MARSH

MARSH RISK MANAGEMENT RESEARCH
BRIEFING

GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

FEBRUARY 2014

GLOBAL RATES MODERATING OUTSIDE US; CASUALTY JOINS DECLINE

Global insurance rates, as tracked by the Marsh Risk Management Global Insurance Index, continued their downward trend in the fourth quarter of 2013 (see **FIGURE 1**). Among the major regions tracked, the US was the exception to the global trend, as the composite index there showed a modest increase for the eighth consecutive quarter.

Global property program renewals generally continued to be favorable year on year (see **FIGURE 2**). In Latin America, typical rate reductions on renewal approached 10% in the fourth quarter, driven by competition and available capacity, along with acceptable loss experience. The Asia-Pacific region saw decreases in rates averaging 5%, with available limits increasing for both catastrophe- and non-catastrophe-exposed risks in Southeast Asia. In the UK, property rates were largely flat, while in Continental Europe, rates declined marginally due to continued excess of capacity. US property insurance pricing in the quarter was generally stable, although some catastrophe-exposed risks or those with recent losses did see increases.

For first time since the third quarter of 2011, global casualty insurance programs typically renewed with a slight decrease. Asia-Pacific and Latin America saw falling rates, as did Continental Europe, where various countries reported broad limit increases for general liability, motor, and environmental coverages. Rates for financial and professional lines of insurance declined overall in Asia-Pacific, the UK, and Continental Europe, while in Latin America, they remained stable, due in part to favorable loss experience. Of note is the spotlight that recent losses have put on the rail industry, with casualty insurers paying particular attention to clients' contractual relationships and the increase in rail shipments of crude oil.

Another notable trend globally was the significant decline in aviation insurance rates at the end of 2013, driven by plentiful capacity and an absence of large losses. Most airlines renewed with decreases of between 15% and 20% — a significant trend given that the last quarter of the year is when most of the world's large airlines renew their insurance coverage.

FIGURE 1 | **MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX AND REGIONAL INDICES**
Source: Marsh Global Analytics

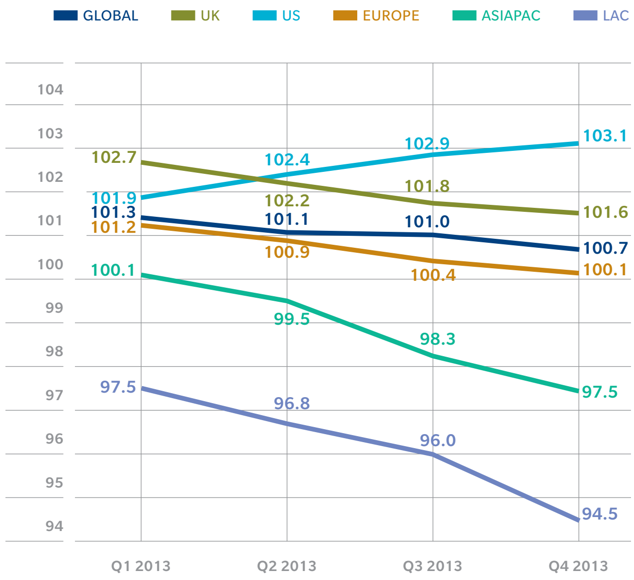
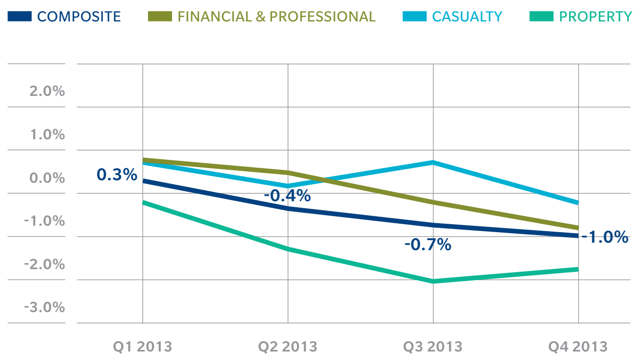


FIGURE 2 | **RENEWAL RATE CHANGES BY LINE OF BUSINESS**
Source: Marsh Global Analytics



MARSH & McLENNAN COMPANIES

GLOBAL PROPERTY UPDATE: RATES LARGELY STABLE

The absence of major insured losses combined with strong capital and high levels of capacity among insurers to keep global property rates largely stable or decreasing slightly in the fourth quarter of 2013. That held true for catastrophe-exposed and non-catastrophe-exposed risks.

