GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

OCTOBER 2012

GLOBAL INSURANCE MARKET CONTINUES FIRMING

Global insurance prices continued to rise in the third quarter of 2012, but showed signs of stabilizing. The cost of insurance across major lines increased by 0.9% over the second quarter, according to the Marsh Risk Management Global Insurance Index (see Figure 1).

Also in the third quarter, figures showing the typical renewal rate changes suggest that increases, although varying across lines of business, may be stabilizing (see Figure 2). Renewal rates increased by 1.4% in the third quarter, the same level of increase as seen in the second quarter.

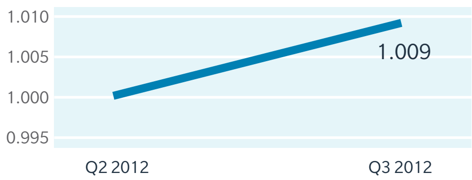
Financial and professional insurance rates rose by an average of 1.9% as last quarter's partial stabilization was not repeated and the firming trend begun last year continued.

Property insurance rates stabilized as a lack of major losses from natural catastrophes to date this year helped keep increases to an average of 1.2% at renewal during the third quarter. Insureds with clean loss histories were more likely to experience flat renewals. Conversely, those with significant natural catastrophe exposures were likely to experience much higher increases. Barring a major natural catastrophe event, this trend is expected to continue, with flat renewals becoming more common by the end of the year. Some insureds could benefit from rate discounting as underwriters may seek to increase premium volumes before year end. However, insureds with unfavorable loss histories or significant catastrophe exposures typically will experience rate increases.

Casualty insurance rates globally rose on average by 1.2% on renewal in the quarter, higher than the 0.8% increase seen last quarter. Underwriters continue to show caution around particular risks. For example, fracking, cyber liability, and wildfires continue to be top concerns for excess liability underwriters in the US, with many tightening terms and conditions when these risks are involved.

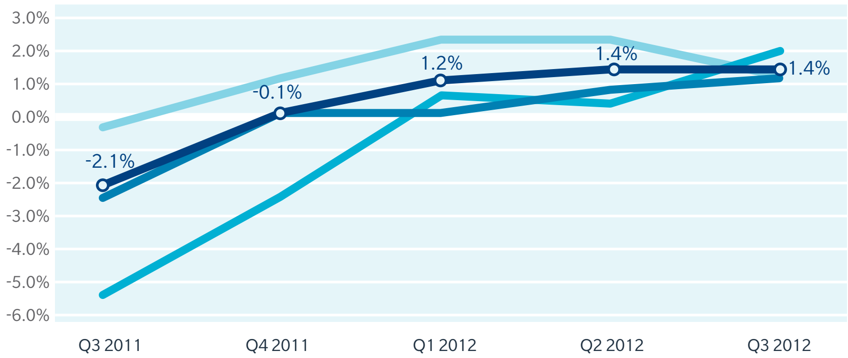
*Note: Beginning this quarter, the Index will be calculated as a composite of changes in the cost of insurance in 20 markets globally over a 12-month rolling period. As the index data build in coming quarters and years, this representation will provide a unique view of price changes in a basket of insurance products over time, much as the Consumer Price Index (CPI) does for a basket of consumer goods.

