MARSH

Marsh Risk Management Research **Briefing**

GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

DECEMBER 2012

GLOBAL RATE FIRMING SLOWS, DESPITE SANDY

Despite significant insured losses in the US from Superstorm Sandy during the fourth quarter, overall global insurance rates rose at a slower rate than in the previous quarter.

The fourth quarter shows a distinct flattening in the level of insurance rate increase, according to the Marsh Risk Management Global Insurance Index, a composite or weighted average of rate change activity over the preceding four quarters. During the fourth quarter, the index rose 0.3 points to 101.2, up from 100.9 in the third quarter. The index was based at 100.0 in the second quarter of 2012.

The average rate change at renewal was 1.2% in the fourth quarter, compared to the 1.4% seen in the third quarter (see Figure 2). However, renewal rates increased in every major line of business during the quarter (see Figure 3). The decrease in the rate at which insurance prices are rising follows a gradual hardening in the major lines of insurance throughout the year.

In the US, insureds are beginning to feel some of the effects of Superstorm Sandy, with insurers increasing their push for rate increases. The proportion of US insureds seeing rate reductions on renewal fell in most lines of business over the last three months.

For US insureds, decreases in property insurance rates are considered unlikely in early 2013, especially for those with losses from Sandy. Flat or declining premium rates at renewal typically will be reserved for insureds with favorable loss histories and low catastrophe exposures.

Although losses from Superstorm Sandy will affect insurers' bottom lines, it is not expected to be a significant market-changing event. Losses are likely to be mostly contained within the insurers' retention, although some reinsurance treaties may be triggered. Overall, insurers remain well-capitalized, with most unlikely to reduce capacity in 2013, barring unforeseen events. However, individual insurers may more carefully scrutinize their catastrophe aggregates.

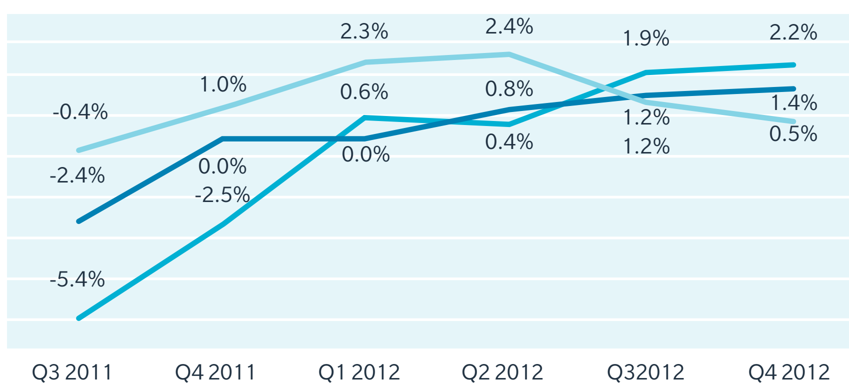
FIGURE 1: MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX

