES

- Market remains aggressive.
- Increasing incidence of higher Medical claims.
- Rates increases below Medical inflation.

NON-MARINE RETROCESSION

- Demand for Catastrophe Retrocession still outstripping supply.
- Some capacity available where Reinsurers were unable to obtain as much Florida business as they had hoped for in the 1st June renewals.
- Consequently, there are some significant reductions, especially in ILW pricing.

PERSONAL ACCIDENT / LIFE CATASTROPHE – WORLDWIDE

- Market conditions stable.
- Rates leveled out from previous significant decreases.
- Remains largely loss free despite increased air incidents.
- Increase in Catastrophe limits being purchased is applying pressure to global aggregates.

POLITICAL RISK

- The global economic recession is likely to continue to cause instability that will pose problems for both large and small businesses, and will continue to fuel political and social discontent. This will have a significant impact on political risks across the globe.
- Mid-year reinsurance renewals are carrying notable pricing increases.
- Contributing factors resulting in pricing increases are due to 1) the deteriorating global economic climate and general uncertainty; 2) both clients and reinsurers now witnessing a noticeable increase in potential claims advices and 3) the limited reinsurance capacity available.
- These factors are likely to result in clients entering the marketplace to commence renewal discussions for 2010 much earlier than in previous years.

PROFESSIONAL LIABILITY – UNITED STATES

- D&O reinsurance capacity remains static and limited awaiting an improved economic environment and positive rate change.
- Terms and conditions have tightened depending on degree of exposure to subprime and bankruptcies.
- Loss caps are prevelant on public company D&O treaties.
- E&O capacity is robust for all but the largest risks.
- Terms and conditions are generally flat.

RATES

TERRITORY	Pro Rata Commission	Risk Loss Free % Change	Risk Loss Hit % Change	Cat Loss Free % Change	Cat Loss Hit % Change
Engineering	-2% to -3%	0%	N/A	0%	N/A
Group Life – U.S.	N/A	-5%	+5	N/A	N/A
Healthcare – U.S.	0%	0%	Depends on level of loss	N/A	N/A
Marine	0%	+5% to +7.5%	N/A	+5% to +7.5%	N/A
Marine – Gulf of Mexico	-2.5% to -7.5%	N/A	N/A	+30%	N/A
Medical Excess – U.S.	N/A	0%	+10% to +20%	N/A	N/A
Non-Marine Retro	0% to -5%	+7.5%	+20%	+10%	+25%
Personal Accident / Life Catastrophe – Global	N/A	N/A	N/A	0% to -5%	N/A
Political Risk	N/A	N/A	N/A	N/A	N/A
Professional Liability – U.S	0% to 3%	N/A	N/A	N/A	N/A

PROPERTY

TERRITORY AND COMMENTS

AUSTRALIA

- Falling investment income leading to increased pricing.
- February bushfires viewed as 1-in-20 to 1-in-25 year event. Covers affected by the bushfires have seen increases at this renewal.
- Increasing sensitivity towards North Queensland catastrophe exposures.
- Recent frequency of events has meant lower layers driven by burning cost and modeled outputs from reinsurers.
- Middle-to-top layers relatively stable, subject to growth in aggregates and modeling.

CARIBBEAN

- New pro rata capacity available but tight, as local markets' original pricing remains soft.

CHINA

- Catastrophe pricing has generally increased, but not to the same degree as exposures.
- Treaties where coverage for Transmission and Distribution Lines has been removed have benefited on pricing.

LATIN AMERICA

- Pro rata treaties with stable results renewed with little change though very few catastrophe treaties still placed without event limits.
- Commission movements on pro rata treaties relate to loss experience with increased commission available on treaties where results and/or terms and conditions attractive to reinsurers.
- Last two years have seen considerable frequency of single risk losses many from mining, food processing and power generation risks.
- Impact of risk losses has been client specific resulting in a range of renewal terms from flat in the case of clean contracts to +20% for clients with poor records.
- Despite reinsurers best efforts to obtain rate increases on their catastrophe X/L portfolios most clients have achieved flat/ modest rate reductions on a risk-adjusted basis.
- Reinsurer desire for diversification of catastrophe exposure remains key driver with the possible exception of Chile.