FIGURE 1: MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX*



Source: Marsh Global Analytics

FIGURE 2: RENEWAL RATE CHANGES



Source: Marsh Global Analytics

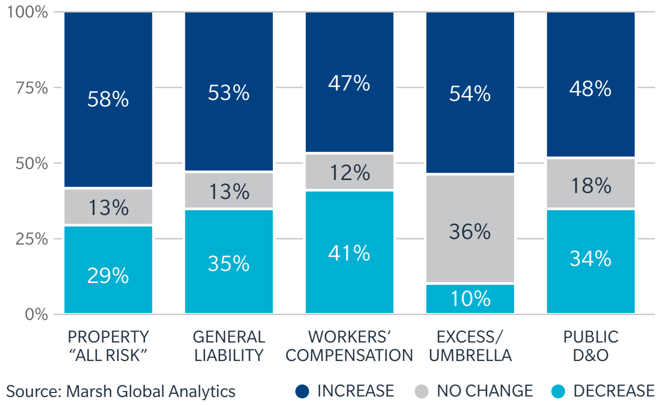
QUARTERLY OVERVIEW

- Renewal rates firmed in the third quarter at the same rate as in the second quarter.
- The Eurozone crisis is a concern for liability underwriters, exemplified by rate increases for financial institutions across the region.
- Rate increases continue to outnumber decreases across major lines of business in the US.
- Property insurance rates for catastrophe-exposed risks climbed in the third quarter, although the trend is expected to reverse in coming months, barring unforeseen events.

THE US INSURANCE MARKET

RATE INCREASES CONTINUE TO OUTNUMBER DECREASES

PERCENT OF US CLIENTS WITH RATE CHANGES—Q3 2012



Source: Marsh Global Analytics

For the second quarter in a row, US companies were more likely to experience rate increases than decreases in major lines of insurance.

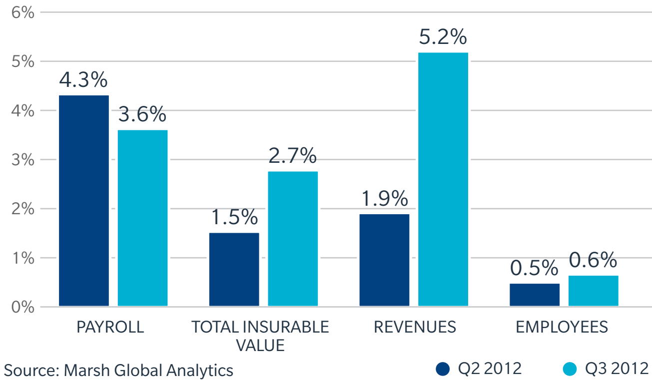
- Although general liability rate increases accelerated in the third quarter, it is too soon to call it a trend. By contrast, workers' compensation rates stabilized.
- The majority of property insureds experienced rate increases in the third quarter. However, the lack of a significant hurricane restricted insurers' efforts to increase rates.
- In excess casualty lines, more clients are seeing rate increases in their excess liability programs compared to the last quarter.

INSURERS SEEK INCREASES AS EXPOSURE VALUES TREND UPWARD

Total insurable values reported at renewal increased 2.7% during the third quarter, while companies reported year-on-year increases in revenue of 5.2%. These changes put upward pressure on rates as underwriters were reluctant to absorb increased exposure levels without additional premium.

- Slight increases in exposures (payroll, revenues, and employee count) are not expected to have a material impact on primary casualty insurance programs.
- As the excess casualty market continues to transition, companies that can demonstrate to insurers that changes in exposures are not likely to impact their overall risk are more likely to mitigate potential significant premium increases at renewal.

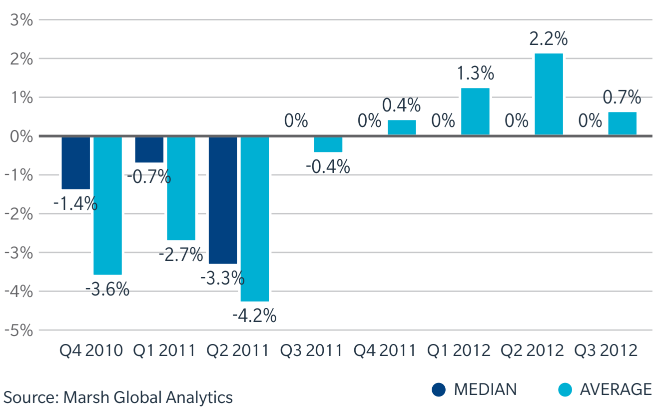
AVERAGE US EXPOSURE TRENDS



Source: Marsh Global Analytics

WORKERS' COMPENSATION MARKET REMAINS COMPETITIVE

HISTORICAL RATE (PREMIUM) CHANGES



Source: Marsh Global Analytics

Although workers' compensation rates stabilized somewhat in the third quarter, insurers continued to seek increases, a trend that is expected to continue into 2013. However, many companies are seeking alternative quotes in an effort to achieve optimal results, helping to increase competition among insurers and, potentially, to mitigate overall rate increases.