Source: Marsh Global Analytics

FIGURE 2: RENEWAL RATE CHANGES

Source: Marsh Global Analytics

FIGURE 3: RENEWAL RATE CHANGES BY LINE OF BUSINESS



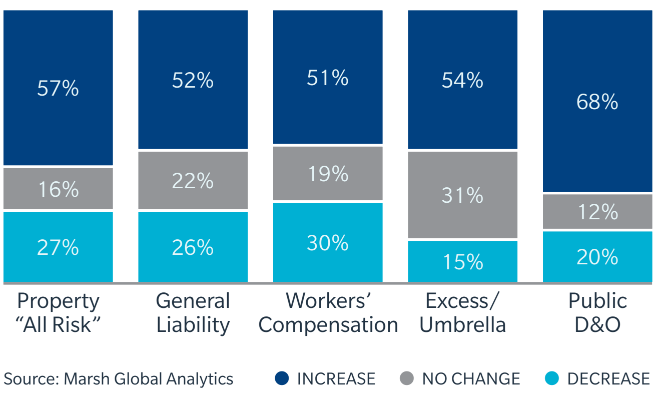
Source: Marsh Global Analytics

CASUALTY FINANCIAL AND PROFESSIONAL PROPERTY

THE US INSURANCE MARKET

FEWER RATE DECREASES IN MOST LINES, POST-SANDY

PERCENT OF US CLIENTS WITH RATE CHANGES — Q4 2012



The number of insureds experiencing decreases at renewal decreased in all major lines of insurance, other than excess casualty, during the fourth quarter as the effects of Superstorm Sandy began to be felt.

- Sandy's full impact on property insurance markets likely will be felt in the first half of 2013, with insurers expected to be less agreeable to rate decreases and to tighten policy wordings around flood, storm surge, and windstorm.

- An overall increase in workers' compensation rates was driven in large part by escalating medical and indemnity claims costs, increased use of narcotic drugs for pain management, ongoing reserve inadequacy, and a weak investment environment.

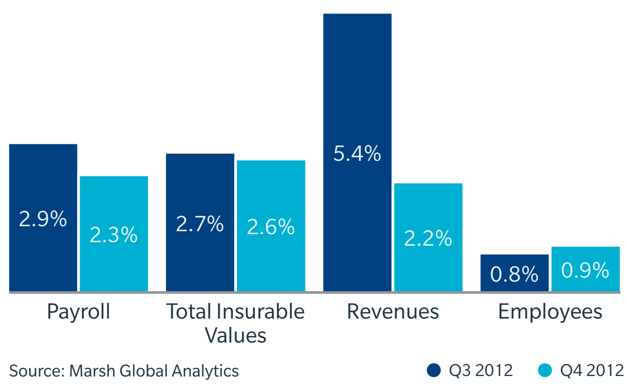
INSURABLE VALUES CONTINUE TO INCREASE IN FOURTH QUARTER

Total insurable values (TIVs) increased by 2.6% in the fourth quarter. On average, current TIVs are unlikely to cause changes to limits within property insurance programs, but may be reflected in slightly higher premiums.

- Payrolls and employee headcounts increased modestly; however, not enough to seriously affect the workers' compensation market.

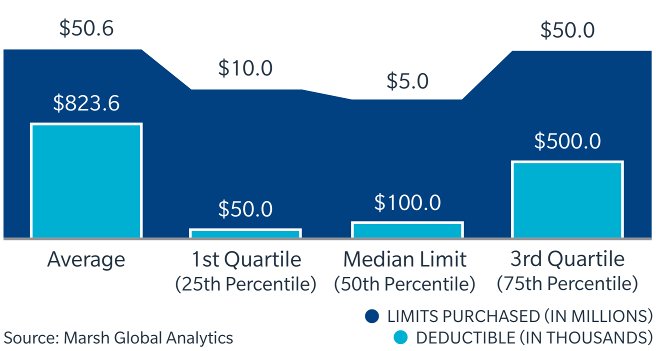
- Positive price trends saw the proportion of clients experiencing rate reductions for umbrella and excess liability insurance increase in the quarter, from 10% in the third quarter to 15%. However, as insurers try to grow premium, they will seek rate increases if they are not able to grow it through exposure growth.

AVERAGE US EXPOSURE TRENDS



SANDY HIGHLIGHTS US FLOOD INSURANCE ISSUES

LIMITS AND DEDUCTIBLES 2012



As highlighted during Superstorm Sandy, flood insurance is essential for most commercial insureds, as flooding is the leading cause of US disaster losses.

- Most companies purchase flood insurance as part of their commercial flood policies. The average limits purchased in 2012 was $50.6 million and the average deductible was just over $800,000.

