MARSH

Marsh Risk Management Research **Briefing**

GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

APRIL 2013

GLOBAL RATE FIRMING CONTINUES IN Q1; VARIES ACROSS INSURANCE LINES, GEOGRAPHIES

Global insurance rates continued to firm on average in the first quarter of 2013, following a trend established over the previous 18 months. In general, many parts of the world had a stable rate environment. In the US, most major insurance lines experienced rate increases of 2% to 4%. In the international geographies (defined as regions outside the US in this report), rates experienced an overall average decrease of approximately 1%.

The first quarter marks the fifth consecutive quarter of a global average rate increase, according to the Marsh Risk Management Global Insurance Index, which represents a composite or weighted average of rate change activity over the preceding four quarters. During the first quarter the index, which was based at 100.0 in the second quarter of 2012, rose by 0.1 points to 101.3 (see Figure 1).

Overall, rates in the first quarter of 2013 renewed with an increase of 0.3% over the first quarter of 2012, following an overall increase of 1.2% in the fourth quarter (see Figure 2). Changes in renewal rates varied by line of business (see Figure 3).

Underlying these market conditions are very strong capacity and increased support for business among some global insurers for both catastrophe- and non-catastrophe-exposed property risks. However, property rates rose in the US Northeast and insurers restricted coverage for flood-exposed properties through increased retentions or peril-specific sublimits following October's Superstorm Sandy. In international geographies, 2012 was a relatively quiet year for natural catastrophes and insurer capacity was comparatively greater. First-quarter property rates in international regions were down slightly overall from the first quarter last year.

The US casualty market continues to experience a relatively stable pricing environment for general liability, workers' compensation, and excess/umbrella cover — slight increases in the low to mid single-digit range are common.

Globally, continued availability of capacity and strong competition have led to stable conditions overall. Regional and product-specific differences are examined in greater detail on the following pages of this report.

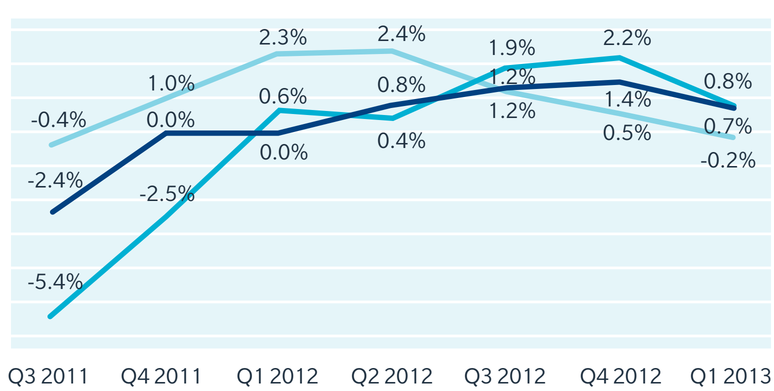
FIGURE 1: MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX

Source: Marsh Global Analytics

FIGURE 2: RENEWAL RATE CHANGES

Source: Marsh Global Analytics

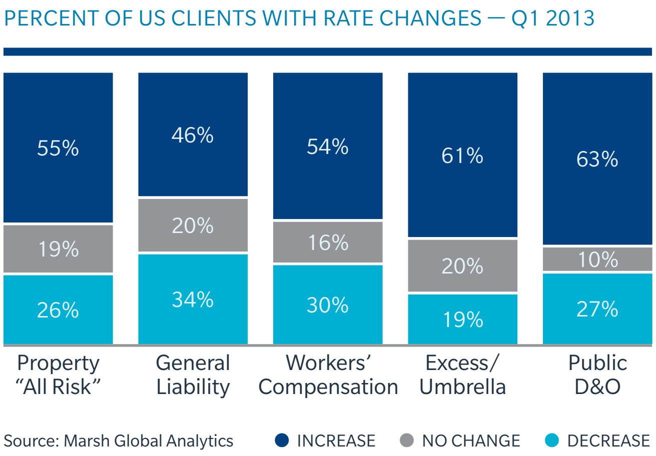
FIGURE 3: RENEWAL RATE CHANGES BY LINE OF BUSINESS