- Employers with guaranteed cost programs are experiencing rate increases—potentially higher than the average—more often than those with loss-sensitive programs.
- Employers with operations in California and those purchasing guaranteed-cost programs continue to have the most challenging renewals.

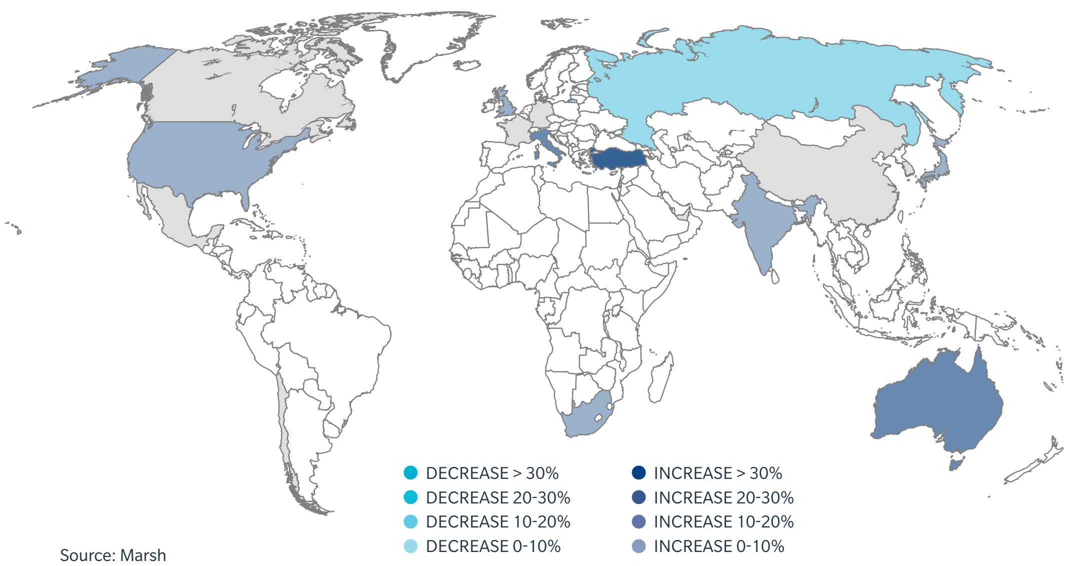
PROPERTY CATASTROPHE RATES INCREASE DESPITE AN ABSENCE OF LARGE EVENTS

Property insurance rates for natural catastrophe-exposed risks continued to climb in major geographies in the third quarter, despite low losses this year. However, this trend is expected to abate in the fourth quarter if there are no major events.

- In Japan, rate increases for natural catastrophe-exposed property programs began to moderate for the first time since the Tōhoku earthquake and tsunami early last year; with increases typically between 10% and 20%, it was the first quarter since then when average increases were not above 30%.
- In the US, increases typically moderated to less than 10%, reflecting the to-date benign 2012 hurricane season.
- In a bid to manage their exposures more tightly, some insurers are insisting on the increased use of sublimits on certain catastrophe-exposed property programs.

By contrast, rates for non-natural catastrophe exposed risks were more likely to remain stable or decline. Of the 20 major geographies, only Australia, France, Italy, and Saudi Arabia reported increases—rates typically held flat to increasing by 10% in these countries. Capacity remains plentiful and competition strong, especially for exposures with favorable loss histories. No major geography reported a significant decline in insurer appetite.

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



Source: Marsh

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

FOCUS: GLOBAL ENERGY MARKET—PROJECT RISKS

After being hit by substantial losses over the last few years, insurers are seeking to manage their natural catastrophe aggregates for energy companies more closely. This comes at a time of growing mismatch between supply and demand for energy insurance capacity.

