

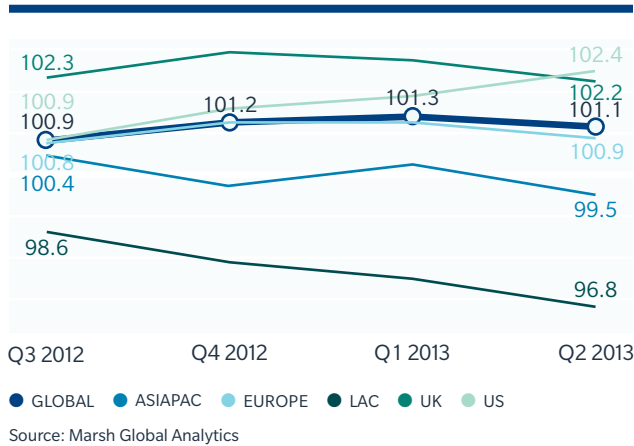
GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

AUGUST 2013

INSURANCE RATES DECLINE IN MOST REGIONS IN Q2; US SEES MODERATE RISE

Insurance rates in regions such as Latin America, Asia-Pacific, the UK, and Continental Europe declined modestly in the second quarter of 2013, while rates in the US rose moderately. The combined effect was a decline in the Marsh Risk Management Global Insurance Index for the first time since its inception six quarters ago (see Figure 1). The index represents a composite, or weighted, average of global rate change activity over the preceding four quarters.

FIGURE 1: MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX AND REGIONAL INDICES



The most significant decrease in composite renewal rates — which underpin the global and regional indices — came in Latin America, at 3%. A decrease in the composite rate on renewal was also seen in Asia-Pacific (2.4%), the UK (1.7%), and Continental Europe (1.3%). However, there are signs of change, with a number of countries, including Germany, Italy, and the Netherlands, reporting a generally stable market compared to the first quarter while others, such as Turkey and United Arab Emirates, reported rate increases. In the UK, some insureds are seeing efforts by insurers to restrict coverage, limits, and new wordings. The US was the only region to show an increase in the composite rate on renewal, with a rise of 1.6% when viewed across all lines of business.

In most regions, overall premium rates decreased across the major insurance coverage lines (see Figure 2). Casualty insurance rates generally fell between 1% and 5% in the UK, Europe, and Latin America, while increasing in the US. In financial and professional lines, renewals in the UK and Continental Europe typically saw slight decreases, while renewals in the US were typically up between 2% and 3%.

FIGURE 2: RENEWAL RATE CHANGES BY LINE OF BUSINESS

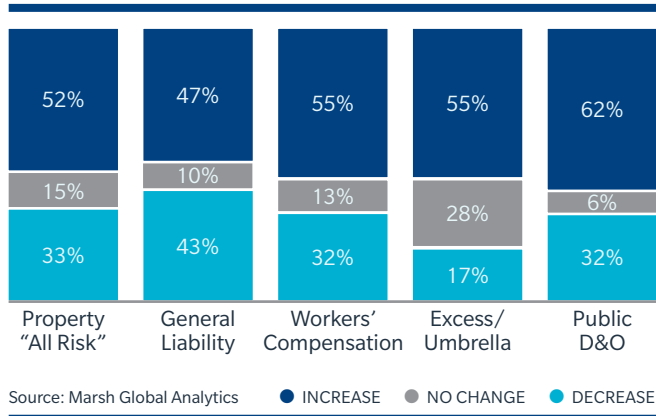


Asian markets continued to see an inflow of capital, and thus insurance capacity, which is driving competition to the benefit of insurance buyers there.

The effects of an increase in capacity from Asian and Middle Eastern insurers are being felt in other regions, particularly for property insurance. The absence of major, insured catastrophe losses globally also contributed to property insurance rates generally falling or remaining flat across all regions.

US MARKETS: RATES CONTINUE TO RISE ACROSS MOST LINES

PERCENT OF US CLIENTS WITH RATE CHANGES — Q2 2013



A majority of insureds saw increases on renewal across most major insurance lines in the second quarter.

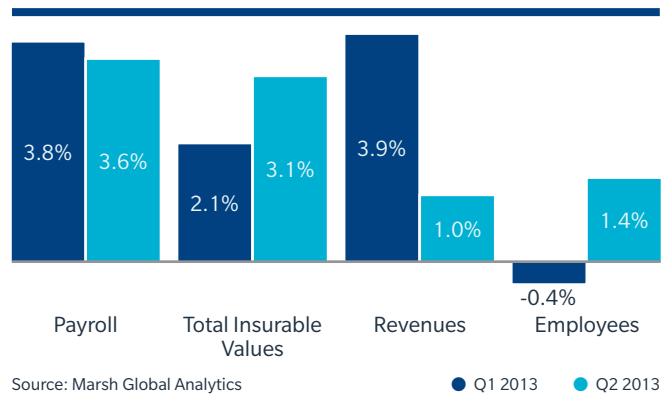
- The US property insurance market is becoming more competitive, although insurers obtained rate increases for select pockets of insureds.
- Rates for lead umbrellas and workers' compensation — particularly guaranteed cost — typically increased; general liability rates were unchanged for most insureds.
- Merger objection litigation and continued enforcement activities by regulators — translating into investigations involving both corporations and their executives — contributed to rate pressures for directors and officers (D&O) liability insurance; however, market competition served to stabilize premium increases compared to the first quarter.