Source: Marsh Global Analytics ● CASUALTY ● FINANCIAL AND PROFESSIONAL ● PROPERTY

THE US INSURANCE MARKET

RATE INCREASES CONTINUE ACROSS MOST LINES



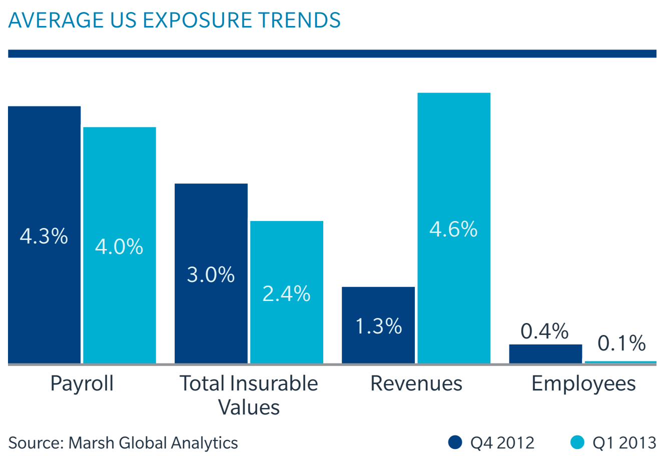
A majority of insureds continued to see increases at renewal in all major lines of insurance, other than general liability, in the first quarter of 2013.

- Property insurers are pushing for rate increases following Sandy, particularly in the Northeast.
- Casualty markets remain relatively stable, though some insureds are seeing increases in guaranteed cost workers' compensation and lead umbrellas.
- Merger objection lawsuits, particularly for small-cap companies, have contributed to some tightening in the directors and officers liability market.

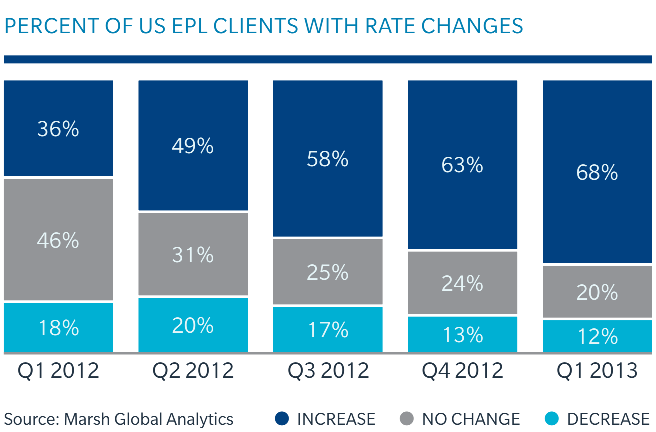
INSURABLE VALUES, OTHER EXPOSURES UP SLIGHTLY

Total insurable values (TIVs) increased by 2.4% in the first quarter.

- The modest increases in payrolls, revenues, and employee headcounts seen in the first quarter are unlikely to offset the rate increases that casualty underwriters are seeking in 2013. The number of insureds seeing rate increases rose in the first quarter for both workers' compensation, from 51% to 54%, and umbrella and excess liability, from 54% to 61%.
- Due to discrepancies that emerged in Sandy claims regarding the valuations used by insureds, property underwriters are focusing in 2013 on ensuring that the replacement cost of properties are valued correctly.



EPLI MARKET CONTINUES TO FIRM



After several years of rate decreases, employment practices liability (EPL) insurers are pushing for increases.