Insurers are struggling to provide sufficient insurance capacity for the growing number of mega energy projects—those with capital expenditure of more than US$5 billion. Conceived when commodity prices reached all-time highs three to four years ago, many of these facilities are now more inclined to self-insure large tranches of their program if insurance coverage cannot be found at commercially acceptable terms.

By contrast, midsize energy projects—those valued between US$500 million and US$5 billion—benefit from fierce levels of competition among insurers.

With heightened regulation, increased natural catastrophe risk, and an increasingly globalized business outlook, many midsize and small energy projects are looking for cost-effective risk advice and insurance coverage. In order to accomplish this effectively, the insurance industry is looking at more commoditized distribution mechanisms, especially for smaller projects.

LIABILITY MARKETS STABILIZE… BUT EUROZONE CAUSES CONCERN

Financial institutions in every major Eurozone country typically experienced increases in liability insurance rates during the third quarter as insurers tightened conditions. The amount of available liability insurance capacity fell in France, while in Germany insurers became more selective about the risks they would write.

Globally, directors and officers (D&O) liability insurance rates typically remained stable or decreased in major geographies in the third quarter. After several quarters of significant increases for US-exposed risks, D&O rates in China stabilized in the third quarter with typical renewals experiencing reductions of up to 5%, due in large part to the decrease in interest among Chinese firms to list on US stock exchanges.

The exceptions to the trend of stable or downward pricing were Australia, where rates increased across most lines of property and casualty business, and the US. Although the number of securities lawsuits remained relatively stable through the second quarter in the US, increases in legal fees pressured many D&O insurers. Much of this increase can be attributed to larger and more complex cases coupled with higher legal billing rates. As a result, in the US market, primary rates are trending upwards.

Insurers continue to monitor the development of D&O losses from prior years. As the credit crisis finally begins to unwind, the full extent of losses from the years 2008 to 2011 are coming into clearer focus, although it is expected to take several years before the true extent of the claims—and thus insurer profitability—is known.

MAJOR MARKETS LIABILITY: TYPICAL RATE CHANGES

	GENERAL LIABILITY	PROFESSIONAL LIABILITY	FINANCIAL INSTITUTIONS	D&O
Australia	Stable -5% to +5%	Increase 0-10%	Increase 10-20%	Increase 0-10%
Brazil	Decrease 10-20%	Decrease 0-10%	Decrease 0-10%	Decrease 10-20%
Canada	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Chile	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
China	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
France	Stable -5% to +5%	Decrease 0-10%	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%	Decrease 0-10%	Decrease 0-10%	Decrease 10-20%
Italy	Increase 0-10%	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%	Stable -5% to +5%	Increase 0-10%	Decrease 0-10%
Mexico	Stable -5% to +5%	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%
Russia	Decrease 0-10%	Decrease 0-10%	Increase 10-20%	Decrease 20-30%
Saudi Arabia	Stable -5% to +5%	No Market	No Market	No Market
South Africa	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Spain	Decrease 10-20%	Stable -5% to +5%	Increase 10-20%	Decrease 0-10%
Turkey	Stable -5% to +5%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
UAE	Decrease 0-10%	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%
UK	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%	Stable -5% to +5%
US	Increase 0-10%	Increase 0-10%	Stable -5% to +5%	Increase 0-10%

Source: Marsh

D&O industry loss ratios remain stressed for the years 2008 to 2011, with minimal favorable development occurring in subsequent years. This deterioration in profitability suggests that insurers' reserve levels could decline significantly. This trend is having a direct impact on US D&O insurance pricing as insurers realize that losses have remained elevated following the credit crisis and that current business is not generating adequate returns to replenish these losses.

The passage of the US Foreign Corrupt Practices Act makes it clear that a heightened regulatory environment will also pose additional liability risk for corporations. Although D&O coverage does not usually pay losses or fines stemming from illegal activity, it can pay the often highly expensive associated legal fees.