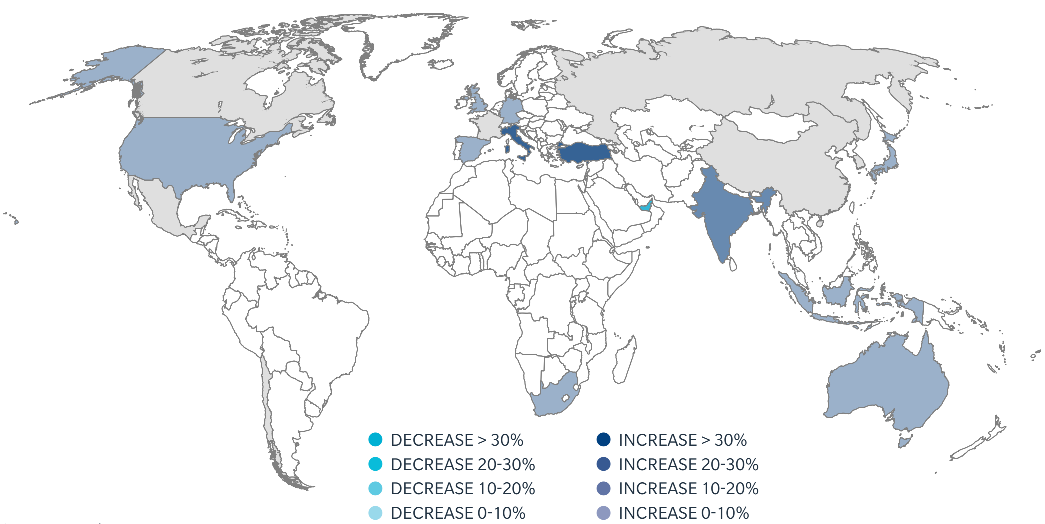
- Many insureds purchase insurance through the National Flood Insurance Program (NFIP), a federal program that had funding problems before Sandy hit and now faces even greater challenges following the storm.

PROPERTY CATASTROPHE

Although property insurance rates for catastrophe-exposed risks continued to climb in the fourth quarter for many major geographies, the year's relatively benign loss record moderated the level of increases in many countries.

- Australia and Japan, both of which were affected by major natural catastrophes in 2011, saw the rate of increase continue to decline. In the third quarter, rate increases of up to 20% were more usual.
- Global insurance capacity for catastrophe-exposed risk remains strong, with no significant reductions reported during the quarter. Some larger insurers are increasing their catastrophe capacity in select geographies.
- In the US, companies with significant catastrophe exposures continue to generally experience the highest increases at renewal. A company's loss history is also important in determining individual rates. Pressure from insurers to increase rates more broadly may come as the full extent of losses from Superstorm Sandy are quantified.
- For non-catastrophe related exposures, rates remained stable. During the fourth quarter, rates typically decreased in many countries, with increases seen only in the US and Italy. Capacity for these risks remains high with many insurers looking to expand their share of this market.

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



Source: Marsh

PROPERTY (CAT EXPOSED)	
Australia	Increase 0-10%
Canada	Stable -5% to +5%
Chile	Stable -5% to +5%
China	Stable -5% to +5%
France	Stable -5% to +5%
Germany	Increase 0-10%
India	Increase 10-20%
Indonesia	Increase 0-10%
Italy	Increase 20-30%
Japan	Increase 0-10%
Korea	Stable -5% to +5%
Mexico	Stable -5% to +5%
Russia	Stable -5% to +5%
South Africa	Increase 0-10%
Spain	Stable -5% to +5%
Turkey	Increase 20-30%
UAE	Decrease 20-30%
UK	Increase 0-10%
US	Increase 0-10%

FOCUS: CYBER INSURANCE

Advances in technology have brought increased efficiency and productivity to organizations, but technological dependence has also brought new risks and challenges. These include the failure of technology to secure critical business functions from disruption, the theft of confidential information, and increased liability risks arising from organizations' online content.

At the same time, the increasing sophistication of hackers is creating new vulnerabilities in IT systems. Cyber crime is widespread, with organized criminal enterprises, terrorist groups, hacktivists, corporate competitors, and even some sovereign states engaged in hacking.