MEXICO

- Aggregates in USD generally down by at least 20% due to devaluation of the Mexican Peso – covers purchased in USD.
- Clients have not received recognition of this aggregate decrease in renewal prices.
- Greater frequency of medium-size risk losses.
- The larger cedants continue to retain all fire business, ceding only natural perils.

PERU

- Original rates up between 10% and 20% across all companies.
- A spate of risk losses in the market has created instability in supply of reinsurance capacity.

SOUTH AFRICA

- Pro Rata – No increase in commission rates or move to sliding scales depending on results.
- Tightening up on wording conditions – especially on mining risks.

U.S. PROPERTY FLORIDA

- Overall flight to quality for the reinsurance market as top tier carriers received most favorable terms and capacity commitments from reinsurers.
- Initial market hype about demand far outpacing supply was eased due to 1) budgetary constraints for buyers, 2) a shift from "near-term" to "long-term" PML coverage, and 3) no purchase from Florida residual markets.
- In general, the reinsurance market reacted rationally with most carriers able to complete core reinsurance placements.
- Overall year over year percentage increase in pricing on a risk-adjusted basis was single digits to low teens.

- A surplus of capacity existed for reinstatement premium protection, 3rd Event, and retention buy down covers. Quota share capacity remained tight as reinsurers deployed capacity on excess of loss contracts. Wider variation in quoted prices from past renewals from London, Bermuda and Domestic / International Markets.
- Most contract terms renewed "as-is" with the exception of language related to the inuring Florida Hurricane Catastrophe Fund (FHCF). Reinsurers looked to clarify language in this area.
- Ratings agencies (both A.M. Best and Demotech) are scrutinizing FHCF coverage, reinsurance coverage, and financial stability of carriers renewing at June 1 or those with heavy Florida exposure.

U.S. PROPERTY NATIONWIDE

- Catastrophe capacity scarce for new programs, capacity generally available for renewals.
- Client differentiation and a well thought out marketing plan becoming increasingly important for a successful renewal.
- Risk capacity is generally steady.
- New pro rata capacity for catastrophe-exposed accounts is very scarce and expensive.

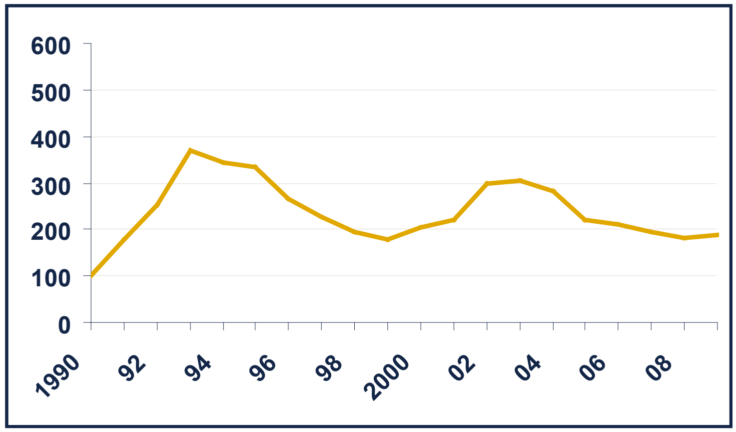
RATES

TERRITORY	Pro Rata Commission	Risk Loss Free % Change	Risk Loss Hit % Change	Cat Loss Free % Change	Cat Loss Hit % Change
Australia	0% to +5%	+2.5% to +5%	+5% to +15%	+2.5% to +5%	+5% to +25%
Caribbean	0%	0%	0% to +15%	0% to +5%	N/A
China	N/A	N/A	N/A	+2.5% to +5%	N/A
Latin America	0% +2.5%	0% to -5%	+5% to +25%	0% to -5%	0% to +7.5%
Mexico	0% to +2.5%	0% to +5%	0% to 20%	0 to +5%	N/A
Middle East	0% to -4%	+5%	+20%	+5%	+20%
Peru	N/A	0% to +3%	+5% to +10%	0 to +3%	N/A
South Africa	0%	0%	+10% to +15%	+5% to +10%	+10% to +15%
U.S. Property Florida	0%	0%*	+5%	0% to +15%	+5% to +20%
U.S. Property Nationwide	+5%	0% to +10%	+10% to +20%	+15%	+20% to +30%