INSURABLE VALUES, OTHER EXPOSURES CONTINUE TO INCREASE

Total insurable values (TIVs) in the US increased by 3.1% in the second quarter.

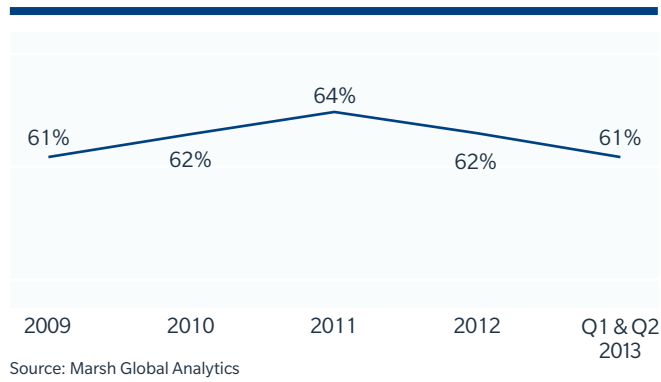
- Modest exposure increases in some cases helped to mitigate casualty rate increases. Capacity remained strong, with some new market entrants and existing insurers showing renewed interest and competing aggressively.
- Insureds in the Northeast that had not yet renewed their property insurance programs since Superstorm Sandy faced greater scrutiny, particularly around deductibles and other coverage terms.

AVERAGE US EXPOSURE TRENDS



TERRORISM INSURANCE MARKET UPDATE

TERRORISM INSURANCE TAKE-UP RATES BY YEAR



The Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), a US federal terrorism insurance backstop established following the September 11, 2001, terrorist attacks, is set to expire on December 31, 2014.

- The US House of Representatives is currently considering three separate TRIPRA reauthorization bills; Senate legislation has not yet been introduced.
- Should the program be substantially modified or not reauthorized, insureds have several alternatives, including standalone terrorism coverage and capacity commitments, excess "flip" contracts, and reserve capacity options.

PROPERTY UPDATE

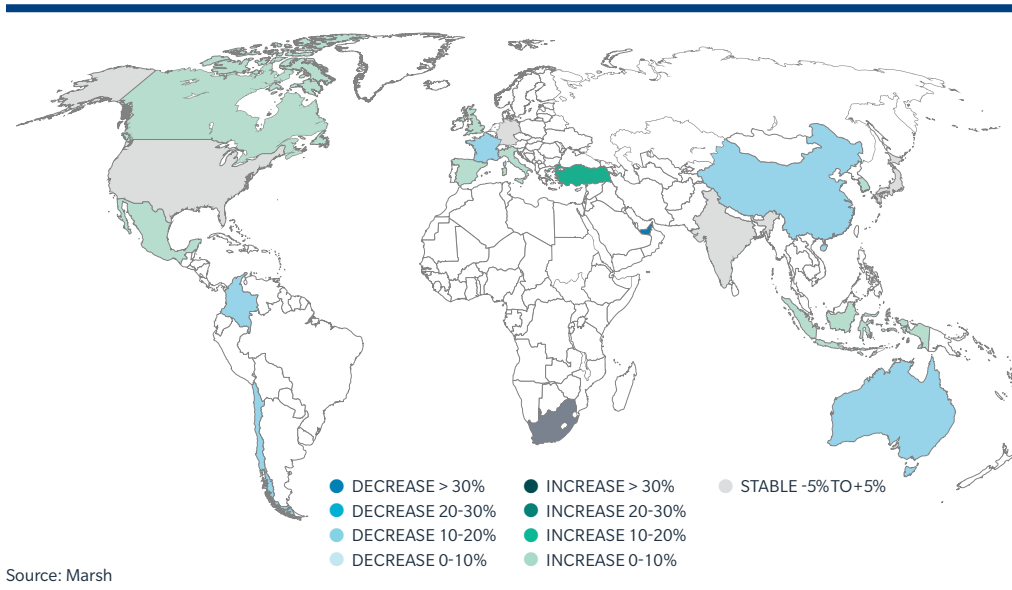
Increased capacity and competition among insurers and low losses from catastrophes generally kept property premiums from rising in the second quarter. Newly available capacity from the Middle East, China, Japan, and elsewhere in Asia has increased diversification and competition among property insurers.

Many organizations that are not considered to be exposed to catastrophes saw rates on average remain flat, while catastrophe-exposed organizations typically saw only moderate increases. However, hurricane season in the North Atlantic and typhoon season in Asia are under way, with the first major storm hitting Taiwan and the east coast of China in early July. Going forward, rates in areas typically impacted by typhoons (Japan, Taiwan, China, Hong Kong, and the Philippines) and hurricanes (primarily US, Mexico, and the Caribbean) may be affected by how the season plays out.