Capacity continued to expand, as it did throughout 2013, with markets in London, China, and Japan in particular looking to grow their portfolio of international business. There was also an increased appetite from existing insurers on most renewing programs.

As is typical, rates did rise in some countries and for some organizations that experienced losses. For example, significant losses in 2013 in Germany led to catastrophe rate increases for loss-affected programs. In Canada, however, despite severe flood events in 2013, increases remained generally modest for most catastrophe-exposed risks.

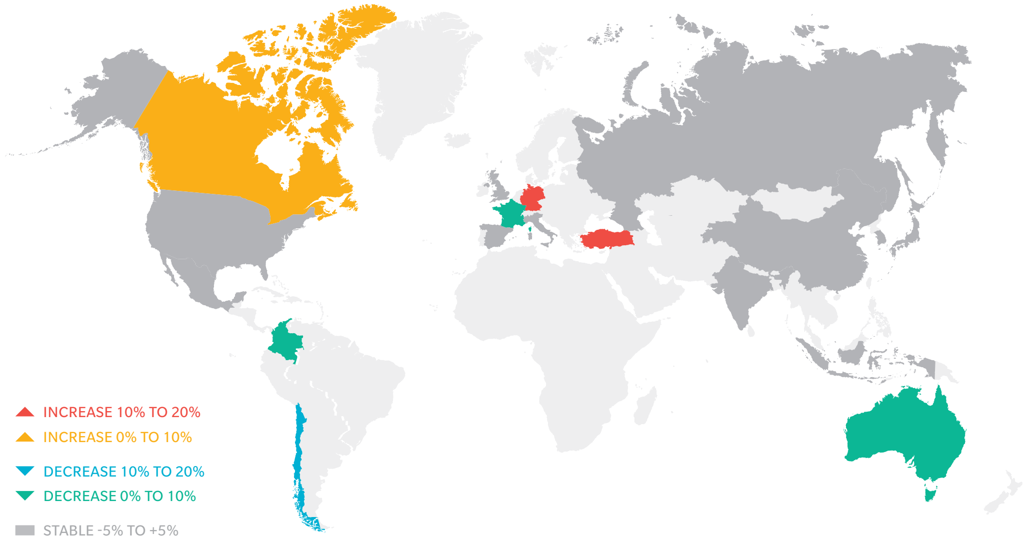
In the US, insureds with non-catastrophe-exposed risks often were able to secure rate decreases of 5%, and in some cases, up to 10%, along with other generally favorable terms and conditions. Some organizations with heavy losses or properties in catastrophe-prone areas saw their rates remain flat, but in certain severe cases saw increases of 10% or more.

Also in the US, insurers are factoring in developments — or the lack thereof — regarding the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which is scheduled to expire at the end of 2014 if not renewed by Congress. Terrorism insurance pricing is expected to remain generally competitive and capacity abundant in 2014, but the cost of coverage would likely become extremely volatile in the coming years if TRIPRA is not reauthorized in some form. In the event that TRIPRA expires, insurance coverage for nuclear, biological, chemical, or radiological (NBCR) would likely continue to be excluded from standard all-risk property terrorism policies, and it is unlikely that NBCR coverage would be mandatory in any TRIPRA extension.

In Japan, rates for catastrophe-exposed and non-catastrophe-exposed risks largely remained stable throughout 2013, with some single-digit reductions for catastrophe-exposed renewals in the fourth quarter. However, rates for catastrophe-exposed risks remain 30% to 50% higher than before the 2011 Tohoku Earthquake.

MAJOR MARKET PROPERTY (CATASTROPHE-EXPOSED RISKS): RATE CHANGES

PROPERTY (CAT-EXPOSED)	
AUSTRALIA	▼
CANADA	▲
CHILE	▼
CHINA	—
COLOMBIA	▼
FRANCE	▼
GERMANY	▲
HONG KONG	—
INDIA	—
INDONESIA	—
ITALY	—
JAPAN	—
KOREA	—
MEXICO	—
RUSSIA	—
SINGAPORE	—
SPAIN	—
TURKEY	▲
UK	—
US	—



SPOTLIGHT

MARINE INSURANCE: ARCTIC CHALLENGES

An increasing number of ships are using Arctic shipping lanes due to large-scale ice melting. Insurers are concerned about the accurate assessment of safety issues and risks involved as vessels and cargo traverse what are some of the planet's most dangerous seas. Underwriters' greatest concerns are the Arctic's lack of rescue infrastructure and continued sovereignty disputes.