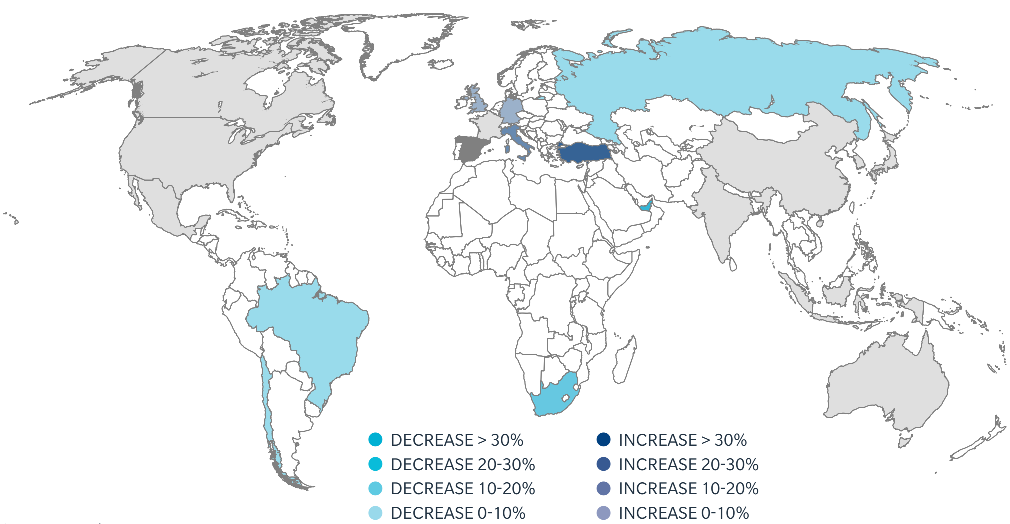
- Typical employment claims, such as race and gender discrimination, are occurring with higher frequency, particularly as regulators focus on systemic discrimination.
- Social media risk remains a significant concern for both employers and underwriters.
- New solutions are emerging for wage and hour claims, typically the single largest EPL exposure for US employers.

PROPERTY CATASTROPHE

Increased capacity was seen again for property catastrophe risks, stifling the efforts of some insurers to secure rate increases. Some larger insurers showed a much greater appetite for this risk and are looking to expand market share.

- In the US, property rates for moderately catastrophe-exposed programs — those of up to 30% of values — typically renewed either flat or with increases up to 10%. However, rates increases of more than 10% were more usual in the US Northeast, following the effects of Superstorm Sandy and Hurricane Irene.
- Overall rate stabilization in the US may reflect the fact that rates have been rising steadily for some time in the more catastrophe-exposed parts of the country, such as Florida, and have now reached a plateau. By contrast, property catastrophe rates have not been rising over the same period in the Northeast where price rises reflect recent losses.
- Globally, rates for catastrophe-exposed property risks stabilized in most major markets, including in countries where there have been major losses in recent years; rates in both Australia and Japan began to stabilize after several quarters of rate increases.
- By contrast, in Thailand, significant reductions are being achieved of up to 50%. However, rates remain higher than they were before the major Bangkok floods.

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



Source: Marsh

PROPERTY (CAT EXPOSED)	
Australia	Stable -5% to +5%
Brazil	Decrease 0-10%
Canada	Stable -5% to +5%
Chile	Decrease 0-10%
China	Stable -5% to +5%
France	Stable -5% to +5%
Germany	Increase 0-10%
India	Stable -5% to +5%
Indonesia	Stable -5% to +5%
Italy	Increase 10-20%
Japan	Stable -5% to +5%
Korea	Stable -5% to +5%
Mexico	Stable -5% to +5%
Russia	Decrease 0-10%
South Africa	Decrease 10-20%
Spain	No Market
Turkey	Increase 20-30%
UAE	Decrease 20-30%
UK	Increase 0-10%
US	Stable -5% to +5%

FOCUS: ANTI-CORRUPTION

Regulatory scrutiny, particularly around anti-corruption regulation such as the Foreign Corrupt Practices Act (FCPA), remains a chief concern for companies in many industries. In recent years, regulators worldwide have increased their pursuit of investigations under the FCPA, UK Bribery Act, and similar laws. In the US alone, more than 250 FCPA investigations are currently under way.