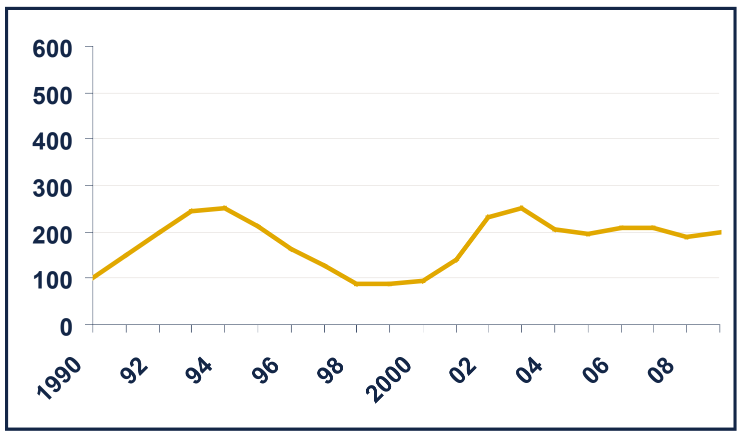
PROPERTY CATASTROPHE PRICING TRENDS

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

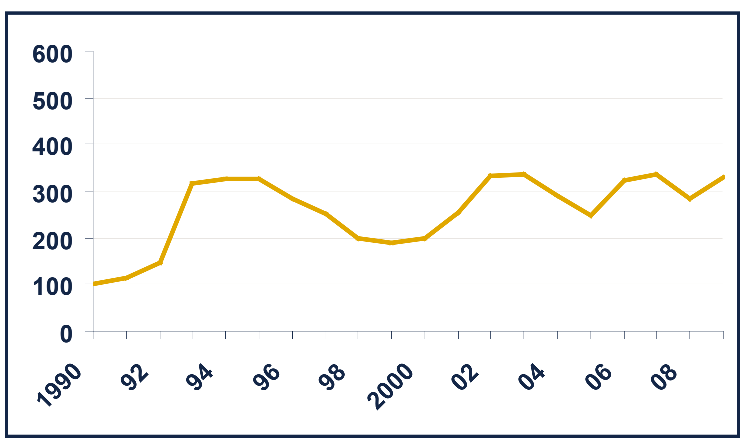
AUSTRALIA



CARIBBEAN



UNITED STATES



U.S. WORKERS' COMPENSATION

TERRITORY AND COMMENTS

- Working layers are experiencing stable to modest rate increases.
- Medical inflation and historically low interest rates continue to pressure reinsurance pricing.
- Payrolls are decreasing more rapidly than earlier projections by insurers due to economic conditions. Unemployment is only one factor. Reduced hours, not replacing natural attrition, furloughed work days, and wage reductions are some of the many contributing factors.
- The catastrophe market continues to soften slightly on programs with stable exposures.
- Reinsurers are taking firmer stands on their minimum Rate On Line thresholds.
- The number of Workers' Compensation legislative bills under review has doubled since 2008. The majority of these would increase costs for insurers and employers, however, it appears few are making it out of committee. This is most likely due to the tough economic conditions.
- Insurers are dropping retentions in order to protect underwriting profits. Catastrophe protection is being increased by numerous companies in response to 2008 losses in capital and due to the tight credit markets restricting access to capital.

RATES

TERRITORY	Pro Rata Commission	XL – No Loss Emergence % Change	XL – With Loss Emergence % Change
United States	N/A	0% to +5% working layers 0% to -5% catastrophe layers	+5% to +15% working layers

Contact Us

Ingrid Bosch
Willis Re Global Communications
The Willis Building
51 Lime Street
London EC3M 7DQ
+44 (0) 20 3124 7182
ingrid.bosch@willis.com

Will Thoretz
One World Financial Center
200 Liberty Street, 3rd Floor
New York, NY 10281
United States
+1 212 915 8251
will.thoretz@willis.com