Sailing across the Arctic Circle to the north of Russia can cut transit times by up to one week; as the ice continues to retreat, more operators are choosing this route. Current projections estimate that the Arctic Ocean will be completely free of sea ice during the summer months sometime within the next 25 to 40 years.

Although capacity could become available for both hull and cargo insurance related to Arctic routes, many insurers have said they need to better understand the issues involved before they will be prepared to underwrite these risks.

CASUALTY, FINANCIAL AND PROFESSIONAL RATES STABLE

MAJOR CASUALTY, FINANCIAL AND PROFESSIONAL MARKETS: RATE CHANGES

	GENERAL LIABILITY RATE CHANGES	DIRECTORS & OFFICERS RATE CHANGES	FINANCIAL INST. RATE CHANGES	PROFESSIONAL LIABILITY RATE CHANGES	MOTOR / AUTOMOBILE
AUSTRALIA	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▲ Increase 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%
CANADA	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▬ Stable	▬ Stable
CHILE	▬ Stable	▬ Stable	▬ Stable	▬ Stable	▬ Stable
CHINA	▼ Decrease 0% to 10%	▼ Decrease 10% to 20%	▬ Stable	▼ Decrease 0% to 10%	▬ Stable
COLOMBIA	▬ Stable	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▼ Decrease 0% to 10%
FRANCE	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▲ Increase 10% to 20%	▼ Decrease 0% to 10%	▲ Increase 0% to 10%
GERMANY	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▼ Decrease 0% to 10%	▲ Increase 10% to 20%
HONG KONG	▬ Stable	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable
INDIA	▼ Decrease 0% to 10%	▼ Decrease 10% to 20%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▲ Increase 0% to 10%
INDONESIA	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▬ Stable
ITALY	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▲ Increase 10% to 20%	▲ Increase 0% to 10%	▼ Decrease 0% to 10%
JAPAN	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 10% to 20%	▲ Increase 0% to 10%
KOREA	▬ Stable	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable	▲ Increase 0% to 10%
MEXICO	▼ Decrease 0% to 10%	▬ Stable	▲ Increase 0% to 10%	▬ Stable	▬ Stable
RUSSIA	▬ Stable	▼ Decrease 0% to 10%	▲ Increase 10% to 20%	▬ Stable	▲ Increase 0% to 10%
SINGAPORE	▬ Stable	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▲ Increase 0% to 10%
SPAIN	▼ Decrease 10% to 20%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 10% to 20%	▬ Stable
TURKEY	▲ Increase 10% to 20%	▼ (red)	▬ Stable	▬ Stable	▲ Increase 0% to 10%
UK	▬ Stable	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable	▲ Increase 0% to 10%
US	▬ Stable	▬ Stable	▲ Increase 0% to 10%	▲ Increase 0% to 10%	▲ Increase 0% to 10%

▼ DECREASE 20% TO 30%
▼ DECREASE 10% TO 20%
▼ DECREASE 0% TO 10%
▲ INCREASE 20% TO 30%
▲ INCREASE 10% TO 20%
▲ INCREASE 0% TO 10%
▬ STABLE -5% TO +5%

Liability insurance rates generally fell or remained stable in most major geographies during the fourth quarter of 2013. For both general liability and directors and officers (D&O) insurance, rate increases across major geographies were rare.

The D&O marketplace stabilized over the last 12 months. However, despite reductions generally being achievable, the typical magnitude and frequency of decreases has moderated, a trend expected to continue this year. Insureds generally have benefitted from increased quality and breadth of D&O insurance, with limits more widely available for certain types of cover. Although the frequency of D&O claims has increased, severity, overall, remains low.

Rates for financial institutions across the Eurozone, excluding Italy and France, either fell or remained stable, thus largely continuing the trend from last quarter. Globally, D&O insurance capacity is generally available for financial institutions, although underwriters are concerned about an increase in regulatory investigations. Certain countries, such as Greece and Cyprus, are of particular concern. Professional indemnity cover for financial institutions has become more difficult, with underwriters in the UK and Europe concerned about regulatory proceedings with respect to consumer products.

Although underwriters of professional liability insurance typically sought rate increases during the last quarter of 2013, abundant capacity and strong competition for risks in most professions kept rates generally stable. Reinsurance costs for this class dropped at the January 1, 2014, renewal; further downward pressure on rates is expected this year.