Many public and private companies and their boards assume that the costs of any FCPA or other anti-corruption investigation will be covered under a directors and officers liability (D&O) policy. However, D&O insurers are generally taking the position that their policies cover only the defense costs of individual insureds, and then only after a regulator has instituted a "formal" investigation indicating that the individual may become the target of a regulatory proceeding.

Such a position by the insurer will often leave a company, and its officers and directors, bearing the brunt of investigation costs that can run into the tens or even hundreds of millions of dollars. Recognizing the need for this cover, several insurers are now offering standalone policies, with coverage of up to $150 million, designed specifically to cover costs related to FCPA and similar investigations.

EUROZONE WORRIES CONTINUE TO DRIVE UP FI RATES

Financial institutions in the eurozone continue to generally face increased liability insurance rates as fears over the region's economy sparked concern among insurers. By contrast, rates in other liability lines, and for financial institutions outside the eurozone, were generally either stable or declined during the first quarter of this year.

Rates for directors and officers liability were generally stable or declined slightly. However, in the US, there has been some tightening for small-cap companies, driven by mergers and acquisitions (M&A) involving small-cap and mid-cap companies that has led to litigation and claims activity. Prior rate stabilization of primary insurance programs for large-cap companies, combined with competition on their sizeable excess programs, has contributed to more positive market trends for those companies.

Regulatory scrutiny, particularly around anti-corruption regulation such as the US Foreign Corrupt Practices Act (FCPA), remains a chief concern for companies in many industries.

Companies in the communications, media, and technology (CMT) sector — many of which have extensive global footprints — have faced significant litigation and claims, even in situations where regulators' allegations are later disproved or dropped. CMT companies have also typically faced losses and higher premiums as a result of small-cap and mid-cap M&A litigation activity.

Life sciences companies continue to be challenged by aggressive enforcement of the FCPA, pursuit of off-label marketing and other violations, and greater use of the Responsible Corporate Officer Doctrine as a prosecution tool.

MAJOR LIABILITY MARKETS: TYPICAL RATE CHANGES

	GENERAL LIABILITY	DIRECTORS & OFFICERS LIABILITY	FINANCIAL INST. (FINPRO)	PROFESSIONAL LIABILITY
Australia	Stable -5% to +5%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
Brazil	Decrease 0-10%	Decrease 0-10%	Increase 0-10%	Stable -5% to +5%
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	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
France	Stable -5% to +5%	Decrease 0-10%	Increase 0-10%	Decrease 10-20%
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 0-10%
Indonesia	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%
Italy	Increase 0-10%	Decrease 0-10%	Increase 10-20%	Stable -5% to +5%
Japan	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
Korea	Stable -5% to +5%	Decrease 0-10%	Increase 0-10%	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 0-10%	Increase 10-20%	Stable -5% to +5%
South Africa	Stable -5% to +5%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
Spain	Decrease 10-20%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
Turkey	Increase 10-20%	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%
UAE	Decrease 20-30%	Decrease 0-10%	Decrease 10-20%	Decrease 10-20%
UK	Decrease 0-10%	Stable -5% to +5%	Stable -5% to +5%	Decrease 0-10%
US	Stable -5% to +5%	Increase 0-10%	Stable -5% to +5%	Stable -5% to +5%

Source: Marsh

In addition to close regulatory scrutiny, losses for US banks and other financial institutions stemming from the credit crisis continue to mature.

Underwriters remain concerned about the potential for losses arising from greater regulatory enforcement activity and litigation related to M&A, executive compensation, insider trading, derivative actions, and so-called "opt-out" litigation.

Demand for cyber insurance continues to rise, driving insurers to become more innovative in terms of the cover they offer. In order to obtain cover, insureds are having to provide extensive information around their practices and procedures for information security. Insurers have a particular focus on third-party information holders and others that have access to confidential information.