Many insurers have responded to the increased demand in this emerging risk area by launching new cyber insurance products. Insurance capacity for cyber risk is strong, with several new entrants in 2012, a trend expected to continue in 2013.

Rates have remained broadly flat for both privacy and data breach insurance. In the US, insurers have benefited from nearly a decade of loss experience with which to benchmark rates. However, in Europe and elsewhere, pricing is less stable and increased competition is likely to contribute to falling rates in 2013.

FINANCIAL INSTITUTIONS CONTINUE TO FACE TOUGH ENVIRONMENT

Financial institutions in the US, Europe, and Australia continued to see rate increases in their liability insurance programs during the fourth quarter, reflecting insurers' concern about the global economic situation and increased regulatory scrutiny.

Much of the rate increase for errors and omissions (E&O) insurance is being driven by persistent concern about systemic risks affecting financial institutions. The threat of contagion from the economic troubles that continue to affect southern Europe and the wider Eurozone, as well as recent high-profile cases of product mis-selling, particularly in the UK, are all contributing to upward rate pressure.

Given that financial institutions operate in an increasingly highly-regulated environment and with high cash volumes, the perceived increase in cyber risks and outsourcing risks have combined with recent losses to push E&O rates higher.

The rise in individual accountability in a rapidly changing regulatory regime has meant directors and officers (D&O) insurance for financial institutions has continued to be challenged. Recent money laundering cases, rogue trading, and the UK Libor scandal have pushed insurers to take a tougher stance.

Public company primary D&O rate increases in the US have persisted through the end of the year with a notable move into excess layers in the fourth quarter. Small and midsize companies experienced slightly higher overall program increases than larger companies. However, organizations with challenging risk profiles saw the greatest rate impact.

MAJOR LIABILITY MARKETS: TYPICAL RATE CHANGES

	GENERAL LIABILITY	PROFESSIONAL LIABILITY	FINANCIAL INSTITUTIONS	D&O
Australia	Stable -5% to +5%	Stable -5% to +5%	Increase 20-30%	Stable -5% to +5%
Brazil	Decrease 0-10%	Stable -5% to +5%	Increase 0-10%	Decrease 10-20%
Canada	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Chile	Increase 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
China	Decrease 0-10%	Decrease 0-10%	Decrease 0-10%	Decrease 0-10%
France	Decrease 0-10%	Decrease 10-20%	Increase 0-10%	Decrease 0-10%
Germany	Decrease 0-10%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
India	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Indonesia	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Italy	Stable -5% to +5%	Stable -5% to +5%	Not Available	Not Available
Japan	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Korea	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
Mexico	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Russia	Stable -5% to +5%	Stable -5% to +5%	Increase 10-20%	Decrease 0-10%
South Africa	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Spain	Decrease 10-20%	Decrease 0-10%	Increase 0-10%	Decrease 0-10%
Turkey	Increase 10-20%	No Market	Stable -5% to +5%	Increase 0-10%
UAE	Decrease 20-30%	Decrease 10-20%	Decrease 10-20%	Decrease 0-10%
UK	Stable -5% to +5%	Increase 0-10%	Increase 0-10%	Stable -5% to +5%
US	Increase 0-10%	Increase 0-10%	Stable -5% to +5%	Increase 0-10%

Source: Marsh

Additionally, merger and acquisition activity, new "say on pay" plaintiffs' strategies, and growing scrutiny over insider trading continue to drive insurers' concerns.

Outside the US, D&O rates either remained stable or fell in all major markets, bar Turkey. Significantly, D&O rates generally fell in China, the first quarter to record a reduction in well over a year.

General liability insurers in the US continued to seek rate increases with fewer companies seeing rate reductions than in the previous quarter. However, market conditions remain favorable for insureds with adequate capacity and competition mitigating any significant increases.