The increasing dependence on outsourced technology is creating significant new errors and omissions (E&O) risks for many companies. Although service contracts often include a limitation of liability, businesses are now more keenly aware of the potential effect of service interruption and privacy breaches on their operations. As a result, many companies are pushing technology providers to increase or remove contractual caps on liability. Meanwhile, businesses — especially small and midsize companies — continue to increase their purchase of cyber insurance as their awareness of the risk grows.

US regulators are committed to holding businesses and individual directors and officers accountable, which has contributed to litigation and claims activity. Specific areas of focus include insider trading, corporate disclosures, executive compensation, and compliance with the Foreign Corrupt Practices Act.

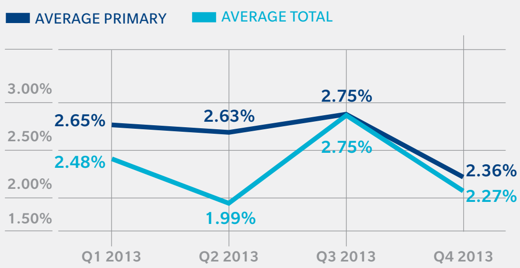
SPOTLIGHT

COMPETITION GROWS IN CYBER RISK MARKET

The US market for network, information security, and privacy (cyber liability) insurance remained stable in the fourth quarter, with average pricing increasing just over 2%. Several high-profile breaches at US retailers at the end of 2013 heightened awareness of this risk. Underwriters — especially those based in London — are seeking to gain market share among small and midsize companies, which typically are increasing purchases of cyber insurance. There is a trend among insurers to a "per-record" approach to privacy breaches.

CYBER LIABILITY: HISTORICAL RATE CHANGES

Price Per Million



US MARKETS UPDATE: RATE CHANGES FOR US COMPANIES

- US commercial property insurance prices stabilized and even declined for many organizations in 2013 as a significant surplus of capital among insurers and reinsurers kept competition high. The trend is expected to continue in 2014 so long as capacity stays plentiful and catastrophe losses remain relatively low.
- The percentage of public companies seeing decreases in D&O coverage increased to 38% in the fourth quarter from 31% the prior quarter.
- New insurers in the umbrella/excess markets increased overall capacity in 2013. Competition helped stabilize rates, a trend that is expected to continue into 2014.
- Employers across industries will face challenges in 2014 related to implementation of the Affordable Care Act. Employers are exploring a number of cost-saving measures, including health management/wellness strategies.

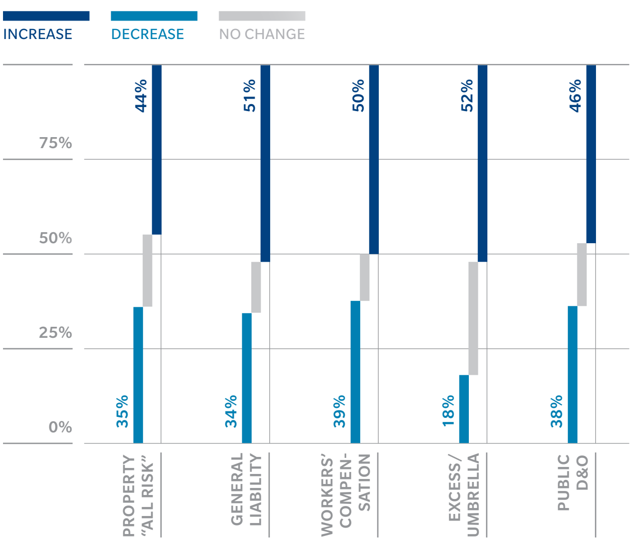
INSURABLE VALUES CONTINUE TO RISE

The exposure base as measured by payroll, total insurable value, and revenues continued to increase in the fourth quarter of 2013.

- Although it is increasing at a slower pace, the rise means there is a larger premium base available to casualty insurers — including new entrants to various markets — trying to gain market share.
- The continued increase in exposure base likely has helped to stabilize casualty insurance rates to some degree.
- Total insured values increased in the fourth quarter, although at a slower pace than in the third quarter, primarily because of the sluggish economic recovery. Insureds have been looking critically at their insured values as property insurers have continued to focus on catastrophe modeling — particularly following the release of RMS 13. This underlines the need for insureds to provide underwriters with better data to enable more accurate valuations of their underlying assets.

PERCENT OF US CLIENTS WITH RATE CHANGES — Q4 2013

Source: Marsh Global Analytics



AVERAGE US EXPOSURE TRENDS

Source: Marsh Global Analytics