In some major markets, notably Australia and Japan, rate movements for property catastrophe-exposed risks were broadly in line with those without such exposure. Generally, rates in countries that have experienced major losses in recent years have stabilized or are declining, but remain higher than they were before those large losses.

Flooding remained the most problematic catastrophe peril for insureds and underwriters in many regions, as demonstrated by recent events in Germany and elsewhere. Although some high-profile tornado events in the first half of 2013 in the US put a spotlight on that risk for insureds, relatively low dollar losses limited the impact on the commercial insurance markets.

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



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

EMPLOYEE HEALTH AND BENEFITS UPDATE

Generally, the global rate environment for health and benefits remained stable in the second quarter. In many parts of the world, rising health care costs and medical inflation continue to exert significant price pressure on companies offering medical benefits to employees. At the same time, companies looking to attract and retain high quality workers are required to offer competitive health and benefits packages.

In Asia, many multinational corporations have focused on improving their wellness and prevention programs, a strategy that is now spreading to small and midsize enterprises. Companies in that region are increasing

their ability to understand the reasons behind increased medical claims and absenteeism, and are implementing programs that address root causes.

US employers are focusing on absence management, aggressive health management, and account-based plans, now that the future of health care reform appears to have been secured by court rulings and by the 2012 presidential election. Voluntary benefits and consumer-directed health plans will play an increasingly central role in many employers' programs. Workforce health care management has emerged as many employers' top long-term strategy for controlling health spending.

LIABILITY INSURANCE RATES AND UPTAKE SHOW REGIONAL DIFFERENCES

Financial institutions in parts of the Eurozone saw liability rates increase during the second quarter of 2013. Although rates for financial institutions either fell or remained stable in most major markets outside the Eurozone, rates increased in Italy, Spain, and France.

In most major markets, D&O liability insurance rates either remained stable or fell in the second quarter. In the Eurozone, insurance rates continued to decrease and some insurers enhanced their coverage offerings. In the US, although D&O premium increases persisted, they stabilized and began to lessen in the second quarter.

Merger objection claims and litigation in the US remained an issue for D&O insurers, particularly for companies in the small to midsize market cap range, as nearly every M&A deal these days triggers at least one lawsuit. This has translated into higher premiums and prompted many D&O insurers to deploy separate M&A retentions, typically in the US\$1-million to US\$2-million range, to offset their average risk for these claims. Other issues that continue to pressure D&O rates, despite abundant capacity, include escalating regulatory enforcement activities and shareholder concerns regarding board composition and executive pay.

For errors and omissions (E&O) insurance, capacity remained generally abundant across professional liability lines, driving competition and generally keeping market conditions favorable for insureds. Although the overall market was flat, conditions could vary significantly based on an individual organization's industry and business specifics.

The demand for general liability insurance in Asia continues to grow, with significant

MAJOR LIABILITY MARKETS: TYPICAL RATE CHANGES

	GENERAL LIABILITY RATE CHANGES	DIRECTORS & OFFICERS RATE CHANGES	FINANCIAL INST. RATE CHANGES	PROFESSIONAL LIABILITY RATE CHANGES
Australia	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
Brazil	Decrease 0-10%	Stable -5% to +5%	Increase 0-10%	Increase 0-10%
Canada	Stable -5% to +5%	Increase 0-10%	Increase 0-10%	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%
Colombia	Stable -5% to +5%	Decrease 0-10%	Increase 0-10%	Stable -5% to +5%
France	Decrease 0-10%	Decrease 0-10%	Increase 0-10%	Decrease 0-10%
Germany	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
Hong Kong	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
India	Decrease 0-10%	Decrease 0-10%	Stable -5% to +5%	Decrease 0-10%
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%	Increase 10-20%	Stable -5% to +5%
Japan	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Korea	Stable -5% to +5%	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%
Mexico	Decrease 0-10%	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%
Russia	Stable -5% to +5%	Decrease 10-20%	Increase 20-30%	Decrease 0-10%
Singapore	Decrease 0-10%	Decrease 0-10%	Decrease 0-10%	Decrease 0-10%
South Africa	Decrease 0-10%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
Spain	Decrease 10-20%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
Turkey	Increase 10-20%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
UAE	Decrease 20-30%	Decrease 10-20%	Decrease 10-20%	Decrease 10-20%
UK	Decrease 0-10%	Decrease 0-10%	Increase 0-10%	Decrease 0-10%
US	Stable -5% to +5%	Increase 0-8%	Increase 0-10%	Increase 0-10%

Source: Marsh

competition among local, regional, and global insurers in the primary market leading to insurance rates generally decreasing up to 10%. Due to the overall lack of litigation in the region, limits for third-party liability tend to be much lower than in Europe and the US. However, the potential remains high that demand for casualty insurance in Asia will continue to increase.

Cyber risk and liability are a growing concern for businesses, consumers, insurers, and governments worldwide. Underwriters are scrutinizing high-profile hacking incidents as losses continue to mount — most recently among credit card transaction processing firms.

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